

# Client Alert

November 2013

## Eastern District of Texas Adopts Model Order Aimed at Reducing Cost of Patent Litigation

Effective October 29, 2013, the United States District Court for the Eastern District of Texas (“the Eastern District”) adopted a “Model Order Focusing Patent Claims and Prior Art to Reduce Costs” (“the Model Order”). Rather than incorporating the Model Order into a revised version of its Local Rules, the Eastern District included the Model Order as an appendix to the Local Rules, to give litigants and the court flexibility to tailor limits on a case-by-case basis. The goal in adopting the Model Order is to reduce the burden on the court and reduce patent litigation costs by focusing cases to the issues at the core of the dispute.

### Two Phases For Limiting Asserted Claims and Prior Art

The Model Order includes two phases for limiting asserted claims and prior art references. The first phase begins on the date set for completion of claim construction discovery pursuant to Local Patent Rule 4.4.<sup>1</sup> At that time, the patent claimant (i.e., the party alleging infringement) “shall serve a Preliminary Election of Asserted Claims, which shall assert no more than ten claims from each patent and not more than a total of 32 claims.” Not later than 14 days later, the patent defendant (i.e., the alleged infringer) “shall serve a Preliminary Election of Asserted Prior Art, which shall assert no more than twelve prior art references against each patent and not more than a total of 40 references.” During this first phase, each prior art instrumentality counts as one reference. In other words, the alleged infringer need only limit the number of prior art references on which it intends to rely during the first phase.

During the second phase, the patent claimant “shall serve a Final Election of Asserted Claims” no later than 28 days before it serves its Expert Report(s) on Infringement. The Final Election of Asserted Claims “shall identify no more than five asserted claims per patent from among the ten previously identified claims and no more than a total of 16 claims.” Also during the second phase, the alleged infringer “shall serve a Final Election of Asserted Prior Art” on or before the date it serves Invalidity Expert Report(s). The Final Election of Asserted Prior Art “shall identify no more than six asserted prior art references per patent from among the twelve prior art references previously identified for that particular patent and no more than a total of 20 references.”<sup>2</sup> Because a small number of prior art references can be combined to exponentially increase the bases for invalidity, in this Final Election, each obviousness combination counts as a separate “prior art reference.”

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<sup>1</sup> Local Patent Rule 4-4 states: “Not later than 30 days after service and filing of the Joint Claim Construction and Prehearing Statement, the parties shall complete all discovery relating to claim construction, including any depositions with respect to claim construction of any witnesses, including experts, identified in the Joint Claim Construction and Prehearing Statement.”

<sup>2</sup> The Model Order states that “[i]f the patent claimant asserts infringement of only one patent, all per-patent limits in this order are increased by 50%, rounding up.”

### Litigants Should Discuss the Limits Early in the Case

The Eastern District “will consider flexibly whether circumstances warrant expanding the limits on asserted claims or prior art references.” At the same time, it appears that the court prefers parties “discuss limits lower than those set forth in [the] Model Order based on case-specific factors.” Indeed, the Model Order notes, “[T]he more patents that are in the case, the lower the per-patent limits should be.” Regardless of whether the parties want to expand or further limit the asserted claims and prior art references, the deadline for jointly submitting proposed modifications is “the deadline for submission of proposed docket control or discovery orders, but in no event later than the deadline for service of initial disclosures.” Litigants therefore should have meaningful discussion about these limitations early on in a case.

There is another reason to carefully consider the limitations at the outset of the case: absent agreement, post-entry motions to modify numerical limits on asserted claims and prior art references require a demonstration of good cause warranting the modification. These motions will be committed to the sound discretion of the Eastern District. It is likely the court will grant motions to reduce the numerical limits. The same may not be true for motions to increase the numerical limits.

### Despite Best Intentions, the Model Order May Not Reduce Costs in Some Cases

The Model Order leaves open the question of what happens to the nonelected claims and prior art defenses if the district court enters final judgment on the elected claims/defenses. The Federal Circuit’s *In re Katz Interactive Call Processing Patent Litig.* decision<sup>3</sup> suggests there will be significant motions practice if patent claimants want to preserve rights in nonelected claims.

*In re Katz* involved 1,975 patent claims variously asserted against several defendant groups.<sup>4</sup> The parties agreed that the number of claims should be limited in order to make the case manageable.<sup>5</sup> The district court ordered Katz to initially select no more than 40 claims per defendant group and, after discovery, to narrow the number of claims to 16 per group.<sup>6</sup> The district court also capped the total number of claims against all defendants at 64.<sup>7</sup> Lastly, the district court permitted Katz to add new claims if they “‘raise[d] issues of infringement/validity that [were] not duplicative’ of previously selected claims.”<sup>8</sup> Katz made its selections and then moved the district court to sever and stay the nonelected claims.<sup>9</sup> Katz argued that the district court’s requirement to select particular claims violated its due process rights because the district court’s decisions could have a preclusive effect on nonelected claims regardless of whether those claims presented distinct issues of invalidity or infringement.<sup>10</sup> The district court denied Katz’s sever and

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<sup>3</sup> *In re Katz Interactive Call Processing Litig.*, 639 F.3d 1303 (Fed. Cir. 2011).

<sup>4</sup> See *In re Katz*, 639 F.3d at 1309.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 1310.

<sup>10</sup> *Id.*

stay motion, holding that Katz's rights in the nonelected claims were protected by the proviso permitting Katz to add new claims if it could show that those claims raised nonduplicative issues.<sup>11</sup>

On appeal, Katz argued that by entering final judgments without severing and staying the nonelected claims, the district court divested Katz of its rights in those claims without due process.<sup>12</sup> The Federal Circuit rejected Katz's due process argument because Katz did not show that the district court's claim selection procedure was inadequate to protect Katz's rights in the nonelected claims.<sup>13</sup> But, the Federal Circuit made clear that, in approving the district court's procedure in the *Katz* case it was not "suggest[ing] that a district court's claim selection decisions in a complex case [ ] are unreviewable."<sup>14</sup> The Federal Circuit acknowledges that "[i]n complex cases ... the district court 'needs to have broad discretion to administer the proceeding.'"<sup>15</sup>

In view of the *Katz* case, the burden will likely fall on a patent claimant to show that a district court's claim selection procedure is unfairly prejudicial by creating a significant risk that it would be erroneously deprived of property rights in nonelected claims. This likely translates into additional motions practice about the purported prejudicial nature of the Eastern District's claim selection procedure in many cases. While the Model Order may reduce costs by reducing the number of claims being litigated, some of those cost savings may be offset by the likely increased motions practice.

#### An Additional Pitfall

The Model Order requires that the Final Elections be "from among" previously identified patent claims and prior art references. In most cases, the claim construction order likely will issue between the two phases. This means that the parties' Preliminary Elections should account for the fact that there can be no "new" elections absent a showing of good cause. The Eastern District may be skeptical of parties who argue that the claim construction order is the basis for a showing of good cause because litigants should appreciate that the opposing party's claim construction position may be adopted.

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<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 1311.

<sup>14</sup> *Id.* at 1312-13.

<sup>15</sup> *Id.* at 1313 (quoting *In re Phenylpropanolamine (PPA) Prods. Liab. Litig.*, 460 F.3d 1217, 1232 (9th Cir. 2006)).