

NOVEMBER 15, 2006

02 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.

No. 06-1064, Federal Circuit (Michel, Dyk, Prost)

[The Local Rules of Practice for Patent Cases before the United States District Court for the Northern District of California] are not only unique to patent cases but also are likely to directly affect the substantive patent law theories that may be presented at trial, being designed specifically to “require parties to crystallize their theories of the case early in the litigation” so as to “prevent the ‘shifting sands’ approach to claim construction.” Under such circumstances ... issues concerning the validity and interpretation of such local rules are “intimately involved in the substance of enforcement of the patent right,” and must be governed by the law of [the Federal Circuit, not the regional circuit].

On November 15, 2006, the Federal Circuit affirmed the district court’s summary judgment that Monolithic did not infringe U.S. Patent No. 6,259,615, which discloses a circuit for converting direct current to alternating current. The Federal Circuit, *inter alia*, held that the district court did not err in denying leave to amend the infringement contentions, stating:

Turning to the merits of 02 Micro’s claim, we do not doubt our power in the appropriate circumstance to refuse to enforce a local rule that unduly limits discovery in patent cases. To be valid, local rules must be consistent with both acts of Congress and the Federal Rules of Civil Procedure. A local rule need not be directly contradictory to a federal rule to be invalid; a local rule that is inconsistent with the purposes of a federal rule is also invalid. It is foreseeable that a local patent rule could conflict with the spirit, if not the letter, of the broad discovery regime under the Federal Rules of Civil Procedure, especially given the particular importance of discovery in complex patent cases.

In saying that amendments to contentions must be permitted as a matter of course when new information is revealed in discovery, 02 Micro incorrectly seems to assume that the discovery rules are designed solely to enable a claimant to develop information to support its claim. While a party asserting a claim or counterclaim must have a reasonable basis for filing



NIXON PEABODY LLP
ATTORNEYS AT LAW

suit, the Federal Rules require only notice pleading by the claimant. Given the simplified notice pleading system, the discovery allowed by the rules serves two purposes. First, discovery allows the plaintiff to develop facts to support the theory of the complaint and allows the defendant to develop facts to support its defenses. Second, discovery is designed to allow the defendant to pin down the plaintiff's theories of liability and to allow the plaintiff to pin down the defendant's theories of defense, thus confining discovery and trial preparation to information that is pertinent to the theories of the case.

In practice the latter objective—allowing the parties to discover their opponent's theories of liability—has been difficult to achieve through traditional discovery mechanisms such as contention interrogatories. Answers to such interrogatories are often postponed until the close of discovery, or are amended as a matter of course during the discovery period. The local patent rules in the Northern District of California are designed to address this problem by requiring both the plaintiff and the defendant in patent cases to provide early notice of their infringement and invalidity contentions, and to proceed with diligence in amending those contentions when new information comes to light in the course of discovery. The rules thus seek to balance the right to develop new information in discovery with the need for certainty as to the legal theories.

02 Micro is certainly correct that refusing to allow any amendment to contentions based on new information developed in discovery could be contrary to the spirit of the Federal Rules. The Federal Rules replaced a system in which the issues had to be conclusively defined at the outset of litigation through the pleadings, with a system that relied on discovery and pretrial hearings to gradually identify the precise issues in dispute as more information became available. If a local patent rule required the final identification of infringement and invalidity contentions to occur at the outset of the case, shortly after the pleadings were filed and well before the end of discovery, it might well conflict with the spirit, if not the letter, of the notice pleading and broad discovery regime created by the Federal Rules. But we see nothing in the Federal Rules that is inconsistent with local rules requiring the early disclosure of infringement and invalidity contentions and requiring amendments to contentions to be filed with diligence....

Thus, we reject 02 Micro's apparent argument that "good cause" must exist for amending its infringement contentions, without regard to its diligence in doing so, merely because new evidence was revealed during discovery. We agree with the Northern District of California that "good cause" requires a showing of diligence.

For more information on these issues or other intellectual property law matters, please contact **Lawrence M. Sung, Ph.D.** at lsung@nixonpeabody.com or 202-585-8221.

If you are not currently on our mailing list and would like to receive future issues of the *Federal Circuit Patent Watch*, or if you would like to unsubscribe from this mailing list, please send your contact information, including your name and e-mail address, to lblaney@nixonpeabody.com with the words "*Federal Circuit Patent Watch*" in the subject line. Previous issues of the *Federal Circuit Patent Watch* are available at our website (www.nixonpeabody.com).