Mirror Worlds, LLC v. Apple, Inc.

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

MIRROR WORLDS, LLC ) DOCKET NO. 6:08cv88
-vs- ) Tyler, Texas
APPLE, INC., ET AL ) 1:30 p.m.
July 7, 2009

TRANSCRIPT OF MOTION HEARING
BEFORE THE HONORABLE LEONARD DAVIS,
UNITED STATES DISTRICT JUDGE

A P P E A R A N C E S

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P R O C E E D I N G S

THE COURT: Please be seated.

All right. Ms. Ferguson, if you will call the case, please.

THE CLERK: Case No. 6:08cv88 Mirror Worlds v. Apple.

THE COURT: Announcements.

MS. RACE: Your Honor, Deborah Race here on behalf of Mirror Worlds; and I am joined by Richard An from Strook, Strook & Lavan. We are here and ready to proceed.

MR. BIGGS: Adam Biggs on behalf of Apple. Here with me is Steve Cherensky, who will be speaking to the Court today. We are ready.

THE COURT: Very good. Thank you. All right. Well, we are here on this protective order issue, which I normally don't set hearings on, but I thought this one was well-briefed and it raises an issue that, you know, could affect other cases down the road, so I just thought I would like to have some oral argument on it just to see if it can help me crystallize some of the issues. So I would be glad to hear whoever would like to go first on the motion.

MR. CHERENSKY: Thank you, Your Honor. The key issue here is, as presented by the cases cited by both sides, whether the narrowing of claims in reexamination is -- presents concerns regarding the use -- inadvertent use of

confidential information. And I will explain why that is a very serious concern. But first I want to provide a little bit of background to put that into context. At issue here isn't any concern --

THE COURT: Before you go into that, too --

MR. CHERENSKY: Sure.

THE COURT: -- give me just sort of a nuts and bolts primer on what happens at the PTO on the reexaminations and sort of how all that plays out.

MR. CHERENSKY: Sure. So what happens is that a party, and it could be the patentee or it could be a third party not the patentee, files a request for reexamination. Typically it is not the patentee, but it sometimes does happen. So you file the request for reexamination. You need to show that there is a substantial new question of patentability. You need to establish that in your papers to the Patent Office.

The Patent Office considers those papers and either -- and there is two types of reexaminations. One is called "ex parte" and one is called "inter partes." I don't think the difference is too important to what we are talking about here today.

THE COURT: Who controls whether it is ex parte or inter partes?

MR. CHERENSKY: It is just the date of the patent.

So, in other words, if the patent was filed before -- the inter partes procedure is relatively new --

THE COURT: Right.

MR. CHERENSKY: I think it began in about five years ago, but I am not -- five to seven years ago, but I don't remember the exact date. Before that the only reexamination procedure available was the so-called ex parte.

THE COURT: Okay.

MR. CHERENSKY: And only patents that have a filing date later than a certain date are eligible for the inter partes treatment, so that is what controls.

THE COURT: Okay.

MR. CHERENSKY: I think you can file an ex parte reexamination request even if it is a more recent patent, but there is no reason to do that because there is advantages to the filer of the inter partes procedure.

THE COURT: What are those advantages?

MR. CHERENSKY: That you can participate. So it is inter partes which means the requester can participate in the going-forward basis in terms of submitting papers --

THE COURT: Prior art.

MR. CHERENSKY: -- to the Patent Office. In the ex parte procedure once you submit that initial request, there is no more participation.

THE COURT: Okay.

MR. CHERENSKY: So that is, request for reexamination is submitted, the office decides -- the Patent Office decides whether or not to initiate the reexamination procedure. And actually before that, the patentee gets a chance to respond and explain why there is no new question of patentability. And once the reexamination procedure commences, if the Patent Office grants the request for reexamination, then there is a series of office actions much as there would be in ordinary prosecution.

The examiner will reject some or all of the -- may reject none of the claims, may reject some, may reject all, and then there is a back and forth between the patentee and the examiner. In inter partes the requester can participate in those communications as well.

So that is the procedure. There is a special unit in the Patent Office called the reexamination -- the central reexamination unit, so it is supposed to be specialists that are involved in the reexamination procedure. But once the reexamination is declared, the examination proceeds as much as it would in an ordinary prosecution. There is a final determination by the examiner, there is rights to appeal within the Patent Office to the board of appeals -- actually, I think first to the central reexamination unit, perhaps, and then to the board of appeals. And then ultimately that decision could be appealed to the Federal Circuit just as a

district court decision could be.

THE COURT: Okay. All right.

MR. CHERENSKY: So the issue is concern over the inadvertent use of confidential information -- here, Apple's information -- in the reexamination of the patents that are being asserted against Apple. And the problem is that once an attorney has that confidential information about Apple's products -- and we are talking about very detailed, confidential information, source code, and that sort of thing -- they can't compartmentalize that information. It is going to be used almost inevitably in decisions that are made regarding reexamination, and it really can't be helped.

That is exactly why there is a prosecution bar in the first place. There is a prosecution bar in the case. The protective order would prevent prosecution counsel from using Apple's confidential information even in the absence of a prosecution bar because it is limited to use in this case. But the fact that there is a prosecution bar is recognition that this inadvertent use is a real concern, especially in prosecution activities. And that is why there is a prosecution bar in the first place.

Here there is a special situation which isn't present in most of the cases that have been cited to you, which is that in addition to the reexamination procedures that are going on, there are continuing prosecution of applications

in this family, in the Mirror Worlds' family of patents that are related to those that are being asserted against Apple here. And the reexamination Counsel, Cooper & Dunham is also prosecution counsel on those continuing applications.

So the reexam concerns are really intertwined with the ordinary prosecution concerns that would be present even without this dispute that we are talking about today that is specific to the reexam.

So now we get to the issue of the narrowing of claims and why that is a concern and a danger to Apple. There is cases, as Your Honor knows, that have been cited by both sides on this issue. There is the Visto case by Judge Ward that finds that reexaminations are just like examinations and subject to the prosecution bar.

THE COURT: In that case, though, there was no dispute -- it was after the trial, was it not, and the question was whether the protective order that had been agreed to by the parties was violated.

MR. CHERENSKY: I think there was a protective -- there was a prosecution bar in place. The question was whether or not that bar applied to reexam activities. That was in MicroUnity which Judge Ward decided before Visto. There is a plain vanilla -- and I know because I represented Intel in that case -- there was a plain vanilla prosecution bar, and the issue presented to him was does that plain

vanilla prosecution bar cover reexams or not.

He said it does, it plainly does. Here the issue has been -- it is a little bit different from both of those headings in that the issue has been flagged in advance and presented to you for the title. It is not an issue of gee -- I mean, both sides identified this issue and we couldn't agree so we are presenting it to you for a determination. So it is a little bit different from those contexts.

There are also the cases on the other side, the recent Document Generation case by Judge Love and some cases Mirror Worlds has cited, Hochstein and Pall and some others that find that reexaminations are different. And the basis is for those cases and those decisions is that in reexamination you can only narrow the claims. You can't broaden them. And, therefore, why is this concern about the use of confidential information present?

And none of those cases, the Judge Ward cases and none of these other cases, really explain, frankly, one way or the other why narrowing of the claims is either unimportant if you are on the Mirror Worlds side or important if you are on the Apple side.

So let me explain that because it is very important. Mirror Worlds believes that their claims as they stand today cover Apple products. Apple obviously disagrees. During reexam it may be necessary in order to avoid prior art

for Mirror Worlds to try to narrow the claims to avoid the prior art.

Well, there is multiple ways that a claim could be narrowed to avoid a piece of prior art. You can draft -- you can amend the claims in multiple ways in order to avoid a particular piece of particular art. Some of those ways Mirror Worlds might believe if they were to use the information -- I'm not saying that is the case, but just talk about sort of a theoretical situation here. Some of the ways to amend the claims they might believe cover Apple products. Other ways might not cover Apple products. Right. Because it depends on the additional limitation they put in the claim. I think that logic is essentially irrefutable.

THE COURT: Would that necessarily be a driving force to somebody who is attempting to narrow a claim --

MR. CHERENSKY: So that, Your Honor, is where we get to the inadvertence. I'm not saying it would be a driving motivation because that would be a direct violation of the protective order. If they were to use that information purposefully to amend the claims in a way that covered Apple products based on this confidential information, that would be a violation of the protective order. I don't think Mirror Worlds disagrees with that.

The issue is whether they are able to compartmentalize that confidential information and ignore it

when making a decision about how to amend the claims. And Apple's concern is that is just not possible. And, in fact, that is why there is prosecution bars in the first place because the protective order is not sufficient to prevent the inadvertent use of information in drafting claims.

So that is why -- and that reasoning, frankly, isn't -- one way or the other isn't addressed in any of the cases. That is why, you know, I think the cases -- that all of the cases that talk about the narrowing claims that shouldn't be a concern in reexamination really need to be looked at closely because they don't address this concern. They just assume or state that because the claims are being narrowed there is no danger to the defendant in those cases.

THE COURT: And you are saying that with this confidential information they could narrow it to A, B, C or to C, D; and if they narrow it to A, B, it would provide non-infringement of Apple's products so they might go to C, D?

MR. CHERENSKY: Yes, essentially that is right. Or if the claims originally had A, B, and C and they needed to add a D to avoid a prior art, they can add a D that they think Apple has or they can add a D that they know Apple doesn't have. And the issue is how do you not use that information that is in your head about what Apple does, that confidential information, to not -- when you are deciding what D to add to the claim? That is the danger. That is the prejudice to

Apple.

THE COURT: And does that presume, though, that it would only be through -- what if they could find that out from non-confidential information?

MR. CHERENSKY: So obviously the use of non-confidential information is perfectly acceptable, but they don't need litigation counsel in order to use non-confidential information.

THE COURT: So if the use of non-confidential information would be acceptable, why not confidential information?

MR. CHERENSKY: Well, first of all, the protective orders prohibits it. That is using confidential information outside of this litigation. So they are just barred from doing that, period. I don't think there is any argument that Mirror Worlds is making they would be allowed to use that Apple confidential information that they obtained through discovery in this lawsuit to amend claims. So it is just the confidential information.

And that makes sense because in ordinary prosecution, patentees are allowed to use any information they can find publicly in order to craft claims they think will cover certain products. There is nothing wrong with that. That is allowed. But they don't have access to the confidential information that they would have through the

litigation.

THE COURT: All right.

MR. CHERENSKY: So I also wanted to talk about two important distinctions in two of the key cases that Mirror Worlds is relying on. One is the Hochstein case. In the Hochstein case the plaintiff agreed not to amend claims during reexamination. That was part of the deal that they made. And -- or the deal they offered, I should say. So because the claims weren't being amended -- of course, they agreed not to amend the claims. The danger that I am addressing here simply wasn't present. And that is the reason why Hochstein is very different than the situation here. In fact, we would be perfectly fine if Mirror Worlds would agree not to amend claims during prosecution. Then the danger would be -- wouldn't be present and we would be willing to allow litigation counsel to participate in the reexam.

Second -- and, of course, normally it is very often the case that claims aren't amended during reexam. In other words, if they are successful in convincing the Patent Office that claims are valid in light of the prior art, then there is no need to amend the claims.

The second case that they rely on heavily is the Pall case. In Pall the Court specifically noted that there weren't continuing applications being prosecuted. And, again, it is different from the situation here where the

reexamination Counsel, Cooper & Dunham, is continuing to prosecute applications in the family.

So that brings us to the issue of prejudice to Mirror Worlds. What prejudice does Mirror Worlds suffer if litigation counsel isn't allowed to participate in the reexamination -- or I should say litigation counsel who has had access to Apple's confidential information is not allowed to participate? Apple would contend there is no prejudice.

And the reason is it is not as though they went out and hired reexamination counsel who wasn't familiar with the patents.

The reexamination counsel, Cooper & Dunham, has been prosecuting this family of patents since 1996, so they have 13 years of experience with these patents, with the cited art. And they are not strangers to the patents and they are perfectly capable of representing Mirror Worlds in the reexamination. So we believe there is really no prejudice at all, and there is a very significant risk of significant prejudice to Apple based on the inadvertent use of their confidential information.

THE COURT: Thank you.

Response?

MS. RACE: May it please the Court. Deborah Race on behalf of Mirror Worlds. Your Honor, the first point I would like to cover is the case that was briefly mentioned which

Judge Love decided about a week ago in Document Generation; and in that case it is our position that it represents a trend. The two cases that were just distinguished were decided in 2008. We have got four additional cases we rely upon all in 2009. Several of those cases recite expressly that the trend is to allow the participation of litigation counsel in the reexam.

In his Opinion, which was decided on June 23rd, Judge Love, as I read it anyway, discusses at length why it is a prejudice, why he sees that to not allow the litigation counsel to participate would prejudice the plaintiff. He also specifically talks about that there is no support for the defendant's argument -- and this is on -- I'm sorry. It is on Page 3 of the Slip Opinion, second column. "There is no support for defendant's argument that plaintiff's outside counsel be prevented from advising reexamination counsel on amendments during reexam. This requirement would effectively bar plaintiff's counsel from any meaningful participation in reexamination since amendments to claim language are an important tool for avoiding prior art during reexamination."

What Judge Love decided -- and he looked at all of the cases cited here by both parties. What he decided that in the balancing test that when you look at the nature of the reexamination process, the risk of harm is mitigated by the fact that you can only narrow the claims. And in doing his

analysis, he decided that there were three safeguards in place that would prevent abuse.

Those safeguards were that the litigation counsel was not going to prosecute the reexam. Well, that is already the case here. We have counsel that will prosecute. That the litigation counsel will not disclose confidential information to reexam counsel. We would be willing to agree to the exact language that Judge Love put in his order as reflected in Document Generation with respect to that prong. And then he also recited specific language of the protective order, which we also not only have that language in the protective order, we have it in more than one spot.

I think if the Court is going -- and I agree. I mean, this is an interesting issue. But if the Court is going to look at it and you look at how that issue has transpired through the years, if you are going to start with the two cases they cite back in '05 and '06, the Court was correct. In both of these cases the protective order was in place. No one raised initially that this should be carved out or that litigation counsel should be allowed to participate in the reexam.

Here we -- as the easiest way to say it, we have teed this up right at the outset. We have told the Court why we believe it is important. And I think if you look at the case authority as it has developed from the 2005 MicroUnity

case, you look at it, you have got four cases that we rely on from this year, Document Generation, Crystal Image, Kenexa, and Avocent, all of which support litigation counsel participating.

And one other item that they relied on in their motion was an article that was presented at the Sedona Conference called the Sterne article. That article has been expressly rejected by more than one judge in these other opinions that we have cited, and I believe it was in the Kenexa Opinion -- I may have the wrong title, but it was Judge Robinson rejected that article.

Plus if you actually read that article, there is no analysis in the article. And it appears that the author of the article has thrown out this particular theory to cause dialogue and create -- and discussion at the Sedona Conference. So there is no analysis there.

Something that I think is extremely important in this motion is that this is Apple's burden. This is Apple that wants to narrow discovery, and they have a burden of showing good cause, and as Judge Love put it, "clearly defined and serious injury." All we have heard so far is theoretical, basically speculative harm, vague assertions that we can't put it out of our minds; that we are not going to be able to do this.

We are going to have protections. If the Court

enters the order that we have requested, they -- I'm sorry -- Apple will have protections in there. We are not going to be prosecuting the reexam. We have agreed not to disclose. So I think then a question comes up, what is a protective order designed to do? Is it remedial? Providing a remedy or a correction. Or is it prophylactic? To prevent speculative harm. I would submit it is designed to be remedial. It gives some teeth. It says what we cannot do. And we will agree to abide by that. And if we don't, the Court can address it.

I also think that we are able to show harm. I think, again, it is not our burden. It is Apple's burden to show good cause why they should have this more restrictive protective order. But I think we can show harm, and I think the facts of this case show that this is simply a strategic or a tactical maneuver. Apple has waited a length of time. They have already cited the contentions to the PTO. They are arguing for a unilateral application.

In other words, he explained to you how the process worked, so they are going to be able to have some give and take as the one that filed for the reexam. They are going to have the benefit of knowledge, litigation developments and all that Cooper & Dunham will not have. Cooper & Dunham, yes, they will be involved with these patents for a long time, but our litigation counsel have put over a year of time into this and have a lot of knowledge about this that they do not have.

So we would be greatly harmed.

And, again, I go back to the Document Generation case, and I think in that particular case Judge Love did analyze it. And he agreed that to bar the counsel from participating in any aspect or even from participating in the amendments was going to greatly diminish and effectively bar counsel from participation at all.

Also, my co-counsel just reminded me to point out that in the reexam process as we talked about, you only have the ability to narrow claims. So that overall scope of how this is going to impact, is already winnowed down by the fact that the claims can only be narrowed, and I think that is what Judge Love talked about in his Opinion, and that is what is reflected.

So we would ask the Court to enter the proposed protective order that Mirror Worlds proposed with -- again, we are happy to stipulate to the three considerations that Judge Love set forth in his Opinion, including the language that he adopted in the Document Generation Opinion.

THE COURT: Okay. All right.

Anything further?

MR. CHERENSKY: Just two quick --

THE COURT: All right.

MR. CHERENSKY: -- points. First, Counsel referred to Apple's participation in the reexam, in the inter partes

version of the reexam and the knowledge that Apple would have. That is Apple confidential information. Of course, Apple can use its own information in the reexam process. There is no suggestion by anyone that that would be in any way improper. That would be the case even in a reexam even in the absence of a protective order. That issue really is off the table.

The second is I heard no response to the -- to the point about how narrowing claims -- how confidential information can be used inadvertently or otherwise to narrow claims and why that is a danger. There has just been no response to that other than the claims are being narrowed, and we shouldn't worry about that. I explained at length why that is a big concern, and I think that is critical and presents a real harm to Apple.

THE COURT: Okay. Thank you.

Ms. Race, would you like to respond to that last question?

MS. RACE: The two things that he said, the first with respect to Apple having knowledge of its own materials, I would agree with that. But in addition in this case Apple has knowledge of the depositions, the briefing, the infringement contentions, and a lot of the -- it is the litigation, the knowledge of the litigation.

With respect to how narrowing claims makes a difference, I think -- and I thought I addressed it; but,

perhaps, I didn't do it very well -- I think what it does is it shifts the balance because when you have the initial prosecution, you have the ability to be drafting claims and doing this and that. The fact that the reexam process, what all of the courts seem to concentrate on is that by winnowing it down to just being able to narrow the claims, then that process mitigates the danger of the use of confidential information; in other words, the overall world, shall we say, of how that harm can occur has been greatly reduced. And so I think it is more of a situation of the balancing tests and that you have the safeguards put in place -- and I think that is all that the Court is asked to do in these instances is balancing how much does the harm -- does the risk outweigh the benefits?

I think what the courts concentrate on in those opinions is that the fact that all you can do in those cases is narrow the claims rather than draft the claims and expand the claims and all, reduces the risk of harm. And then you have the competing safeguards and everything else to consider, and I think the trend in what the courts have found is that because of the nature of the reexam process, the risk of harm is mitigated or outweighed, shall we say, by the benefits by allowing litigation counsel to participate.

THE COURT: All right. Thank you both for excellent arguments. I will get you an order as soon as possible.

Be adjourned.

(End of proceedings.)

C E R T I F I C A T I O N

I certify that the foregoing is a correct transcript from the record of proceedings in the above-entitled matter.

/s/ Shea Sloan

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