IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

PAR SYSTEMS, INC., ET AL.	§	
	§	
V.	§	ACTION NO. 4:10-CV-393-Y
	§	
IPHOTON SOLUTIONS, LLC, ET AL.	§	

ORDER PARTIALLY GRANTING MOTION FOR SANCTIONS AND
REQUIRING NEGOTIATIONS REGARDING APPROPRIATE SANCTIONS

Pending before the Court is Plaintiffs' Motion for Rule 16 and 37 Sanctions (doc. 147), filed January 12, 2012. After considering the motion, the response, the reply, and the appropriate portions of the record, the Court GRANTS the motion.

I. BACKGROUND

A. THE PROTECTIVE ORDER

This case alleges patent infringement of two patents owned by plaintiffs PaR Systems, Inc. ("PaR"), and Lockheed Martin Corp. ("Lockheed"). The two patents—the '894 patent and the '954 patent—relate to an apparatus and method of nondestructive testing of manufactured parts. Patent '894 and patent '954 disclose a method and apparatus that attempt to overcome the limitations of conventional nondestructive testing by using laser ultrasonics to identify imperfections in aircraft parts made of composite materials. The '894 patent is directed to the composition of the detection laser, and the '954 patent attempts to improve the pulse profile used by the detection laser.

Two former Lockheed employees, defendants Thomas Drake and Marc DuBois, developed a laser-ultrasound system for nondestructive testing. Drake and DuBois's system was run with an articulated robot, while PaR and Lockheed's system runs on a fixed gantry robot. Drake and Dubois filed a provisional patent application for their moveable-beam system in May 2008 and filed a utility

application in May 2009 ("the moveable-beam application"). (Pls.' App. 2-13.) Drake and Dubois's counsel for the applications was Storm, LLP. Believing that Drake, DuBois, and their companies (defendants iPhoton Solutions, LLC, and hNu Systems, LLC) had infringed on the '894 patent and the '954 patent, PaR and Lockheed (collectively, "Plaintiffs") filed suit for patent infringement and other related claims on June 4, 2010.

On August 23, the Court entered an agreed protective order that included a broad prosecution bar attached to the disclosure of confidential information:

> Information designated as confidential information or confidential-attorney-eyes-only information may only be used for purposes of preparation, trial and appeal of this action. **Confidential information or confidential-attorney-eyes-only information may not be used under any circumstances for prosecuting any patent application, for patent licensing, or for any other purpose. No attorney who reviews confidential-attorneys-eyes-only information may prosecute any patent applications in the field of laser ultrasonics for a period of two (2) years from the date on which such information was initially reviewed, or until the district court proceedings are concluded, whichever is longer.** Counsel for the parties agree to implement appropriate measures to ensure that if attorneys with their firms are currently prosecuting patent applications on behalf of the parties, those attorneys will not have access to confidential-attorneys-eyes-only information.

(Agreed Protective Order 5 (emphasis added).) *See* Fed. R. Civ. P. 26(c). The order provided that any violations would be sanctioned as "set forth in Fed. R. Civ. P. 37(b) and any other sanctions as may be available to this Court, including the power to hold parties or other violators of this protective order in contempt." (Agreed Protective Order 10.) At the time of the protective order, patent-prosecution counsel for Drake, Dubois, iPhoton, and hNu (collectively, "Defendants") were Ken Rhim, Michael Rahman, and Mark Perdue (collectively, "patent-prosecution counsel") of Storm, LLP. Litigation counsel was Paul Storm of Storm, LLP. To comply with the protective order, confidential information produced in electronic form during discovery was maintained in a password-protected database that patent-prosecution counsel could not access. Likewise,

confidential information produced on paper was kept separate from patent-prosecution counsel in Storm's office. After the protective order was entered, Plaintiffs produced confidential information to Storm, including drawings of moveable-beam systems and business plans for such systems. (Pls.' App. 20; Pls.' Sealed App. 70-95, 117-46.)

During a later deposition, Plaintiffs became concerned that Drake and Dubois inadvertently would gain access to confidential information regarding trade secrets unrelated to the present suit. On October 13, Plaintiffs filed a motion to enforce the protective order and sought to bar Drake and Dubois from receiving information during discovery they had not previously received or authored. The Court referred the motion to the magistrate judge who concluded that the protective order was sufficient to protect Plaintiffs' interests in the action. In other words, because the protective order specifically provided that confidential information could not be used outside of the infringement litigation, Plaintiffs' fears of inadvertent disclosure of confidential trade-secret information to Drake and Dubois, named defendants, were not without remedy under the protective order.

B. VIOLATIONS OF THE PROTECTIVE ORDER

On July 25, 2011, the United States Department of Commerce's Patent and Trademark Office ("the PTO") notified patent-prosecution counsel that it was rejecting all claims in the moveable-beam application. (Defs.' App. 2-3.) In August, Storm began downsizing Storm, LLP, and, on August 22, he discussed with patent-prosecution counsel the rejection of the moveable-beam application by the PTO. (Pls.' Sealed App. 171; Defs.' App. 79.) By September 20, all patent-prosecution counsel had left Storm, LLP. On September 30, Storm filed an information-disclosure statement in the pending moveable-beam application with the PTO. (Pls.' App. 34.) Storm asserts no confidential information was included in the statement, but concedes this was a violation of the

protective order. (Defs.' App. 79; Defs.' Resp 6.) On October 17, Storm requested an interview with the PTO to discuss the moveable-beam application. (Pls.' App. 37.) The next day, the PTO and Storm "discussed proposed new claims and discussed possible amendments to existing claims to overcome the art. Agreement was reached as to what amendments would overcome the art as cited. No agreement was reached as to the allowability of the claims." (Pls.' App. 56.) On October 11, Storm filed a provisional patent application entitled "[m]ethod and apparatus for the inspection of composite sandwich structures using laser-induced resonant frequencies." (Pls.' Sealed App. 17; Defs.' App. 80.) This provisional patent application ("the honeycomb application") "was prepared in substantial part by iPhoton employees" and related "generally to a different measurement approach applicable to honeycomb composite structures . . . us[ing] the same generation laser, detection laser, articulated arm robot and generation laser delivery system, and interferometer as iPhoton's prior system." (Defs.' App. 80.) On October 25, Storm canceled all the pending claims in the moveable-beam application and submitted new claims. (Pls.' App. 60-67.) The scope of the amended claims was narrower than, but included within, the scope of the original claims. (Defs.' Resp. 8.) On December 11, the PTO stated that "the [moveable-beam] application . . . has been examined and is allowed for issuance as a patent." (Defs.' App. 67.)

On December 9, Plaintiffs' counsel contacted Storm and notified him that his actions violated the prosecution bar. (Defs.' App. 15-16.) Six days later, Storm admitted he violated the prosecution bar:

> I will not mince words: I violated the "prosecution bar in the Court's protective order. As set forth below, that violation was inadvertent, not intentional. [Plaintiffs] should also not mince words: there was no misuse of [Plaintiffs'] confidential information nor advantage gained by access to such information. There must be, and already has been, consequences for my mistake. The absence of any harm to [Plaintiffs] is an important factor in determining what the appropriate

consequence should be.

. . . .

> In summary, in September and October, 2011, I worked on an IDS, responded to an office action in the articulated arm robot application, including an interview with examiners and filed a provisional patent application. None of these actions involved [Plaintiffs'] confidential information and therefore did not remind me of the prosecution bar. In the press of people leaving my firm, numerous other pressures and the absence of any connection between the issues in the patent office and confidential information which has been disclosed, I simply, but inexcusably, forgot the "prosecution bar." I note that among the exhibits you attached to your [December 9] letter, you did not attach any confidential information which you allege was misused. Indeed, you did not articulate any basis to suggest that confidential information had actually been misused.
>
> To be clear, the fact that no confidential information was used in any way does not excuse my actions. I did not comply with the order and consequences are appropriate. Those consequences must be commensurate with the violation. There must be a difference between going 10 miles over the posted speed limit and drunk driving.

(Pls.' App. 15, 17.)

C. THE MOTION FOR SANCTIONS

Based on Storm's admitted violations of the prosecution bar, Plaintiffs filed the instant motion for sanctions under Rules 16 and 37(b). *See* Fed. R. Civ. P. 16(f), 37(b). Defendants concede Storm violated the prosecution bar, but argue that Plaintiffs were not harmed by the violations:

> [I]n September and October, 2011, Storm filed an [information disclosure statement], responded to [a PTO] action, attended an examiner interview (all in the Moveable-Beam Application) and filed an unrelated provisional patent application. Each of these actions violated the Protective Order, but none involved Lockheed confidential information or caused any harm to Lockheed. Additionally, the undisputed substantive effect of Storm's actions was to narrow the scope of the invention claims in the Moveable-Beam Application.

(Defs.' Resp. 9.) Meanwhile, Defendants hired new patent-prosecution and litigation counsel, and

Storm has agreed to withdraw as litigation counsel pending the Court's ruling on the instant motion. (Defs.' Resp. 11.) Defendants assert that hiring new counsel in combination with the fact that Storm was denied an employment opportunity with another firm based on the protective-order violations in this case constitute a sufficient sanction. (Defs.' Resp. 11.)

Plaintiffs counter that additional sanctions are necessary to address the harm to them caused by Storm's admitted violations after he had access to their confidential and proprietary information: "Although the transfer of the prosecution work to another firm should prevent future misuse of PaR and Lockheed Martin's [confidential] information, it does not remedy the harm already caused by the conduct of Storm and Defendant[s], nor undo the advantage gained by Defendants." (Pls.' Mot. 19.) Specifically, Plaintiffs ask the Court to either strike Defendants' defenses to Plaintiffs' claim for transfer of ownership of the patent issuing from the moveable-beam application or prevent Defendants from asserting any patent issuing from the moveable-beam application against either PaR or Lockheed. Plaintiffs also request an award of reasonable expenses, including attorney's fees, arising from investigating, preparing, and filing the motion for sanctions. *See* Fed. R. Civ. P. 16(f)(2), 37(b)(2)(C).

II. DISCUSSION

The parties essentially are asking for relief sitting at either end of the sanctions spectrum: impose the equivalent of death-penalty sanctions on Defendants for their inadvertent violation of the prosecution bar or conclude there was "no harm, no foul" and let the case proceed undisturbed without Storm as litigation counsel. Both solutions seem extreme.

Some relevant purposes of sanctions are to (1) penalize those whose conduct warrants it, (2)

ensure that a party will not be able to profit from its own failure to comply, (3) secure compliance with the particular order at hand, and (4) compensate the Court and other parties for the added expense caused by the abusive conduct. *See* 7 James Wm. Moore, *Moore's Federal Practice* § 37.42[1] (3d ed. 2012). The Court must consider these purposes when deciding what type of sanction to impose and its severity. Sanctions should respond to the nature of the violation, the culpability of the mental state that accompanied the violation, and the kind of harm the violation caused or threatens. *See id.* In short, the punishment must fit the crime. *See Guidry v. Cont'l Oil Co.*, 640 F.2d 523, 533 (5th Cir. Mar. 1981).

The Court cannot conclude, as urged by Defendants, that Storm used no confidential information in prosecuting the moveable-beam application. Storm's unintentional violations of the prosecution bar do not lead to the conclusion that he necessarily was able to strictly exclude any information he learned regarding Plaintiffs' detection lasers during discovery as litigation counsel from his actions in prosecuting the moveable-beam and honeycomb applications after entry of the prosecution bar. *See, e.g., In re Deutsch Bank Trust Co. Ams.*, 605 F.3d 1373, 1379-81 (Fed. Cir. 2010). Indeed, "it is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so." *FTC v. Exxon Corp.*, 636 F.2d 1336, 1350 (D.C. Cir. 1980). Thus, Storm's and Defendants' assertions that Storm was able to do so are insufficient. Indeed, based on the broad nature of the agreed prosecution bar—barring litigation counsel from prosecuting "**any** patent applications in the field of laser ultrasonics"—it appears that the parties specifically considered compartmentalization difficult if not impossible. Thus, no matter how inadvertent Storm's violations were, the Court presumes that confidential information was unintentionally used in prosecuting the moveable-beam and

honeycomb applications. Defendants' suggested sanction—punishment for Storm alone—appears to be insufficient to address the admitted violations of the clear and agreed prosecution bar.

However, Plaintiffs suggested sanctions appear no better. To transfer to Plaintiffs ownership of the patent issuing from the moveable-beam application or to hold that Defendants may not enforce their moveable-beam patent against Plaintiffs would unduly punish Defendants for the inadvertent conduct of their litigation counsel. *See White v. Wyndham v. Vacation Ownership, Inc.*, 617 F.3d 472, 483 n.13 (6th Cir. 2010); *Pyramid Real Estate Servs, LLC v. United States*, 95 Fed. Cl. 613, 623 (Fed. C. 2010); *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-JTW, 2006 WL 3741891, at *7 (E.D. Tex. Dec. 19, 2006). This is especially true where, as Plaintiffs concede, "iPhoton and PaR are in a two-competitor market." (Reply 3.)

Because the parties have requested only the extremes on the sanctions continuum, the Court is ill prepared to craft a suitable, mid-continuum remedy for the violations of the prosecution bar. *See Sec. & Exch. Comm'n v. First Houston Capital Res. Fund, Inc.*, 979 F.2d 380, 382-83 (5th Cir. 1992) (trial court must consider and weigh alternative sanctions before severe sanction imposed). Thus, the Court ORDERS the parties' counsel to meet in person at a time and place of their choosing but in no event later than **May 11 2012**, to negotiate such mid-continuum remedy and the amount of expenses, including attorney's fees, that the defendants and/or their counsel must pay. If, after the parties' counsel have made a good-faith effort to reach a compromise agreement as to such remedy and expenses, no agreement has been reached, the plaintiff must so inform the Court by notice filed of record and the Court will set the matter for hearing on a day to be determined at that time. At such hearing, each side will have one hour for presentation of evidence and/or oral argument. Cross examination time will be charged to the party conducting it. Should the parties

desire to file hearing briefs, such briefs must be filed no later than ten days prior to the hearing. The briefs may be no longer than 15 pages.

Finally, the Court turns to Plaintiffs' request for an award of expenses. Indeed, Rule 37 mandates an award of expenses "[i]nstead of or in addition" to the sanction alternatives listed in Rule 37(b)(2)(A): "[T]he court **must** order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure, **unless** the failure was substantially justified or other circumstances make an award of expenses unjust." Fed. R. Civ. P. 37(b)(2)(C) (emphases added). Thus, to avoid such an award, Defendants must "show that [their] failure is justified or that special circumstances make an award of expenses unjust." *Id.* advisory committee's note (1970). Defendants have failed to show that their violation of the prosecution bar was justified or that an expenses award would be unjust based on special circumstances. Thus, the Court concludes that Storm and Defendants, jointly and severally, shall pay Plaintiffs' reasonable expense—including attorneys' fees—incurred by Plaintiffs in seeking sanctions for the admitted noncompliance with the prosecution bar.

III. CONCLUSION

Admitted violations of the Court's protective order have occurred. The agreed sanctions are appropriate. Thus, Storm shall file a motion to withdraw no later than three days from the date of this order and shall not prosecute any patent applications in the field of laser ultrasonics as dictated by the protective order. Regarding the award of expenses , the specific amount will be determined after the hearing, if one is necessary, and after Plaintiffs file with the Court a statement of the amount of its fees and costs related to the motion for sanctions. Plaintiffs must file such a statement

no later than 14 days after the hearing, if any.

SIGNED April 17, 2012.

Terry R. Means

TERRY R. MEANS
UNITED STATES DISTRICT JUDGE