SideBAR

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Opening Statements

Chair's Message

RIchard J. Pocker

Preserving Litigation

Welcome to another superbly edited edition of *SideBAR*, assembled and vetted by our thorough and talented editor, Rob Kohn! The articles and commentary bear witness to the fact that, despite a decade's worth of "vanishing trial" and "end of litigation" seminars, the art and business of litigation is still alive and well.

This is not to say that powerful trends and forces are not still actively working to find alternatives to the process of intellectual combat we so cherish and enjoy. Mediation, early neutral evaluation, and binding arbitration have all emerged as palatable and effective choices for those averse to the potential risks inherent in trial by jury. And the plethora of local rules, statutes, and decisional mechanisms designed to streamline or "reform" the trial process haven't made trial any less costly or more attractive to most individuals and small business.

Nonetheless, these efforts cannot overcome the simple fact that some disputes are incapable of resolution anywhere but in a courtroom. This will become ever more so in the tumultuous and exciting years ahead, as the impact of the economic crisis and the controversial efforts to contain or reverse that crisis are felt in places and ways no one can accurately predict. We are, in all likelihood, on the threshold of an era that could produce some of the most important court decisions since the 1960's.

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Editor's Notes

Robert E. Kohn

A Full House

In this issue of *SideBAR*, we consider the continuing need for trial advocacy and the effects that a decline in the number of civil trials may have on the quality of criminal justice. Two trial lawyers guide us through the practicalities of objecting to jury instructions. Useful poker-playing analogies for eDiscovery illustrate the need for improving pretrial practice. A pair of procurement practitioners explains where (and why) to file bid protests. We also review the Second Circuit's reasoning in a federal class action under state law. Personal injury lawyers draw attention to the interests of Medicare in crafting settlement agreements. And, we track proposals in Congress to amend patent laws.

Future editions of *SideBAR* need your contributions. Please let us know if you or a colleague have written about a litigation topic, or even if you see a useful or interesting article that *SideBAR* readers might like to see reprinted here. And, thank you for reading.

About the Editor

Robert E. Kohn litigates business and intellectual property disputes in the Los Angeles area. He also argues appeals in federal and state courts at all levels. A former clerk to the Hon. Joel F. Dubina of the Eleventh Circuit, Kohn attended Duke Law School. He is a member of the District of Columbia and California bars. Kohn co-chairs the committee on Federal Rules of Procedure and Trial Practice.

Inside this Issue

Briefing the Cause

Bid Protests: Where to File?

By Ed Kinberg and Tracey Wehking

One of the more difficult challenges in advising a client about pursuing a bid protest is when and where to file the protest. The rules governing the "when" question are pretty clear. For example, if your client does not challenge a problem with the bid documents before bid submission, they will not be able to do so afterwards. (So, while your client may consider "keeping quiet" in order to gain a competitive advantage from a defect in the bid documents, it is a mistake to do so.)[1] The rules of where to file are more complicated. There are three different forums for filing a bid protest:

1. The agency, which can be made at the contracting officer level or the agency level.
2. The Government Accountability Office (GAO), formerly known as the General Accounting Office (same place, same people, more impressive name).
3. The Court of Federal Claims (COFC).

Each forum has its own rules and procedures.

Contracting Officer/Agency Protests (CO/A)

If you are filing a protest before bids or proposals are due, I recommend you file with the CO/A. There are two benefits to doing so:

1. This will allow you to open a dialogue with the CO/A [2] and provide the CO/A an opportunity to take corrective action or explain to your client why there is no need to do so.
2. If you can't reach a resolution at the CO/A level, you can still take your protest to the GAO or COFC.

In reality, protests at the pre-bid stage of a competition are fairly common; they just aren't always called protests. Every time a potential bidder submits a question or a request for clarification, they are informally protesting. In many cases, the questions succeed in clarifying the terms of the competition without using the emotionally charged term: "protest."

Government Accountability Office Protests

If a bidder is filing a post-award protest, I recommend starting with the GAO for a number of reasons:[3]

1. If your protest is timely filed, the agency will have to suspend contract performance[4] unless the head of the agency (HCA) makes a written finding allowing performance to continue.[5]

   While the GAO procedures provide for automatic suspension of performance, you must strictly comply with the time limits. In order to get performance suspended, you have to file your protest within 10 days of award or 5 days after a debriefing if one is required. FAR 33.104(c)(1)

   However, you can't wait until the last day to file the protest, as the suspension only goes into effect when the agency is notified by the GAO that a protest has been file. Since the GAO has 1 working day to provide that notice, a last minute filing can result in a loss of the automatic stay. If you do file at the last minute, call the GAO protest office and stress to them the urgency of immediately getting their notice out to the agency.
2. Filing a GAO protest is significantly less complicated and less expensive.
3. The attorneys at GAO who work on bid protests are very experienced acquisition law professionals. Resolving protests is their primary job. While the judges at the COFC are very experienced, that experience covers a wide range of areas, the vast majority of which do not involve bid protests.
4. The GAO must issue its decision within 100 days of the date the protest is filed.

Court of Federal Claims Protests

The standard of review at the GAO and the COFC are substantially the same, but the results may be different. [6] There is no automatic suspension of performance in the COFC, and stopping performance is critical to a successful protest. Instead of automatically suspending performance, you will have to convince the court that a preliminary injunction should be issued, applying the traditional standards for an injunction.[7] COFC Rule 65. On the plus side, if you win the injunction, there will be considerable pressure on the agency to negotiate a prompt resolution with you. Unlike the GAO, the COFC is not required to issue a final decision within 100 days. If you don't win the injunction, a COFC protest will take considerably longer that a GAO protest.

The primary advantage to a COFC protest is that the agency is represented by the Department of Justice (DOJ). The attorneys who represent DOJ are generally highly experienced in federal acquisition law and will conduct a thorough and independent review of your protest. If the root cause of your problem is an unreasonable agency, the DOJ can work with both sides to try and reach a quick, amicable resolution. In contrast, if you are before the GAO, you will be dealing with attorneys from the same agency that prepared and evaluated the solicitation even though the attorneys may serve at different levels of command. In effect, therefore, a COFC protest results in an independent review by an attorney who does not have a preexisting interest or position in the protest.

Conclusion

Forum selection for a bid protest must be made on a case by case basis. From my perspective, protests filed before bids or proposals are due are best filed at the contracting officer/agency level. Protests after award are best filed at the GAO. If you are unhappy with the GAO's decision, you can file a second protest with the COFC.[8]

The authors practice government procurement law in the firm of Kinberg & Associates LLC in Melbourne, Fla. They can be reached at (321) 259-1910.

Endnotes

[1]While this article does not address the "when" question, the rules are:

a. Protests challenging the bid documents must be submitted before the date proposals are due. Failure to submit a protest before that date will result in your client's loss of its protest rights for all such issues. (4 C.F.R. § 21.2 (a)(1) ; FAR 33.103(e))
b. Protests challenging the manner in which the award was made, must be filed within 10 days of the day the client learned of, or reasonably should have learned of the basis for its protest. (4 C.F.R. § 21.2 (a)(2); F.A.R. 33.103(e))

If your client wins the competition despite (or due to) a defect in the bid documents, it is unlikely they will be able to successfully pursue a claim for the extra costs or delay caused by fixing the "defect" if a court or board finds it was a "patent" defect. A patent defect is generally considered a defect that a bidder knew about, or should have known about through the exercise of reasonable diligence before it submitted its proposal.

[2]As a general rule, any questions you submit to the contracting officer will be memorialized in a modification to the bid documents which will show all of the questions asked and the answers given by the agency. This is done to ensure that none of the potential bidders get a competitive advantage by receiving information that is not provided to all bidders.

[3]In some cases, there may be a difference in decisional law that will make the COFC a better forum for a specific issue. Unfortunately, a discussion of these differences will take substantially more space than is available in this column (*see* endnote 4, below).

[4]This is also true with CO/A protests. If the protest is timely filed, performance must be suspended. However, there is one catch which makes this a poor choice for a post award protest. Even if you file a timely Agency Protest and a subsequent timely protest with the GAO, the Contracting Officer is not required to continue the suspension from the CO/A protest as the GAO protest is a new protest. Since the GAO protest was not filed with the GAO within the time requirements in the GAO rules, those rules do not apply. In many cases, the agency may voluntarily continue the suspension, but they are not required to do so.

[5]The HCA's written decision must show "that continued contract performance will be in the best interest of the United States or that there are urgent and compelling circumstances that significantly affect the interests of the United States that will not permit delay in contract performance." (FAR 33.104 (c) (1); 31 U.S.C. 3553(c)(2)(A) The use of this exception is very rare. As such, a timely GAO protest virtually guarantees performance will be stayed during the 100 day life span of the protest (FAR 33.104(c)(1); 31 U.S.C. 3553(c)(1).

[6]In 2008, there were five instances in which a protest was denied by the GAO and granted by the COFC. The primary reason for the different results arose from each interpretation of the facts. A detailed discussion of these cases can be found in Bid Protests: Different Outcomes in the Court of Federal Claims and the Government Accountability Office" published in Volume 44, Number 3 (Spring 2009) of *The Procurement Lawyer*, published by the Section of Public Contract Law of the American Bar Association.

[7]"In order to obtain a preliminary equitable relief, a party must demonstrate 1) a substantial likelihood of success on the merits; 2) specific, irreparable harm; 3) the balance of the hardships tips in its favor; and that 4) the preliminary injunction is in the public interest." *Anton/Bauer Inc. v. PAG Ltd.*, 329 F.3d 1343, 1348 (Fed. Cir. 2003).

[8]The court does not limit itself to review of the CO/A or GAO decision. It conducts a "de novo" review of the record. As such, even if you lost the CO/A or GAO bid protest, you may have discovered additional information in the course of the GAO protest, that will lead the COFC to make a different finding.

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While we, as litigators, can look forward to challenging courtroom encounters, we need to focus our attention on what is happening outside that courtroom as well. Having the opportunity to influence the rules and parameters of litigation—while often mundane by comparison—is vital. As a personal observation, I note that active practitioners do not appear to be the architects of or driving forces behind many of the rule changes proposed in recent years. This makes vigilance in monitoring such proposals all the more important, as what serves the convenience of the judiciary, the interests of the Congress or sensibilities of an interest group might be disastrous for the interests of our clients and practicing colleagues.

Our section serves a role in informing our members of developments and changes in civil practice, new rules under consideration, and the position of the Federal Bar Association with respect to legislative proposals. One need only look back to the previous issue of *SideBAR* to find our analysis of new changes to Rules 26 and 56 of the Federal Rules of Civil Procedure, prepared by section board members Rob Kohn and John McCarthy. Nevertheless, learning the concerns and opinions of the section membership on these matters is just as important to our mission and goals. I encourage all of you to communicate those concerns and opinions freely, knowing that those of us on the section board value the experience and insight of those who—not to be too "Clintonesque"—"work hard and play by the rules".

I look forward to hearing from you and doing what we can as a section to make litigation practice and the arena in which it occurs as exciting, as useful, and as accommodating as we know it should be.

About the Chair

Richard J. Pocker is the administrative partner for the Nevada office of Boies, Schiller & Flexner LLP. A former assistant U.S. attorney and later U.S. attorney for the District of Nevada, he began his legal career in the U.S. Army Judge Advocate General's Corps. Pocker is a graduate of the University of Virginia Law School and is admitted to practice law in Nevada, California, Arizona, and Ohio.

Unintended Consequences

By Richard M. Kerger and Stephen D. Hartman

Jury trials in federal civil cases are less common than they were a decade ago. There is a variety of both positive and negative factors that have created this circumstance. We will examine a consequence of this decrease that is not obvious or intended, but detrimental to our system of justice. The issue is the impact that the drop in civil trials will have on criminal trials, and especially the decline in the skills of federal judges and courtroom staffs in trying cases.

Clearly, we all do things better when we do them regularly. If you only play basketball a few times a year, the skill level you demonstrate will be far below that if you played three times a week. If you golf twice a year, you will be far more nervous on the first tee than you would be if you play three times a week. People who live in the Rocky Mountains tend to be better skiers than those of us who come from northwestern Ohio, which is about as hilly as a snooker table.

The same is true of trial lawyers and judges. Accordingly, for lawyers who try both civil and criminal cases, the drop in civil trials will reduce the opportunities to hone and practice those skills, and criminal defense at trial may suffer. Frankly, though, the number of trial lawyers who handle both kinds of cases is small. While this decline in the civil jury trials will have some nominal impact on the skill level of lawyers handling federal criminal cases, it will not be significant in terms of federal criminal law in general. In our opinion, what will be significant is the decline in the skills of federal judges trying cases. Judges get rusty just as lawyers and infrequent skiers do.

Thirty years ago, judges prided themselves on the condition of their robes, and by this we do not mean that the robes were pristine. A little fraying was a sign of experience and wisdom accumulated through sitting on the bench. With the present state of the trial docket, many judges will leave the bench after 20 years with robes that look like they just came from the manufacturer. We believe this means that judges will be less confident in their handling of cases. There is a rhythm—a feel—to the way a case should proceed, and if a judge is trying one case a year, she or he may well have a "tin ear" to that nuance.

We see the most significant problem in the handling of objections during trial. Objections dealing with the scope of cross examination or the relevance of certain testimony would be fairly easy if the judge was in chambers with access to legal research and time to think. Unfortunately, with the jury in the box and the trial flowing quickly, there is little time to think when an objection is made. These decisions are almost always going to be made without the benefit of research and with little time to reflect. The lawyers and parties very much depend on the judge's "sense of things," along with her knowledge of the law and the rules. That sense is more adept if the judge handles a greater volume of cases on a consistent basis. We also anticipate a possible decline in the quality of the case law in applying the rules of evidence. Since most federal evidentiary law is made in criminal cases, the overall quality of the law of evidence will drop as well. For example, courts are adapting their courtrooms to new technology, but without a volume of trials to raise the issues, evidentiary decisions with respect to new technology will lag behind.

Another unintended consequence of the reduction in the volume of jury trials will be the erosion of the public's confidence in the jury system. It has been said that our adversarial system of justice is the worst there is—except for all of the other kinds. Our legal system works, and it is not an overstatement to say that the most important reason it works is the jury. While nobody likes receiving an adverse jury verdict, parties nonetheless have the satisfaction that their argument was presented to an impartial group as opposed to a single person or finder of fact; the jury provides a form of legitimization that helps make the process work. Additionally, former jurors are invested in the system and become effective spokespersons for our legal process. As these opportunities for jury service decrease, this informal support base also declines—the system becomes more distant, more bureaucratic, and seemingly less reliable.

So, what can be done? One possible step to remedy the problem of declining trial skills caused by the decline in the number of civil trials would be to make an equivalent reduction in the number of federal judges and courtrooms who actually handle trials. As younger judges come on the bench, they would sit with established jurists. They would watch several cases and then have the opportunity to handle trials under the observation of a senior judge before finally being approved to try cases on their own.

We believe the problems we have outlined are real. The proposed methods of correction may be less than optimal; they present an opportunity for their own unintended consequences. Nevertheless, there is a threat to the quality of justice that comes from our federal criminal courts, and that is something that ought to trouble us all.

The authors are members of Kerger & Hartman LLC in Toledo, Ohio. They can be reached at (419) 255-5990.

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The eDiscovery Game: Can You Read Their Poker Face?

By Bryant L. Young

The process of eDiscovery can sometimes be mischaracterized and played like a game of poker—i.e., a series of well-played hands or strategic deals. At the conclusion of each hand, a wishful—yet naïve—outcome is that the dealer awards the pot to a single player. However, with evolving technologies and rising costs in eDiscovery, these players have been waiting for Texas Hold'em-style showdowns to occur in which the players compare their hands, determine if a compromise can be reached, and hope that the other side will fold. Ultimately, the objective of eDiscovery is not winning every hand or winning a hand at all, but making practical decisions regarding when not to play, when not to raise the bid, and when to fold. Of course, folding is not an ideal option for these unfortunate game seekers. Therefore, they attempt to merely read the other side's "poker face" and avoid any loss in an ongoing trend of high stakes litigation tournaments.

In recent years, due to the complexities of eDiscovery, much attention has been devoted to quantitative models of electronic document preservation, upload, storage, production, and costs. Strategies have been explored regarding the best practices of email extraction, backing up databases and servers, metadata protocols, etc., mostly by document vendors. However, when the game has started and the game seekers are seated at the table, they usually can only sport a veneer of actual knowledge and do not follow-up on the best practices of their game approach.

Such bravado is exposed by the revolving doors of federal courtrooms, where practitioners, sporting a gamesmanship-type approach, run the risk of being sanctioned and forced to leave the table in the hole. Indeed, making critical decisions, balancing interests, and determining what is reasonable are ideals that can get lost among the aces in a deck of cards long before the first hand is even dealt. So, from a practical standpoint, now may be the time that these eDiscovery players are required to take off their hats, leave their dark sunglasses at home, and learn from failed strategies before entering the process like it's a game. They should take the time to understand what is wrong before everything goes wrong. In reviewing recent federal case decisions, the following provides a few approaches and observations on how to know and avoid a gamesman approach to eDiscovery.

Bring Your Competence to the Table—Know the Hand You Have Been Dealt

A common mishap in the eDiscovery process is that some practitioners misunderstand the complexity of the technology involving electronically stored information (ESI). Those playing it like a game hope that they will be dealt a pair of aces in the first hand. But, in the quest for rapid turnaround and adding to their collection of chips, they overlook the quality of all cards to successfully remain in their game. In fact, some seasoned practitioners have taken a common sense-style approach to eDiscovery, as if it can be handled like regular paper document collection and production. However, such an approach can be dangerous. An increasingly savvy federal court can see straight through anyone's game face.

In the recent case *William A. Gross Const. Associates Inc. v. American Mfrs. Mut. Ins. Co.*,[1] the court pulled the poker veil off of counsel and exposed a losing eDiscovery strategy in the middle of a showdown. The issue before the court was the production of emails stored on a server, and how to separate project-related emails from unrelated emails. When confronted with each party's approach to designing search terms or lack thereof as well as the lack of cooperation among counsel, the court found itself in the "uncomfortable position of having to craft a keyword search methodology for the parties, without adequate information from the parties."[2] As explained by the court,

> [w]hile keyword searches have long been recognized as appropriate and helpful for ESI search and retrieval, there are well-know limitations and risks associated with them, and proper selection and implementation obviously involves technical, if not scientific knowledge.[3]

The court also pointed out that,

> the [s]election of the appropriate search and information retrieval technique requires careful advance planning by persons qualified to design effective search methodology. The implementation of the methodology selected should be tested for quality assurance; and the party selecting the methodology must be prepared to explain the rationale for the method chosen to the court, demonstrate that it is appropriate for the task, and show that it was properly implemented.[4]

The court then issued a wake-up call to the bar when it concluded that "[i]t is time that the Bar—even those lawyers who did not come of age in the computer era—understand [that they must be competent in all aspects of preservation and production of ESI]."[5]

In light of the court's warning, it makes practical sense for eDiscovery practitioners to become proactive and stay ahead of the game when it comes to technology.

Dealer Beware—Don't Allow A Slip of the Hand to Cost You

Once the eDiscovery process is in play, some practitioners can falsely view themselves as "dealers" in an overplayed game. In a rush to shell out the deck, award chips for a winning hand, and clear the table for the next play, one can deal too many cards, not enough cards, or overlook others in the game. In any of these scenarios, embarrasingly, these dealers must start over or void their game entirely. Such mishaps, which cannot be masked by a poker face, are devastating and may have long term and unintended consequences.

In the recent case *Preferred Care Partners Holding Corp. v. Humana Inc.*,[6] a counsel's non-production of documents during eDiscovery was pointed out as a significant oversight, clearly egregious, and gross negligence. At issue was whether sanctions were appropriate against Humana, based on a motion filed by Preferred Care Partners Holding Corp. (PCP) accusing Humana of inappropriate deletion of emails and the intentional or grossly negligent

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production of over 10,000 pages of documents on the eve of trial. In its analysis, the court determined that "it [was] clear from the outset that Humana failed to carry out its discovery obligations in accordance with the Federal and Local rules."[7] As further pointed out by the court,

> Humana's performance in carrying out its discovery obligations in this case was clearly egregious. Among other things, Humana admits that it was unaware that it had hundreds of thousands of pages of documents in its possession that were relevant to this case until one month before trial; and, when it was faced with the conundrum of realizing that its employees failed to effectively delete tens of thousands of emails as they were required to do pursuant to the Confidentiality Agreement that forms the basis of this lawsuit, Humana's counsel neglected to consult with opposing counsel or notify the Court before tarnishing the evidentiary record of electronic data in this case by simply ordering their employees to print hard copies of these documents and purge them from their computers.[8]

In finding that the Humana's "discovery failings" were the result of grossly negligent oversights of counsel, the court declined to impose harsh sanctions. In its reasoning, the court cited *Owens v. Benton* [9] for its explanation that "[t]here is a strong preference that cases be heard on the merits instead of opposing sanctions." The court also explained that the shortcomings of Humana's counsel were "neither intentional nor done in bad faith."[10] However, the court determined that PCP would be allowed to conduct additional discovery regarding the additional electronic data produced, and that Humana to bear the reasonable cost of that discovery. Therefore, in light of the court's decision, it is advisable that the dealer must beware—your shortcomings may not cost you harsh sanctions, but they could "cost" you additional discovery work and a cloud on your "reputation." The bottom line: it's not a game and you're not a dealer.

Keep It in Perspective and the Process Fair—Don't Overstate the Costs

Periodically in the eDiscovery process, practitioners can turn into Vegas-style high rollers when they think their side of the table becomes stacked with chips. Unfortunately, practitioners, including in-house counsel, can unknowingly lose their perspective and overestimate costs when they lack a full understanding of the technology – especially when the table turns. As such, when their bankrolls shrink or clients decline markers for an extended play, their discovery showroom can turn chaotic as everyone makes a mad dash for extra chips. Cost shifting, i.e., the expectation, request, or hope that the other side will pay, becomes the play of the day. However, unless these game seekers are ready to roll the dice or the other side clearly indicates upfront that the "plays are on us," getting the other side to pick up the tab will be difficult. In the recent case *Proctor & Gamble Co. v. S.C. Johnson & Son Inc.*,[11] one player's cost-shifting request was halted when the court determined that the claimed costs were overestimated and the request was inappropriate. In summary, the court had ordered the parties to submit estimates of the cost involved in the production of documents in searchable Tagged Image File Format (TIFF) with Optical Character Recognition (OCR) before it made a ruling on the format of eDiscovery.

The defendant had asserted that the cost of processing the documents should be shifted to the plaintiff. In support of its assertion, the defendant claimed that the cost of conversion to the OCR process, and any extra expense would be incurred on its behalf was solely for the plaintiff's convenience. However, the defendant did not offer any evidence in support of its estimate. In addition, the court noted, by means of its own research, that the estimated costs were "somewhat inflated."[12] Further, the defendant did not deny that the OCR process would make the documents easier to examine, thus reducing costs for attorney time. In making its determination, the court indicated its intent to rely on the multi-factor test adopted in *Zubulake v. USB Warburg LLC*,[13] which includes "the relative ability of each party to control costs and the incentive to do so."[14] The court found that an analysis of the factors did not favor cost shifting. The court also found that there was a lack of any showing that the documents requested were obtainable from other sources.[15] The court concluded:

> OCR, while perhaps not absolutely necessary to litigation, is a tool that greatly decreases the time and effort counsel must invest in searching and examining documents. Presumably, each party would perform the OCR process in a cost-effective manner to minimize their costs. Requiring the parties to incur this cost, when the OCR process is likely to streamline the discovery process and reduce the chance that either side will employ tactics designed to hide relevant information in a mountain of difficult to search documents is neither unreasonable nor burdensome. Therefore, after review of the *Zubulake* factors, the court concludes that cost shifting is not appropriate in the case.[16]

In light of the court's analysis and *Zubulake* factors, it's practical and advisable for practitioners to evaluate the accessibility of data and the proportionality of the discovery sought. In other words, one must be careful to determine whether the overall burden or expense of the proposed discovery outweighs its likely benefit, while considering the specific needs of each individual case. Otherwise, implementing a cost shifting strategy may not be worth the time, effort, or additional expense.

Stop the Game—Promote Collaborative Advocacy Instead of Gamesmanship

A way to prevent the traps and mishaps of a gamesman-type approach in the eDiscovery process—and discovery in general—is to avoid it entirely. As addressed in the Cooperation Proclamation issued by *The Sedona Conference®*, practitioners should re-evaluate their roles and strategies. In particular, "all stakeholders ... have an interest in establishing a culture of cooperation in the discovery process."[17] Practitioners also have a duty "to strive in the best interest of their clients to achieve the best results at a reasonable cost, with integrity and candor as officers

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FEDERALLY SPEAKING

Patent Reform 2009—What's In and What's Not!

By Wayne C. Jaeschke and Paul Crawford

Like a generational right of passage, Congress promulgates amendments to the Patent Act of 1952 (Title 35 U.S.C.) every decade or so. Patent reform is a surprisingly non-partisan maneuver driven by patent chieftains of the fortune 500 and executed by experienced members of Congress. While Congress is divided on economic and foreign policy, there seems to be a shared and principled belief that the patent system is at the root of promoting innovation and creating American jobs. Periodic patent reform often creates cacophonous dialogue among the many stakeholders lasting for years before compromises can be reached. The recent "Solomon-like" Senate deal that appears to have resolved the long standing battle over calculation of patent damages—where the interests of the electronics industry were pitted against those of the pharmaceutical companies—is a recent example. Prior reforms in 1952 eliminated the "flash of genius" standard of "obviousness", changed first-to-invent rules to even the playing field for proving priority of foreign-made inventions, and introduced inter-partes re-examinations.

We summarize below the key features of the latest patent reform legislation S.515 as worded in early April 2009. Provisions that were previously considered in earlier reform efforts but not included in S.515 are discussed below since excluded provisions might find there way into the Patent Act when their time is ripe. For example, the major change from first to invent to first to file in S.515 has been seriously debated although not enacted over the last quarter century. Goals of current patent reform include process changes to speed up the patenting process, improve patent quality, limit excessive damage awards, and harmonize the United States patent system with those in other countries.

What's in?

First Inventor to File

This would be a revolutionary change that eliminates the solely American "first to invent" feature of U.S. Patent Law that has served the country well for over 200 years. Yet, the change is now supported by most Fortune 500 companies. Even small entity owners and entrepreneurs have dropped their opposition to this change in part because patent interference proceedings based on the " first to invent" approach have become slow and expensive. First to file provides greater certainty at an early stage; and, that knowledge of ownership is essential for financing of innovative new ventures. If enacted, this provision will result in the phase-out of interference practice. Several other uniquely American features, however, have been preserved, including the requirement to name the true inventor(s) and allowing a one-year "grace period" from first disclosure to filing.

USPTO "Opposition" Proceedings and Re-examinations

Section 5 of S.515 covers post-grant procedures designed to enhance patent quality. Any member of the public would be able to file a cancellation proceeding within 12 months after the patent grant (the true party in interest seeking cancellation must be identified). Almost any grounds for showing that some or all granted claims are not patentable would support cancellation. For example, grounds of cancellation would include references that were not known or properly applied by the Patent Office during the initial examination. This proposal raises a potential for a much greater number of cancellation proceedings than interferences under existing law. To provoke an interference under existing law, independently invented overlapping patentable subject matter is required.

Practical concerns about the Patent Office's ability to receive and assess proofs submitted in a cancellation proceeding have lead Congress to exclude public use and sale as grounds of unpatentability. The cancellation proofs will be limited mostly to patents and publications. However as a remaining vestige of interference proceedings, a party seeking cancellation may show that the invention was derived from another inventor as grounds of unpatentability.

The new cancellation proceedings coupled with existing re-examination procedures arguably might submerge legitimate patents under a barrage of multiple proceedings challenging a patent. For this and other reasons the Intellectual Property Owners (IPO), in its testimony before the Senate, conditioned its support on the Patent Office rendering final decisions within 12 to 18 months.

Seasoned staff and judges currently assigned to interference proceedings and time tested procedures would be redeployed under a new Patent Trial and Appeals Board. Given added resources and prudent management, new procedures have the potential for improving patent quality, freeing courts to focus on more complex litigation. Similar opposition proceedings in the European Patent Office have received mixed reviews.

A Gatekeeper Provision Replaces Apportionment of Damages

The April 2009 version of S.515 is based on a compromise led by Sen. Arlen Specter (D-Penn.). Prior versions proposed that a "reasonable royalty" would be limited to "the portion of the economic value of the infringing product or process properly attributable to the claimed invention's specific contribution over the prior art." This language was interpreted as "prior art subtraction" and was strongly opposed by pharmaceutical and other manufacturing interests. By contrast, because of problems resulting from enforcement of large numbers of overlapping patents and high damages awards, the electronics industries championed reform. Building on the royalty calculation factors in the landmark Georgia Pacific decision, the Specter-led compromise directs the trial judge to instruct the jury in the most pertinent factors and methodology to be considered based on the evidence presented at trial. The judge becomes a gatekeeper on a case-by-case basis. It is reasonable to believe such a provision could lead to relief for electronics interests without changing damages methodologies in other industries.

Reform continued on page 15

Think Your Settlement is Safe? Watch Out for the Medicare Secondary Payer Act

By Derek J. Walden and Zachary B. Pyers

Recent case law and new legislation indicate that Medicare will be paying more attention to personal injury settlements. Over the past 20 years, and almost completely unknown to many in the legal community, Medicare has held a right of recovery for conditional payments made to Medicare beneficiaries which should have been made by a primary payment source. Because Medicare's enforcement of their right to recovery has been infrequent and unpredictable, many attorneys are not properly "taking Medicare's interest into account" when settling cases involving Medicare beneficiaries. And while it is true that Medicare's enforcement may be lax, failing to properly protect your settlement may be a dangerous gamble to undertake. As recently as March of 2009, Medicare asserted their recovery rights and won summary judgment against a West Virginia attorney who failed to pay a Medicare lien. This recent case, in addition to new legislation, should serve as a wake-up call for all attorneys whose practice serves Medicare beneficiaries.

The Medicare Secondary Payer Act

Passed in the early 1980's and amended multiple times since, the Medicare Secondary Payer Act governs situations where another entity is required to pay for covered services before Medicare does, thus making Medicare the "secondary payer." These "primary payer" entities are most frequently workers' compensation plans, group health plans, and liability insurance coverage. In practical effect, this legislation gave Medicare "super liens" on any amounts conditionally paid to Medicare beneficiaries, allowing Medicare to later seek recovery of the conditionally made payments.

In 1977 when the government realized the size and scope of policing various secondary payer situations, Congress created the Health Care Financing Administration, now called the Centers for Medicare and Medicaid Services (CMS).[1] In 2001, CMS first implemented a new technique to help enforce the mandates of the MSPA called a Medicare Set-aside Agreement or MSA. In short, an MSA is a written proposal that sets aside a portion of settlement funds and specifically earmarks those funds for future medical expenses which would normally be covered by Medicare. In addition to allocating settlement funds, the secondary purpose of a MSA (perhaps most important to a practicing attorney) is to insulate an attorney from future lien-recovery-litigation, essentially allowing the settling attorneys to say, "I took Medicare's interest into account with my client's settlement and here's the MSA to prove it." To date, CMS only requires MSA submission or approval for settlements of workers' compensation claimants who are, or may soon become, Medicare beneficiaries.[2] But that limitation to workers' compensation may soon change ...

In July of this year, new legislation took effect that creates a mandatory reporting requirement for insurance companies who are involved in settlements with Medicare beneficiaries.[3] This new legislation is the Medicare, Medicaid and State Children's Health Insurance Program Extension Act of 2007 (MMSCHIP).[4] Without getting into the nuanced details of the MMSCHIP, the practicing attorney should be aware of this legislation for one reason—Medicare will be paying more attention to personal injury settlements. Prior to this required reporting, Medicare's position was entirely reactive, only collecting on their conditional payments after a settlement was signed on the dotted line. However, this new legislation will allow Medicare to operate a comprehensive database and shorten the time elapsed between settlement approval and Medicare asserting a claim of settlement funds. This increased vigilance will almost certainly lead to increased enforcement of Medicare's MSPA rights. Additionally, many believe that this new legislation foreshadows CMS's intent to expand the applicability of MSA regulations, requiring submission and approval of a settlement prior to disbursement of funds, beyond workers' compensation settlements and into the field of personal injury settlements. The "who, what, when and where" of these possible regulatory changes remains completely unknown.

Even while new legislative developments are on the horizon, recent case law continues to uphold the MSPA enforcement mechanism available to Medicare. As set forth in the MSPA, when a conditional payment is made, Medicare has a direct right of recovery against any entity responsible for making the payment for the entire amount conditionally paid.[5] While somewhat similar cases have occurred throughout the 20 year history of the MSPA, a recent decision highlights that Medicare remains willing to enforce its reimbursement rights through litigation.

A Sign-Post of More to Come? United States v. Harris

The recent case of *United States v. Harris* (Northern District of West Virginia case no. 5:08-cv-102) has led to much discussion concerning attorney liability for failure to comply with the MSPA. Paul Harris is an attorney in Wheeling, W.Va. He represented the Ritcheas (as plaintiffs) in a products liability suit against a local ladder retailer. Mr. Ritchea had fallen off of a ladder and incurred medical expenses of $22,549.67, all of which was paid by Medicare. The Ritcheas' products liability action against the ladder retailer settled in July of 2005 for $25,000. Notably, the settlement amount was paid by an individual company (most likely a parent company of the ladder retailer) and not paid by an insurance company.

Upon completion of the settlement, Harris forwarded to CMS a copy of the settlement agreement, including his attorney's fees and costs. After subtracting CMS's portion of the attorney's fees and costs, CMS calculated its interest in the settlement proceeds was $10,253.59. When CMS notified Harris of its interests in December of 2005, it also notified him there was a 120-day appeal period to contest the amount of the CMS lien. Neither Harris nor his client ever filed an administrative appeal within the statutory 120-day appeal period. However, in May of 2006, Harris attempted to dispute the collection amount by filing suit in West Virginia state court on behalf of Mrs. Ritchea against the CMS contractor who was attempting to collect on the $10,253.59. The United States removed that action to federal court and ultimately, "pursuant to discussions between counsel," Mrs. Ritchea's state court suit was voluntarily dismissed in September of 2006.[6] The rationale behind the Harris' voluntarily dismissal remains unknown. However, the lien amount was never paid, because in May of 2008 the United States sued Harris individually for collection of the entire $10,253.59 lien amount.

Although Harris vehemently defended himself, the Northern District of West Virginia granted the United States summary judgment on Mar. 26, 2009. The Court held that Harris had waived any argument concerning (a) whether or not CMS had a right to recover and (b) the amount of CMS recovery, all because he had failed to file an administrative appeal within the 120 days. The Court again affirmed the basic recover scheme contained within the MSPA: Medicare may bring an action against any entity responsible for making the primary payment (*i.e.*, the ladder retailers parent company),[7] against any entity that has received payment from a primary plan (i.e. Mr. and Mrs. Ritchea), or against any entity that has received proceeds from a primary payment (*i.e.*. Harris).[8] Thus, if an attorney takes his fee out of a primary payer's settlement, as Harris did, Medicare may have a right of action against that attorney.

What Does All This Mean for the Practicing Attorney? Compliance and Vigilance Are Imperative

All attorneys need to be aware that Medicare's interest must be taken into account when dealing with a settlement involving a current or potential Medicare beneficiary. Although it may come as news to some, the habit of evaluating Medicare's interest should be incorporated into the attorney's regular practice. Whether Medicare's interests are for past lien amounts previously paid or whether Medicare's interest are for future medical expenses projected through a MSA, each client's particular situation will dictate. Staying compliant with the MSPA generally breaks down into three steps:

STEP ONE: Is the injured party now, or soon to be, a Medicare beneficiary? If the injured party is currently a Medicare beneficiary, then further analysis will be required. The gray area only comes when the injured party may soon become a Medicare beneficiary. Taking cues from CMS's current MSA requirements for workers' compensation, further MSA analysis is required for individuals who have already applied for social security disability insurance benefits or will become eligible to receive Medicare benefits within the next 30 months, i.e. the injured party is 62 ½ years of age.[9]

STEP TWO: Have I taken Medicare's interest into account? Medicare's interest for previously paid medical services can be determined by contacting Medicare asking for an analysis of the expenses paid. Medicare's interest in future medical expenses raises a slightly more complicated issue. Most experts believe that best way to take Medicare's future interest into account is by undertaking a Medicare set-aside analysis and completing a MSA. Once completed, this analysis will provide the settling parties with an estimate of the amount that should be set aside for future medical expenses covered by Medicare.

STEP THREE: Have I placed Medicare on notice of this settlement? CMS's website notes that an attorney taking a case involving a Medicare beneficiary should notify the Coordination of Benefits Contractor working with CMS.[10] In an abundance of caution, it may also be advisable to forward to CMS a copy of your MSA or MSA analysis. Although Medicare will likely not review or grant approval of the MSA, your actions would certainly show how you attempted to place CMS on notice of your settlement and how that settlement attempted to ear-mark funds for future Medicare covered expenses. Keep in mind, as illustrated by the Harris case, that notice to the government alone may not be enough—timely appeals of Medicare or CMS calculations may also become necessary.

In addition to remaining compliant, practicing attorneys should endeavor to stay abreast of the changing legislation. As previously discussed, the MMSCHIP indicates that Medicare and CMS will be paying more attention to personal injury settlements. Thus, it would not be surprising for CMS to author new rules for personal injury settlements which require an attorney to submit a MSA for filing and approval with CMS. Most believe that, as was done in workers' compensation, CMS will issue a policy memorandum that will set the reporting thresholds for MSAs in personal injury settlements. However, no one knows when, or if, these changes will occur. Thus, vigilance is the only way to ensure compliance, should new regulations develop.

Derek J. Walden and Zachary B. Pyers are associate attorneys with Reminger Co. L.P.A. in the Columbus office and practice in a wide area of general liability matters including insurance defense. They can be reached at (614) 228-1311 or at dwalden@reminger.com and zpyers@reminger.com. This article is taken from the Columbus Bar Lawyers Quarterly [Summer 2009] and reprinted with permission of the Columbus Bar Association.

Endnotes

[1]Why is CMS in Baltimore, www.cms.hhs.gov/History/Downloads/CMSInBaltimore.pdf

[2]Parashar B. Patel, *Medicare Secondary Payer Statute: Medicare Set-Aside Arrangements, Centers for Medicare and Medicaid Services Memorandum*, July 23, 2001, Question 1C, www.cms.hhs.gov/WorkersCompAgencyServices/Downloads/72301Memo.pdf

[3]All liability insurance (including self-insurance), no-fault insurance, and workers' compensation required reporting entities are required to begin reporting to CMS by July 1, 2010, which is an extension of the original deadline of July 1, 2009. *See* www.cms.hhs.gov/MandatoryInsRep/Downloads/RevisedImplementationTimeline050909.pdf.

[4]42 U.S.C. 1395y(b)(7)&(b)(8), www.cms.gov/MandatoryInsRep/Downloads/StatutoryLanguage.pdf

[5]*See* 42 U.S.C. § 1395Y(b)(2)(B)(ii); *see also Cox v. Shalala*, 112 F.3d 151, 154 (4th Circ. 1997).

[6]Notice of Voluntary Dismissal, Doc. #15, Case #5:06-cv-71; *See also* "discussion between counsel" language in Defendant's Memorandum of Law in Opposition to Plaintiff's Motion for Summary Judgment, Doc. #14, Case #5:08-cv-102.

[7]*See* 42 U.S.C. § 1395Y(b)(2)(B)(iii).

[8]42 C.F.R. § 411.24(g); *see also United States v. Weinberg*, 2002 WL 32356399 (E.D. Pa. 2002) (granting United States partial summary judgment under MSPA and holding that United States is entitled to recover MSPA debt from beneficiary's attorney); *United States v. Sosnowski*, 822 F. Supp. 570 (W.D. Wis. 1993) (granting, in part, the United States' motion for judgment on the pleadings under MSPA and holding that the United States is entitled to recover MSPA debt from beneficiary and his attorney). [9]Workers Compensation Medicare Set-aside Arrangements (WCMSAs), CMS Review Threshold, www.cms.hhs.gov/WorkersCompAgencyServices/04_wcsetaside.asp.

[9]Medicare Secondary Payer and You, www.cms.hhs.gov/MEDICARESECONDPAYERANDYOU/

Approaching the Bench

Dangerous Precedent: Flawed Reasoning Used to Defeat Federal Class Actions

By Ellen D. Marcus and Caroline E. Reynolds

Late last fall, the Second Circuit ruled in *Bonime v. Avaya Inc.*, 547 F.3d 497 (2d Cir. 2008), that a federal court lacked diversity jurisdiction over a class action pursuant to the Class Action Fairness Act, 28 U.S.C. § 1332(d)(2), because a New York state law prohibits class actions advancing claims similar to the plaintiff's claims. Not surprisingly, defendants are now invoking the Bonime decision, along with state law prohibiting class actions, to keep class actions out of federal court—even actions involving different claims than the claim presented in Bonime. So that they can effectively challenge these arguments, lawyers representing plaintiffs in class actions should understand the flaws in the Second Circuit's reasoning in Bonime, including its misapplication of the Erie doctrine. Plaintiffs' lawyers also should know that Bonime can be easily distinguished from most class actions because the plaintiff in Bonime had alleged violations of a federal law which is unusual for referring to state law to describe the federal cause of action.

The Bonime Lawsuit

Harold Bonime filed a class action lawsuit alleging that an agent of defendant Avaya Inc. transmitted an advertisement to him by facsimile without his permission, in violation of the Telephone Consumer Protection Act ("TCPA"), 47 U.S.C. § 227(b)(1)(C). *See Bonime v. Avaya Inc.*, 2006 WL 3751219, *1 (E.D.N.Y. Dec. 20, 2006) ("Bonime I"); *Bonime v. Avaya Inc.*, 547 F.3d 497, 497 (2d Cir. 2008) ("Bonime II"). The TCPA makes it unlawful to send an "unsolicited advertisement" to any telephone facsimile machine, 47 U.S. § 227(b)(1)(C), and provides for statutory damages of at least $500 per violation. *Id.* at § 227(b)(3)(B). The lawsuit further alleged that Avaya's agents transmitted unauthorized facsimile advertisements to more than 10,000 other recipients, and Bonime sought to certify a class action to include those recipients.

Bonime asserted that the district court had diversity jurisdiction over the action pursuant to the Class Action Fairness Act (CAFA), 28 U.S.C. § 1332(d)(2). Under CAFA, federal courts have diversity jurisdiction over a class action if the aggregate claims of the putative class exceed $5 million and if any one of the named plaintiffs is a citizen of a state different from any one of the defendants. Bonime's citizenship differed from Avaya's, satisfying the minimum diversity requirement. Because of the TCPA's $500 minimum damages provision, the aggregate claims of the putative class of 10,000 members exceeded $5 million. Bonime argued that CAFA's requirements for diversity jurisdiction were therefore satisfied and that he should be permitted to pursue his case in federal court.

The district court rejected Bonime's view, concluding that it lacked jurisdiction over the action—a decision that was later affirmed by the Second Circuit. In reaching their decisions, both the district court and the Second Circuit reflected on the unique nature of the TCPA. The statute was meant to address the problem that, while state laws prohibit unsolicited telemarketing, the state courts do not have jurisdiction over interstate calls. Congress therefore enacted the TCPA, a federal law, but created a cause of action governed by state law. The TCPA permits a person or entity to, "if otherwise permitted by the laws or rules of court of a State," bring an action "in an appropriate court of that State." 47 U.S. § 227(b)(3). As the Second Circuit observed, the TCPA created "a federal claim which behaved like state law. . . ." Bonime II, 547 F.3d at 500. Bonime, however, could not bring his claim in New York state court as a class action because New York law prohibits class actions for statutory claims unless specifically authorized by statute. N.Y.C.P.L.R. § 901(b). The TCPA is silent as to class actions. For that reason, several New York state courts have held that § 901(b) bars class actions asserting TCPA claims.

Both the district court and the Second Circuit concluded that § 901(b) likewise barred a TCPA class action in federal court. The courts applied the Erie doctrine, holding that federal courts must apply § 901(b) because the statute is substantive, not procedural. According to the Second Circuit, applying § 901(b) would prevent forum-shopping and avoid inequitable administration of the laws, the "twin aims of the Erie rule." Bonime II, 547 F.3d at 501. The Second Circuit also offered a second rationale for its conclusion. Because the TCPA provides for a cause of action only "if otherwise permitted by the laws or rules of court of a State," § 227(b)(3), the New York statute precluding the class action in state court meant that the TCPA, on its face, did not provide a cause of action at all. Bonime II, 547 F.3d at 502.

Bonime*'s Over-Extension of* Erie

Both the district court and the Second Circuit concluded that they lacked subject matter jurisdiction over Bonime's action, notwithstanding that the suit met the requirements of CAFA. Bonime was based on an unprecedented, and unwarranted, reading of *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938). The Supreme Court held in *Erie* that "[e]xcept in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state." 304 U.S. at 78 (emphasis added). In other words, where a federal statute is on point, it governs—whether it is substantive or procedural. *See*, e.g., *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 405 (1967) (applying federal arbitration statute because "Congress may prescribe how federal courts are to conduct themselves with respect to subject matter over which Congress plainly has power to legislate."); *see also Commonwealth Edison Co. v. Gulf Oil Corp.*, 541 F.2d 1263, 1271 (7th Cir. 1976) ("Erie and its progeny do not bind federal courts [when] rights are asserted under an act of Congress."). Therefore, the district court should not have looked further than CAFA in determining whether to exercise subject matter jurisdiction over the case. *Bonime*'s reliance on *Erie* to narrow the jurisdiction provided for in CAFA, in direct conflict with the statute's plain meaning, exalted the Erie doctrine's outcome-determinative "twin aims" of preventing forum shopping and avoiding the inequitable administration of the laws over the doctrine itself.

A Dangerous Precedent

Bonime raises serious questions about the future of class actions advancing state law claims in federal court. Congress passed CAFA to curb perceived abuses of class actions by empowering defendants to remove cases from supposedly plaintiff-friendly state forums to federal court. CAFA's critics charged that the statute would make it much more difficult for plaintiffs to prevail in class actions because of the sometimes tougher standards of federal courts. Under *Bonime*, however, even plaintiffs willing to pursue claims on behalf of a class in federal courts could be shut out of federal court altogether if a state statute imposed limitations on or prescribed conditions precedent to class actions.

The defense bar already has recognized the possibilities opened by *Bonime*. For example, in an appeal now pending before the Third Circuit, the defendant relies on *Bonime* in arguing that the district court erred in certifying a nationwide consumer fraud class action, in part because claims under the Georgia Fair Business Practices Act cannot be brought as a class action. *See* Brief of Appellant at 24, *Nafar v. Hollywood Tanning Systems Inc.*, No. 08-3994 (3d Cir. Nov. 24, 2008). According to the defendant, *Bonime* stands for the proposition that "*Erie* precludes federal courts from certifying state claims that by state statute cannot be brought as a class action." *Id.*

Because *Bonime* is based on a misapplication of the *Erie* doctrine, and because it involved an unusual federal/state hybrid cause of action, plaintiffs' lawyers should be able to argue persuasively that *Bonime* is not relevant to most class actions. In particular, unless the plaintiff seeks to certify a class damaged by the defendant's violation of the TCPA, state law should not be considered in evaluating whether a federal court must exercise diversity jurisdiction over the case. *Bonime* notwithstanding, the court's inquiry should be limited to whether the two requirements of CAFA are met—minimal diversity of citizenship and aggregate claims exceeding $5 million.

Ellen D. Marcus is a partner in the Washington, D.C. office of Zuckerman Spaeder LLC. She represents both plaintiffs and defendants in complex civil litigation. Caroline E. Reynolds is an associate in the same office, where she focuses on complex civil litigation and white collar criminal defense. They can be reached at 202.778.1800.

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of the court."[18] In other words, a gaming strategy is unwarranted and unnecessary, since it has "no practical effect."[19]

The Sedona Conference® approach has found support at the federal judiciary. For instance, the approach was supported by Chief U.S. Magistrate Judge Paul Grimm in the recent employment case *Mancia v. Mayflower Textile Servs. Co.*[20] In *Mancia*, Judge Grimm explained that practitioners must work together to conduct e-discovery. Judge Grimm also noted that "failure to engage in discovery as required by Rule 26(g) is one reason why the cost of discovery is so widely criticized as being excessive to the point of pricing litigants out of court."[21] After addressing other discovery issues and disputes in the case, Judge Grimm further explained that "[c]ourts repeatedly have noted the need for attorneys to work cooperatively to conduct discovery, and sanctioned lawyers and parties for failing to do so."[22] Therefore, in light of the court's reasoning, it is clearly imperative that all practitioners adopt and facilitate a more ethical strategy and resolution in the eDiscovery process.

Bryant L. Young is an associate in the Intellectual Property Group of Connolly Bove Lodge & Hutz's Washington, D.C., office. He represents clients in a variety of areas including; patent counseling and opinions, due diligence, litigation, patent prosecution, and patent reissue and reexamination. He can be reached at (202) 331-7111.

Endnotes

[1]No. 07 Civ. 10639(LAK)(AJP), 2009 WL 724954 (S.D.N.Y. Mar. 19, 2009).

[2]*Id.* at *1.

[3]*Id.* at *2 (citing *Victor Stanley Inc. v. Creative Pipe Inc.*, 250 F.R.D. 251, 260, 262 (D.Md. May 29, 2008).

[4]*Id.* at *2.

[5]*Id.*

[6]No. 08-20424-CIV., 2009 WL 982460 (S.D. Fla. Apr. 9, 2009).

[7]*Id.* at *2.

[8]*Id.* at *8.

[9]190 Fed. Appx. 762, 763 (11th Cir. 2006).

[10]*Id.* at *7.

[11]No. 9:08-CV-143, 2009 WL 440543 (E.D. Tex. Feb 19, 2009).

[12]*Id.* at *1.

[13]217 F.R.D. 309 (S.D.N.Y. 2003).

[14]*Id.* at *322.

[15]*Proctor & Gamble Co.* 2009 WL 440543, at *2.

[16]*Id.*

[17]Cooperation Proclamation (July 2008) at 1.

[18]*Id.*

[19]*Id.*

[20]Civ. No. 1:08-CV-00273-CCB, 2008 WL 4595175 (D. Md. Oct. 15, 2008).

[21]*Id.* (internal citations omitted).

[22]*Id.*

Preserving Objections to Jury Instructions: Speak Now, or Forever Hold Your Peace

By Peter M. Durney and Gregg P. Bailey

Trial lawyers must make known and assert their objections clearly and unambiguously at various stages of a trial. One important moment when a trial lawyer needs to be well prepared, alert, and poised to object arises during a court's charging of the jury on the law applicable to the case. The federal rules provide a specific practice for objecting to such jury instructions. Those rules require strict compliance, at the risk of possible waiver of otherwise valid objections.

Rule 51 of the Federal Rules of Civil procedure provides direction for raising and preserving an objection to a trial court's jury instruction. The failure to raise an objection under Rule 51 constitutes a waiver of that objection. Courts have generally construed the rule so strictly that neither the court nor attorneys may circumvent it.[1] Once a party has waived its objection under Rule 51, the instruction as provided to the jury becomes the law of the case.[2] Subpart (c) of Rule 51 requires a party to raise and articulate any objections "before the jury retires to consider its verdict." Accordingly, counsel must be diligent to raise any objection after the instruction is given and before the court directs the jury to begin its deliberations. Because a court is not required to provide a charge in advance, counsel must carefully assess each instruction individually and in the context of the whole as the charge is read to the jury. In theory, the rule makes absolute sense. In practice, it can be more than a bit challenging.

The purpose of the rule, of course, is to ensure that a court has an opportunity to address any problems with the charge before the jury retires.[3] Therefore, any objection must be clear and specific so that the court may give proper consideration to the objection. In practice, a party should submit proposed instructions in advance of the charge conference on all matters upon which the need for an instruction is anticipated. The failure to do so may be treated as a waiver, if a particular topic is not addressed.[4]

Even where detailed proposed instructions are submitted, however, a party may not simply refer to or tender those instructions, or simply identify them by number or page.[5] Most courts require a party to specify a particular error or to explain why a proffered instruction would be preferable to the court's version. These requirements likewise apply to a court's responses to questions by the jury, which underscores the importance of counsel being present at the courthouse throughout a jury's deliberations. It is critical to have your proposed instructions, whether or not they were given by the court during the initial charge, and copies of the key decisions cited in those requests, at your side and available for the inevitable argument.

On occasion, as a consequence of arguments on motions or prior rulings by the court, or sidebar colloquies, one or more objections may be glaringly obvious to the trial judge. When in doubt, the wise course is to reiterate the objection, even at the risk of momentarily displeasing the court. Nevertheless, a party may sometimes be excused from restating a prior objection if it is clear that a judge understood the objection and the basis for it. That understanding is usually developed over the course of a trial where a particular issue has been extensively discussed. In such a case, failure to raise a formal objection after the charge but before the jury retires may be forgiven, but the burden is on the party to establish that the court clearly understood the issue.[6] Without a formal transcript of the prior proceedings available for immediate review, however, counsel may have to rely on his or her recollection of what was said when, and by whom. In those circumstances, state the objection and the basis for it again.

In the aftermath of a trial, the ramifications of a failure to object can be swift and harsh. Consider the circumstance where a party seeks to reassert objections to jury instructions by filing a motion for new trial under Rule 59. In that context, the reviewing court undertakes basically a two-part analysis: first, whether the moving party properly preserved its objections at trial; and second, whether the objections had merit. Most often, a failure to comply with Rule 51 would foreclose the court's reconsideration of any objections. There is an exception to this otherwise strict "waiver" rule for a "plain error" so prejudicial that if ignored it would result in a miscarriage of justice and affect substantial rights.[7] Wright & Miller and a large number of courts have adopted the view that the "plain error" exception should be confined to circumstances where "the error has seriously affected the fairness, integrity, or public reputation of judicial proceedings."[8] In short, don't count on it!

If the court determines that an objection was preserved, or that "plain error" may have resulted in a miscarriage of justice, then the moving party must establish that there was indeed a prejudicial error in the instructions. Showing such prejudice, however, is a significant burden. No court is required to provide a faultless instruction to a jury. Indeed, the question is whether the charge, taken and reviewed as a whole, adequately explained the law applicable to the case. Incomplete or ambiguous instructions are not deemed necessarily prejudicial, if the remainder of the charge, when considered as a whole, provided an adequate explanation. Similarly, a supplemental instruction or response to a jury question must be reviewed in context, not in isolation.

Good practice demands the same preparedness and vigilance whether a trial is likely to take one week or several months. Short trials present their own problems in making objections to jury instructions because the day of reckoning comes quickly. Longer trials bring some different burdens, including complexity and residual fatigue (just to name two of them). Substantial advance work is always warranted to ensure that trial counsel are prepared to raise cogent, credible, legally supportable objections, if necessary, to a jury charge.

Peter M. Durney is a senior partner at Cornell & Gollub in Boston, Mass., where he has practiced since 1982. He is also admitted in Maine and New Hampshire and is routinely asked by Fortune 500 *clients to try cases throughout New England. Gregg P. Bailey is an associate with the same firm, where his practice concentrates on product liability litigation, insurance defense, and commercial litigation. He is admitted to practice*

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Member Admitted to Practice 6-10 Years	❍ $190	❍ $165
Member Admitted to Practice 11+ Years	❍ $215	❍ $180
Retired (Fully Retired from the Practice of Law)	❍ $135	❍ $135

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- ❍ *Antitrust and Trade Regulation* $15
- ❍ *Bankruptcy Law* $10
- ❍ *Criminal Law* $10
- ❍ *Environment, Energy, and Natural Resources* $15
- ❍ *Federal Litigation* $10
- ❍ *Financial Institutions and the Economy* .... N/C
- ❍ *Government Contracts* $20
- ❍ *Health Law* $10
- ❍ *Immigration Law* $10
- ❍ *Indian Law* $15
- ❍ *Intellectual Property & Communications Law* $10
- ❍ *International Law* $10
- ❍ *Labor and Employment Law* $15
- ❍ *Social Security* $10
- ❍ *State and Local Government Relations* $5
- ❍ *Taxation* $15
- ❍ *Transportation & Transportation Security Law* $20
- ❍ *Veterans Law* $10

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- ❍ *Judiciary* (past/present member or staff of a judiciary)..............................N/C
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For eligibility, date of birth must be provided.

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Alabama
❍ Birmingham
❍ Mobile
❍ Montgomery
❍ North Alabama

Alaska
❍ Alaska

Arizona
❍ Phoenix
❍ William D. Browning/ Tucson–$10

Arkansas*
❍ At Large

California
❍ Central Coast
❍ Inland Empire
❍ Los Angeles
❍ Northern District of California
❍ Orange County
❍ Sacramento
❍ San Diego
❍ San Joaquin Valley

Colorado
❍ Colorado

Connecticut
❍ District of Connecticut

Delaware
❍ Delaware

District of Columbia
❍ Capitol Hill
❍ D.C.
❍ Pentagon

Florida
❍ Broward County
❍ Jacksonville
❍ North Central Florida
❍ Northwest Florida
❍ Orlando
❍ Palm Beach County
❍ South Florida
❍ Southwest Florida
❍ Tallahassee –$25
❍ Tampa Bay

Georgia
❍ Atlanta–$10

Hawaii
❍ Hawaii

Idaho
❍ Idaho

Illinois
❍ Chicago

Indiana
❍ Indianapolis

Iowa
❍ Iowa–$10

Kansas
❍ At Large

Kentucky
❍ Kentucky

Louisiana
❍ Baton Rouge
❍ Lafayette/ Acadiana
❍ New Orleans
❍ North Louisiana

Maryland
❍ Maryland

Maine*
❍ At Large

Massachusetts
❍ Massachusetts –$10

Michigan
❍ Eastern District of Michigan
❍ Western District of Michigan

Minnesota
❍ Minnesota

Mississippi
❍ Mississippi

Missouri
❍ At Large

Montana
❍ Montana

Nebraska*
❍ At Large

Nevada
❍ Nevada

New Hampshire*
❍ At Large

New Jersey
❍ Central Jersey Shore
❍ New Jersey

New Mexico*
❍ At Large

New York
❍ Eastern District of New York
❍ Southern District of New York

North Carolina*
❍ At Large

North Dakota*
❍ At Large

Ohio
❍ John W. Peck/ Cincinnati/ Northern Kentucky
❍ Columbus
❍ Dayton
❍ Northern District of Ohio–$10

Oklahoma
❍ Oklahoma City
❍ Northern/ Eastern Oklahoma

Oregon
❍ Oregon

Pennsylvania
❍ Eastern District of Pennsylvania
❍ Middle District of Pennsylvania
❍ Western District of Pennsylvania

Puerto Rico
❍ Hon. Raymond L. Acosta/ Puerto Rico–$10

Rhode Island
❍ Rhode Island

South Carolina
❍ South Carolina

South Dakota*
❍ At Large

Tennessee
❍ Chattanooga
❍ Memphis Mid-South
❍ Nashville
❍ Northeast Tennessee

Texas
❍ Austin
❍ Dallas–$10
❍ Del Rio–$25
❍ El Paso
❍ Fort Worth
❍ San Antonio
❍ Southern District of Texas–$25
❍ Waco

Utah
❍ Utah

Vermont*
❍ At Large

Virginia
❍ Northern Virginia
❍ Richmond
❍ Tidewater

Virgin Islands
❍ Virgin Islands

Washington*
❍ At Large

West Virginia*
❍ At Large

Wisconsin*
❍ At Large

Wyoming
❍ Wyoming

Chapter Total: $ _______

Payment Information and Authorization Statement

TOTAL DUES TO BE CHARGED
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By signing this application, I hereby apply for membership in the Federal Bar Association and agree to conform to its Constitution and Bylaws and to the rules and regulations prescribed by its Board of Directors. I declare that the information contained herein is true and complete. I understand that any false statements made on this application will lead to rejection of my application and/or the immediate termination of my membership. I also understand that by providing my fax number and e-mail address, I hereby consent to receive faxes and e-mail messages sent by or on behalf of the Federal Bar Association, the Foundation of the Federal Bar Association, and the Federal Bar Building Corporation.

Signature of Applicant ***Date***
(Signature must be included for membership to be activated)

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Willful Infringement

Section 4 of S.515 builds on *In re Seagate*, which decided that a defendant could not be liable for treble damages absent "objective recklessness". The bill exempts defendants from "objective recklessness" where there is reliance on advice of counsel, evidence of modifications once the patent was discovered, or evidence of a good faith belief that the patent was invalid, unenforceable or not infringed.

Venue for Patent Infringement Suits

Venue reform has been driven mainly by criticism of numerous decisions of the Eastern District of Texas in favor of patent plaintiffs in cases where the connection with that district was minor. However, a recent decision of the Federal Circuit (certiorari denied) called In re Volkswagen that effectively ordered transfer from Eastern Texas to a more convenient district has led some to believe that legislative change may not be needed. The current mark-up of S.515 directs transfer when there is clearly a more convenient district. Current versions of S.515 retain state of incorporation as a proper venue, thereby preserving that important right to litigate in districts like Delaware.

Interlocutory Appeal to the Federal Circuit

In most circumstances, an appeal in a patent suit is not permitted until the judgment of the district court is final. S.515 would codify the right to an interlocutory appeal from a claim construction ruling where the Court certifies there is "a sufficient evidentiary record" and an immediate appeal may "materially advance" or likely "control the outcome" of the case.

Other Provisions

S.515 eliminates validity challenges based on an applicant's failure to disclose the best mode of the invention at the time of filing; and permits a patent assignee to file in place of the inventor.

What's Not in the Bill?

Inequitable Conduct before the USPTO

Charges of inequitable conduct are lodged in most infringement suits. The defense is popular since patents that are otherwise valid and infringed are rendered unenforceable according to a long line of judicial decisions. This defense fails more often than not because it is difficult to prove the required intent to defraud the Patent Office by clear and convincing evidence. But patent owners contend that rendering patents unenforceable by reason of inequitable conduct before the Patent Office is too draconian; hence even stricter rules should be required to prove this defense. Recent conflicting decisions of the Federal Circuit Court of Appeals illustrate these difficulties.

Congress has decided to sidestep this issue in current bills and leave this knotty issue for future debates, undoubtedly hoping that the Federal Circuit or Supreme Court resolves the issue.

Applicant Quality Submissions

The Patent Office has advocated numerous changes to the patenting process in an effort to lighten their load, reduce application backlog, and improve patent quality. While everyone agrees these are valid objectives, applicant quality submissions would require that applicants instead of the Patent Office bear the initial burden of searching and applying the prior art against the claimed invention. Intense opposition by patent owners persuaded Congress this change would unduly burden large and small inventors alike. The Patent Office likely will try to institute some of its desired "quality improvement" changes through assertion of rule-making authority rather than await legislation.

Patent Pilot Program—The Ten Judge Limit Was Abandoned

Another provision that remains in S.515 is a pilot program including funds for technically trained law clerks intended to upgrade the ability of the trial judges to adjudicate patent disputes. Early versions of S.515 limited the judicial districts that could participate to those have ten or more judges. The cut off drew swift action from many who recognized that the patent savvy Delaware District, a popular home base of many corporations, would have been excluded from the program. The most recent bill would permit districts including Delaware and the Eastern District of Texas to participate.

A Prohibition Against Diversion of Funds

Although not a big surprise, Congress has refused to include a prohibition against its past practice of diverting user fees paid by patent applicants to fund other programs.

Conclusion

Whether patent reform is enacted in 2009 or not, the battles over diversion of funds, inequitable conduct and numerous other issues will continue into the next generation of patent reform.

Wayne C. Jaeschke is of counsel and Paul Crawford is a partner at Connolly Bove Lodge & Hutz LLP. They are both part of the firm's Intellectual Property Group and are actively monitoring the proposed patent reform legislation in front of Congress. They can be reached at wjaeschke@cblh.com and pcrawford@cblh.com

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in Massachusetts and in Connecticut. They can be reached at (617) 482-8100.

Endnotes

[1]*McGrath v. Spirito*, 733 F.2d 967, 969 (1st Cir. 1984); *Dunn v. St. Louis-San Francisco Ry. Co.*, 370 F.2d 681, 684 (10th Cir. 1966) (cautioning that even a trial court's acquiescence in an inadequate procedure does not necessarily preserve an objection).

[2]*See Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 675 (7th Cir. 1985); *Shepp v. Uehlinger*, 775 F.2d 452, 455-56 (1st Cir. 1985).

[3]*Fillipon v. Albion Vein Slate Co.*, 250 U.S. 76, 82 (1919).

[4]*Weathersby v. Gore*, 556 F.2d 1247, 1255-56 (5th Cir. 1977); *Comins v. Scrivener*, 214 F.2d 810, 815 (10th Cir. 1954).

[5]*Campbell v. Vinjamuri*, 19 F.3d 1274, 1277 (8th Cir. 1994) (holding that a mere tender of an objection is not sufficient to preserve an objection, but rather there must be a specific explanation of the alleged error); *St. Paul Fire & Marine Ins. Co. v. Piedmont Natural Gas Co.*, 397 F.2d 263, 264 (4th Cir. 1968) (holding that lengthy discussion of and submission of proposed instructions was not a specific objection to the court's charge); *see also Charles A. Wright Inc. v. F. D. Rich Co.*, 354 F.2d 710, 713 (1st Cir. 1966) (holding that general objections by reference to numbers of requests do not properly reserve objections for review).

[6]*Gradskey v. Sperry Rand Corp.*, 489 F.2d 502, 503 (6th Cir. 1973) (requiring a showing that judge clearly understood issues of objection where specific formal objection not presented); *Hower v. Roberts*, 153 F.2d 726, 728-29 (8th Cir. 1946) (recognizing written instructions as preferable but holding that it is not required where the court clearly understood the basis for the request).

[7]*Wells Real Estate, Inc. v. Greater Lowell Board of Realtors*, 850 F.2d 803, 809 (1st Cir. 1988); *see also Life Plus Internal v. Brown*, 317 F.3d 799, 805 (8th Cir. 2003) (discussing "plain error" exception's requirement that it be used only in exceptional cases where the fairness and integrity of the proceedings would be questioned).

[8]Wright, Charles A. and Miller, Arthur R., FEDERAL PRACTICE AND PROCEDURE: FEDERAL RULES OF CIVIL PROCEDURE, Rules 51 to 53, Volume 9C, § 2558 at 199-207 (Thompson West 3rd ed. 2008).

SideBAR

Federal Litigation Section
Federal Bar Association
1220 North Fillmore Street
Suite 444
Arlington, VA 22201