IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LEADER TECHNOLOGIES, INC., a Delaware corporation,	)	
	)	Civil Action No. 08-862-JJF/LPS
Plaintiff-Counterdefendant,	)	
v.	)	
FACEBOOK, INC., a Delaware corporation,	)	
Defendant-Counterclaimant.	)	

LEADER TECHNOLOGIES, INC.'S MOTION *IN LIMINE* NO. 5
TO EXCLUDE ON-SALE AND PUBLIC DISCLOSURE DEFENSE

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I. INTRODUCTION

Plaintiff Leader Technologies, Inc. ("Leader") files this motion *in limine* to preclude Defendant Facebook, Inc. ("Facebook") from offering evidence or testimony at trial regarding its recently introduced on-sale and prior public disclosure defenses because they are untimely and not made in good faith. Facebook ignored the Court's discovery deadlines and failed to meet its Fed. R. Civ. P. 26 obligations. Facebook did not disclose its new allegations until well after fact discovery had closed. Facebook's belated disclosure of its untimely and new on-sale and prior public disclosure allegations are not justified because the necessary information which form the basis for Facebook's allegations was produced to Facebook as early as April 2009.

Moreover, Facebook does not have a good faith basis for pursuing these new allegations because they are in direct conflict with Facebook's steadfast position during the case that Leader's product, Leader2Leader® ("L2L"), does not practice the claims of the patent-in-suit, U.S. Patent No. 7,139,761 ("the '761 Patent"). The motivation for Facebook's claim that Leader does not practice the '761 Patent is two-fold: (1) Facebook wanted to be able to argue that Leader and Facebook are not competitors[1] and (2) Facebook wanted to base its false marking counterclaim on the claim that L2L is not covered by the '761 Patent -- a counterclaim that Facebook added to this case as recently as December 2009.

Notwithstanding its pleadings and positions taken before the Court, seven weeks after the close of discovery in this case, Facebook supplemented it interrogatory responses in an attempt to add the defenses of alleged on-sale bar and public disclosure of the '761 Patent. However, the Leader product that Facebook alleges is covered by the '761 Patent and offered for sale and/or

[1] Despite the large amount of material produced, Facebook has twice moved to be given direct access to L2L and its source code. D.I. 183; D.I. 282. Facebook has premised this request on the argument that it needed access to determine if Facebook and Leader were competitors. *Id.*

publically disclosed is none other than L2L -- the exact same product that Facebook alleges is also claiming is not an embodiment of the '761 Patent.

Allowing Facebook to pursue these mutually exclusive allegations will unduly prejudice Leader at trial and is likely to confuse the jury. Leader would be faced with addressing positions at trial that Facebook cannot have a good faith basis in asserting simultaneously and address Facebook's mutually exclusive positions which effects other aspects of this case and unnecessarily and unfairly increases Leader's burden of preparation and costs. Accordingly, Facebook should not be permitted to offer evidence of or rely upon its untimely on-sale and prior public disclosure contentions at trial.

II. STATEMENT OF FACTS

Facebook first provided notice of its new on-sale and prior public disclosure allegations on April 19, 2010, when Facebook supplemented its Response to Leader's Interrogatory No. 4 to add these new allegations. Declaration of Paul Andre in Support of Leader Technologies, Inc.'s Motion *In Limine* Nos. 1-7 ("Andre Decl."), ¶ 18, Ex. 17. Leader served its Interrogatory No. 4 on February 20, 2009, requesting that Facebook provide the bases for all its defenses and counterclaims pursuant to 35 U.S.C. §§ 102-103. *Id.*, ¶ 15, Ex. 14. Leader served its Interrogatory No. 18 on September 28, 2009, requesting the same information with supporting evidence. *Id.*, ¶ 16, Ex. 15. Facebook provided five responses to Interrogatory Nos. 4 and 18, but did not provide these new allegations of alleged on sale bar or public disclosure until it served its untimely April 19, 2010 supplement, which came after the close of discovery. *See id.*, ¶¶ 17-18, Exs. 16-17. No specific discovery was ever served regarding these allegations and no expert provided an opinion regarding these allegations.

III. ARGUMENT

Facebook ignored the Court's discovery deadlines and failed to meet its Fed. R. Civ. P. 26 requirements and therefore should be precluded from offering evidence of or relying upon its new and untimely on-sale and prior public disclosure allegations at trial. If a party fails to provide information as required by Fed. R. Civ. P. 26(a) or (e), the party is not allowed to use that information to supply evidence on a motion, at a hearing, or at trial, unless the failure was substantially justified or is harmless. Fed. R. Civ. P. 37(c)(1). The factors for determining whether to exclude evidence and preclude reliance upon these new allegations pursuant to Fed. R. Civ. P. 37 are often referred to as the "Pennypack factors." Those factors are:

> (1) the importance of the information withheld; (2) the prejudice or surprise to the party against whom the evidence is offered; (3) the likelihood of disruption of the trial; (4) the possibility of curing the prejudice; (5) the explanation for the failure to disclose; and (6) the presence of bad faith or willfulness in not disclosing the evidence.

See Boehringer Ingelheim Int'l GMBH v. Barr Lab, Inc., 2008 WL 2756127, at *2; *see also Konstantopoulous v. Westvaco Corp.*, 1112 F.3d 710, 719 (3d Cir. 1997) *citing Meyers v. Pennypack Woods Home Ownership Ass'n,* 559 F.2d 894, 904-5 (3d Cir. 1977). Facebook's new on-sale and prior public disclosure allegations are very prejudicial to Leader at this late stage in the case and there was no justification for Facebook to wait so long before disclosing these new allegations. Fact discovery has closed, expert discovery has concluded, and the trial is only weeks away. There is no possibility of curing the prejudice caused by the addition of these new allegations. Delaying the trial will equally prejudice Leader by forcing it to endure more dilatory tactics, increased costs, as well as Facebook's continued willful infringement of its '761 Patent. The mutually exclusive positions Facebook is attempting to take at this late stage of the case reveal Facebook's bad faith in making its allegations and call into question Facebook's Rule 11 bases for these claims. Leader, therefore, requests that the Court exclude evidence of and

preclude Facebook from asserting its new and untimely on-sale and prior public disclosure allegations at trial.

A. FACEBOOK IGNORED ITS DISCOVERY OBLIGATIONS UNDER THE SCHEDULING ORDER AND FEDERAL RULE OF CIVIL PROCEDURE 26.

The Scheduling Order and Fed. R. Civ. P. 26(a) obligated Facebook to identify its defenses and counterclaims in a timely manner. Facebook was also obligated to provide timely supplementation of its discovery responses, particularly Leader's Interrogatory Nos. 4 and 18 that request all bases for Facebook's defenses and counterclaims. Andre Decl., ¶¶ 15-16, Exs. 14-15. Facebook failed to meet these deadlines and now attempts to prejudice Leader at trial by adding two previously unalleged claims, which raise an entirely new defenses that contradict Facebook's false marking counterclaim and allegations that Facebook pursued in the case. There can be no reasonable dispute that Facebook was required to disclose all of its defenses in the case during discovery, as such information is important.

As noted above, the Federal Rules of Civil Procedure clearly dictate that a party that "fails to provide information . . . as required by Rule 26(a) or 26(e) . . . is not allowed to use that information . . . to supply evidence on a motion, at a hearing, or at trial, unless the failure was substantially justified or is harmless." Fed. R. Civ. P. 37(c)(1). This provision was added in 1993 to serve as an automatic sanction to "provide a strong inducement for disclosure of material that the disclosing party would expect to use as evidence." *See Philips Elecs. N. Am. Corp. v. Contec Corp.*, C.A. No. 02-123-KAJ, 2004 U.S. Dist. LEXIS 5839, at *4-5 (D. Del. Apr. 5, 2004) (citing the Advisory Committee Note to 1993 Amendments to Fed. R. Civ. P. 37.); *see also Inline Connection Corp. v. AOL Time Warner, Inc.*, 472 F. Supp. 2d 604, 614 n. 51 (D. Del. 2007).

Facebook did not meet its discovery obligations and failed to disclose its defenses based on alleged on-sale bar and public disclosure within the Court's Scheduling Order, as required by Fed. R. Civ. P. 26(a), or as part of a timely supplementation pursuant to Fed. R. Civ. P. 26(e). Facebook cannot deny that it has had two specific interrogatory requests asking for this specific information before it throughout discovery. Facebook's attempt to "surprise" Leader with its new and untimely disclosed allegations which constitute new defenses just before trial is not substantially justified or harmless. Facebook has had the information that allegedly forms the basis for its new allegations for quite some time, as discussed below. Thus, it is entirely appropriate to exclude evidence of and preclude Facebook's reliance upon its on-sale and prior public disclosure allegations as a sanction for failure to comply with its discovery obligations. *See Praxair, Inc. v. ATMI, Inc.*, 231 F.R.D. 457, 463 (D. Del. 2005), *rev'd in-part on other grounds*, 543 F.3d 1306 (Fed. Cir. 2008).

B. FACEBOOK CANNOT EXCUSE THE BELATED DISCLOSURE OF ITS NEW ALLEGATIONS

Facebook cannot excuse the late disclosure of its new allegations because it had the necessary documents and information for at least seven months, and in some cases a year, before asserting its new claims. *See* D.I. 147 at Exs. D-1 to D-3. Facebook attests that it needed deposition testimony of current and former Leader employees and Leader's non-disclosure agreements ("NDA") to substantiate its allegations, but this argument is undermined by several facts. First, Facebook never provided any specific information during discovery regarding its new allegations, despite having the relevant information for a year. Second, the deposition testimony of Leader's former and current employees does not support Facebook's allegations. *See* D.I. 331 at 4-6, 10-11. Third, the NDAs do not provide a basis for Facebook's claims, but rather provide Leader a defense to Facebook's claims that Leader publicly disclosed the '761

Patent. Therefore, Facebook's failure to pursue discovery or properly disclose its new allegations is not excused by its purported need for further information or supported by subsequently attained information.

C. FACEBOOK'S NEW ALLEGATIONS ARE MADE IN BAD FAITH

Facebook has pursued claims against Leader during this case and during discovery that Leader does not practice the claims of the '761 Patent. In fact, Facebook has repeatedly asserted this position before the Court to gain access to L2L software and source code. D.I. 190; Andre Decl., ¶ 19, Ex. 18 (Dec. 23, 2009, Hearing Tr. at 58:6-65:7); *id.*, ¶ 20, Ex. 19 (Mar. 12, 2010, Hearing Tr. at 55:19-64:5, 74:3-75:17). Since April 17, 2009, Leader informed Facebook of its position that its L2L product practices the claims of the '761 Patent. Andre Decl., ¶ 21, Ex. 20 at 4. Leader produced thousands of pages disclosing the features, design, and development of L2L in April and August 2009 to support this position. *Id.*, ¶¶ 22-24, Exs. 21-23. Initially, Facebook argued that Leader and Facebook are not competitors because Leader does not practice the '761 Patent. *See* D.I. 127 at 3. Subsequently, in December 2009, Facebook filed its Second Amended Answer and Counterclaims to add a counterclaim of false marking, which alleged that L2L does not practice the claims of the '761 Patent. D.I. 190.

Despite maintaining this position from the beginning of the case and repeatedly asserting this position before the Court, Facebook, after the close of written discovery and after the filing of initial expert reports, now asserts that L2L practices the '761 Patent as part of its new alleged on-sale and prior public disclosure defenses. Facebook cannot have formed a good faith basis pursuant to Rule 11 of the Federal Rules of Evidence to maintain both positions. Leader has requested that Facebook withdraw its false marking claim if it intends to assert that L2L practices the patent, yet Facebook failed to do so. Maintaining these mutually exclusive

positions has a detrimental effect on Leader's trial planning and is very prejudicial, because the position regarding L2L effects other allegations in this case.

Facebook's claim that it needed deposition testimony and irrelevant NDAs to support its new allegations actually demonstrate Facebook's bad faith in attempting to assert these new defenses against Leader. None of the deposition testimony from Leader's former and current employees supports Facebook's on-sale or prior public disclosure theory. *See* D.I. 331 at 4-6, 10-11. In fact, the testimony of Leader's former and current employees supports Leader's defense, which claims that Leader had a strong policy requiring NDAs and required NDAs prior to discussing investment in the company, employment by the company, or offering to sell software and services. *Id.* Further, there was no testimony during depositions to suggest there was any offers for sale and any allegations that Facebook is attempting to rely upon now for its new allegations are based on documents produced to Facebook a year ago. The facts during deposition described Leader's extensive efforts to ensure that its NDA policy was enforced from the company's inception in 1997 until the present. Facebook is grasping for any theory it may potentially use to delay this case.

D. FACEBOOK'S NEW ALLEGATIONS WILL UNDULY PREJUDICE LEADER AT TRIAL

Leader will be unduly prejudiced if Facebook is permitted to bring these new defenses at trial. It is hard to imagine a more prejudicial scenario than waiting until the eve of trial to spring new allegations based on information Facebook has had for more than a year. Leader is also being unduly prejudiced in preparing its case for trial because these new allegations are entirely a surprise, particularly as such allegations are mutually exclusive of Facebook's false marking allegations in the case. "A party is unduly prejudiced if amendment would cause surprise, result

in additional discovery, or add cost in the preparation to defend against new facts or theories." *Inline*, 237 F.R.D. at 370 (quotation and citation omitted).

Due to Facebook's failure to present in a timely manner its new defenses of invalidity during discovery, Leader was unable to seek fact discovery into the bases for Facebook's claims, take depositions of relevant third party witnesses, retain and prepare appropriate experts to rebut these new claims, and develop all available defenses so close to trial. Facebook's repeated assertion that Leader already has all of the information that Leader will require to defend against Facebook's constantly shifting defenses and counterclaims is false, as such allegations necessarily involve third parties. The Court in *Inline* denied the addition of a new claim just before trial and rejected the assertion that all the information was within the opposing party's control, stating that the new allegation will require additional preparation that will unduly prejudice the opposing party so close to trial by either denying the party essential discovery or delaying the trial for additional discovery. 237 F.R.D. at 369-70.

Due to Facebook's conduct and allegations during discovery, which included subpoenaing over 70 third parties for documents and/or depositions, there was no reasonable basis for Leader to believe that Facebook had failed entirely to pursue a potential invalidity theory in the case that it is only now seeking to pursue despite having all the documents and discovery for a year. Leader should not be forced to "guess" at what allegations Facebook may attempt to come up after the close of discovery. Leader has already been prejudiced in continually defending against and addressing allegations Facebook cannot have a good faith basis to assert in the first place, while Facebook attempts to delay and significantly increase the costs of this litigation at every opportunity. Leader is in a potential no-win situation -- it will either be precluded from properly preparing for trial against these new and untimely disclosed

defenses or potentially lose the set trial date.

IV. CONCLUSION

Leader respectfully requests this Court issue an order precluding Facebook from offering evidence and testimony at trial on its new on-sale and prior public disclosure contentions.

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CERTIFICATE OF SERVICE

I, Philip A. Rovner, hereby certify that on May 20, 2010, the within document was filed with the Clerk of the Court using CM/ECF which will send notification of such filing(s) to the following; that the document was served on the following counsel as indicated; and that the document is available for viewing and downloading from CM/ECF.

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