

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

X2Y ATTENUATORS, LLC,
Plaintiff-Appellant

v.

INTEL CORPORATION,
Defendant-Appellee

APPLE INC., HP INC., HEWLETT-PACKARD
ENTERPRISE COMPANY,
Defendants

2018-2248, -2249

Appeals from the United States District Court for the
Western District of Pennsylvania in Nos. 1:11-cv-00117-CB and
1:11-cv-00218-CB, Judge Cathy Bissoon.

**PLAINTIFF-APPELLANT X2Y ATTENUATORS, LLC'S
REPLY BRIEF**

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CERTIFICATE OF INTEREST

Counsel for Plaintiff-Appellant X2Y Attenuators, LLC certifies the following:

1. The full name of every party or *amicus* represented by us is: X2Y Attenuators, LLC.
2. The names of the real party in interest represented by us is: n/a.
3. All parent corporations and any publicly-held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are:
None.
4. The names of all law firms and the partners or associates that appeared for the party or *amicus* now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

DOVEL & LUNER LLP: Jonas Jacobson, Christin Cho, Richard Lyon, Julien Adams, Simon Franzini

HOUSTON HARBAUGH (FORMERLY PICADIO SNEATH MILLER & NORTON, P.C.): Henry Sneath, Amber Reiner Skovdal

ALSTON & BIRD LLP (PRIOR COUNSEL): Michael J. Chapman

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

X2Y and Intel are in litigation in *X2Y Attenuators, LLC v. Intel Corporation*, No. 3:18-cv-01394-SB (D. Or.). However, X2Y does not presently foresee that case directly affecting, or being directly affected by, this Court's decision.

February 22, 2019

Respectfully submitted,

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- I. It was not within the district court’s discretion to adopt Intel’s unsupported claims of prejudice or erroneous view of the law.**
 - A. Third Circuit law requires a predicate violation of a court order or discovery obligation. Here there was none.**
 - 1. Intel modifies the test for prejudice to match its arguments.**

Each time Intel quotes the *Poulis* test Intel omits or changes the critical words of the prejudice factor. Here are the actual words of that factor: “(2) the prejudice to the adversary caused by the failure to meet scheduling orders and respond to discovery.” *Poulis v. State Farm Fire & Cas. Co.*, 747 F.2d 863, 868 (3d Cir. 1984) (emphasis added). As *Poulis* expressly states, the only type of prejudice that is relevant is prejudice “caused by the failure to meet scheduling orders and respond to discovery.” *Id.* That means there must be such a failure in the first place—as there was in *Poulis* and in every other Third Circuit case the parties cite. *Id.* Here there was no such failure.

X2Y did not violate any court order or fail to respond to discovery. That is undisputed. Intel therefore attempts to broaden the prejudice factor by eliminating its causation requirement. Here is how Intel (twice) states the prejudice factor: “The *Poulis* test requires balancing ‘(1) the extent of the party’s personal responsibility; (2) the prejudice to the adversary ...; (3) a history of dilatoriness; (4) whether the conduct of the party or the attorney was willful or in bad faith; (5) the effectiveness of sanctions other than dismissal, which entails an analysis of

alternative sanctions; and (6) the meritoriousness of the claim or defense.” Red 18-19 (ellipses in original; emphasis added); *id.* 25-26 (same).

Intel fully states all the other factors, but for the prejudice factor Intel uses ellipses to omit the words “caused by the failure to meet scheduling orders and respond to discovery.” *Id.* Intel did not do that to save space or to remove irrelevant or superfluous words from the *Poulis* test. The purpose of Intel’s edit was to delete a material part of the *Poulis* test that Intel cannot meet.

Later, in the section of its brief devoted to the prejudice factor, Intel goes even further. Intel changes the language of the factor to match its argument: “The second *Poulis* factor is ‘the prejudice to the adversary caused by the failure [to prosecute].” Red 35 (citing *Poulis*). Intel’s change is deliberate and erroneous.

2. Intel cannot justify its modification.

Intel asserts: “Case law interpreting Rule 41(b) further confirms that it is not limited to situations where a plaintiff violates a court order or fails to respond to discovery.” Red 37. The issue is not whether Rule 41(b) can apply in the absence of a court order being violated or a failure to respond to discovery. Of course it can. The issue is whether the Third Circuit test for dismissal under Rule 41(b) credits—in its second factor—claims of prejudice that do not arise from the violation of a court order or a failure to respond to discovery. It expressly does not. *Poulis*, 747 F.2d at 868. And Intel cannot identify any Third Circuit case that

re-interprets the actual words of the prejudice factor (“caused by the failure to meet scheduling orders and respond to discovery”) to mean “caused by the failure to prosecute.”

Intel cites just one Third Circuit case, *Bendix*, to support its argument. Red 38. *Bendix* is essentially a Rule 36 affirmance that predates *Poullis* by 21 years and is not cited by *Poullis*. *Bendix Aviation Corp. v. Glass*, 314 F.2d 944 (3d Cir. 1963). In addition, the underlying district court case in *Bendix* did involve the violation of a court order. In that case the plaintiff was given a second chance to prosecute after an 11-year delay (the court denied a first Rule 41(b) motion), but then the plaintiff *again* delayed. *Bendix Aviation Corp. v. Glass*, 32 F.R.D. 375, 376 (E.D. Pa. 1961). The court twice ordered the plaintiff to take the steps needed to get its “protracted” case onto the trial calendar, but the plaintiff failed to do so. *Id.*¹

To be sure, the Third Circuit could have adopted a different or broader factor for considering prejudice. As Intel’s other two cases show (Red 37-38), that is what other circuits have done in formulating their own tests. *Hyatt v. Lee*, 2016 U.S. Dist. LEXIS 86592, *3 (D.D.C. June 6, 2016) (“The D.C. Circuit has articulated three justifications for dismissal under 41(b): (1) prejudice to the other

¹ The term “protracted” means long-running, not “stayed” or “inactive,” as Intel suggests (Red 38).

party; (emphasis added)); *Shad v. Slow Dancing Music, Inc.*, 190 F.R.D. 638, 639 (S.D.N.Y. 2000) (“The Second Circuit has suggested that a District Court, in considering a motion to dismiss for failure to prosecute, should examine five primary factors:… (3) whether the defendant is likely to be prejudiced by further delay;” (emphasis added)). But that is not what the Third Circuit did in *Poullis* or any other case since. And while the absence of a violation of a court order or a failure to respond to discovery does not preclude a Rule 41(b) motion, it does preclude a finding of prejudice under *Poullis*.

3. The district court committed the same error as Intel.

This is not just something Intel gets wrong in its brief. This is a clear legal error that the district court itself committed. The district court paraphrased the prejudice factor under *Poullis* the same way Intel attempts—by omitting the causation requirement. Appx1 (“In determining whether to dismiss these cases for failure to prosecute, the Court considers:… (2) prejudice to Defendants;”). The district court then adopted the entirety of Intel’s prejudice arguments and evidence under this erroneous view of the prejudice factor. Appx2. That was an abuse of discretion. *Bowers v. NCAA*, 475 F.3d 524, 538 (3d Cir. 2007) (“a district court abuses its discretion in imposing sanctions when it ‘base[s] its ruling on an erroneous view of the law’” (quoting *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990))).

B. Third Circuit law does not provide a rebuttable presumption of prejudice. Nor would any such presumption be triggered here.

1. There is no presumption of prejudice under Third Circuit law.

At the district court, Intel was unable to submit or swear to any evidence of actual prejudice, so Intel argued for “a rebuttable presumption of prejudice.”

Appx114. The district court agreed, wholesale adopting each of Intel’s prejudice arguments. Appx2. That was an erroneous view of Third Circuit law and therefore an abuse of discretion. *Bowers*, 475 F.3d at 538.

Contrary to Intel’s continued assertions (Red 35), the Third Circuit does not allow a defendant to obtain case terminating sanctions by simply pointing to the passage of time instead of proving actual prejudice. Indeed, there are currently 248 cases in which the Third Circuit has addressed or applied *Poullis*. Not one of those cases supports Intel’s argument for a rebuttable presumption of prejudice.

Intel relies on the *Windward* and *Herrman* cases. Red 35. These district court cases are not controlling, and while the latter case cites the former, neither case cites any Third Circuit holding or even discussion of whether prejudice can be presumed. *Windward Agency Inc. v. Cologne Life Reinsurance Co.*, 353 F. Supp. 2d 538 (E.D. Pa. 2003); *Herrman v. Allstate Ins. Co.*, 450 F. Supp. 2d 537 (E.D. Pa. 2006). In addition, the Third Circuit’s non-precedential affirmance of the dismissal in *Windward* contained no discussion of the prejudice factor (which is

why Intel relies on the district court case) and did not adopt a never-before-articulated presumption of prejudice. *Windward Agency, Inc. v. Cologne Life Reinsurance Co.*, 123 F. App'x 481, 484 (3d Cir. 2005) (non-precedential).

In contrast, the Third Circuit has expressly held that speculative and unsupported claims of prejudice are insufficient under *Poullis*. So has this Court.² Indeed, the Third Circuit's opinion in *Adams*—which Intel itself cites at the top of its prejudice section (Red 35)—defeats Intel's presumption argument.

In *Adams*, the Third Circuit held that the district court abused its discretion by dismissing the plaintiff's case even after “a four and one-half year hiatus” that was unexplained. *Adams v. Trs. of the N.J. Brewery Employees' Pension Tr. Fund*, 29 F.3d 863, 867 (3d Cir. 1994). The court did not presume that the four and a half year period gave rise to prejudice, nor did it afford the defendant a rebuttable presumption of prejudice. Instead the Third Circuit rejected claims of prejudice that the district court had accepted because those claims were speculative and unsupported. *Id.* at 874 (“It is possible the Breweries may suffer some prejudice from this delay, in the form of additional costs or lost information. But there has been no testimony to this effect, and such prejudice, if it exists, would be minor

² *Drone Techs., Inc. v. Parrot S.A.*, 838 F.3d 1283, 1304 (Fed. Cir. 2016) (“Accordingly, because the apparent prejudice to Drone is unsubstantiated, we hold that this factor disfavors a severe sanction” (vacating default judgment entered under *Poullis*)).

and appropriately addressed by more modest sanctions than dismissal.”).

Here there was a significantly shorter period of delay than in *Adams* and only speculative assertions of prejudice with no proof.

2. Intel failed to show that any presumption of prejudice would be triggered by the delay here.

There are two additional problems with Intel’s presumption argument.

a. Intel overstates the period of delay.

The October 2014 mandate finally resolved the ITC investigation. That was the earliest X2Y, if still represented by counsel, could have moved to lift the district court stay. It took X2Y until May 2017 to retain new counsel and until June 2017 for new counsel to contact Intel about reactivating the district court cases. Appx64-65. That entire period of time amounts to two years and nine months. But not all of that time can be characterized as an unreasonable delay.

A plaintiff that has been unexpectedly dropped by its counsel should be permitted some measure of time to identify and retain new counsel that is qualified and trusted. And new counsel, approached with a new matter, should also be permitted some measure of time to evaluate the case and determine whether it meets the firm’s new matter criteria. In a less complicated case with less at stake and less history, the process of diligence and retention will commonly take many months and can even take years. For example, although X2Y discovered Intel’s infringement in August 2009, it took until May 2011 for X2Y to retain Alston &

Bird and file the ITC and district court complaints (Appx209 (¶9))—a period the ITC found was not unreasonably long “given the scope of the complaints.” *In the Matter of Certain Microprocessors, Components Thereof, & Prod. Containing Same*, Inv. No. 337-TA-781, Initial Determination, 2012 ITC LEXIS 2658, *460 (Dec. 14, 2012).

Intel fails to acknowledge these realities and takes the extreme position that the entire two years and nine month period of time leading up to June 2017 was unreasonable. What’s worse, Intel rounds that up to three years and even suggests the total count should be *six* years (i.e., the entire duration of the stay that was imposed in 2011). Appx98, 100; Red 16 (“X2Y moved to reopen the 2011 actions—*nearly six years* after the cases were stayed and *three years* after this Court rejected X2Y’s infringement claims” (emphasis in original)); Red 25-34.

b. Intel fails to show that a delay of less than 3 years would trigger a presumption of prejudice.

Intel also fails to show that a delay of less than three years is so long that it would trigger a presumption of prejudice. Intel cites two out-of-circuit cases that involved *longer* periods of delay. Red 37-38 (citing *Hyatt* and *Shad* cases, which involved delays of three and five years). The single Third Circuit case Intel cites did not involve a mere two year delay, as Intel suggests (Red 38)—the delays in *Bendix* totaled more than 13 years. *Bendix Aviation Corp. v. Glass*, 32 F.R.D. 375, 376 (E.D. Pa. 1961).

Moreover, while two years and nine months could be a long time for a represented plaintiff to take no action in an active case, it is not a particularly long period of time for an unrepresented party to find new counsel for a complicated case that is already stayed. Indeed it is less than half the 6 year period that was required to trigger a presumption of laches. *A.C. Aukerman Co. v. R. L. Chaides Constr. Co.*, 960 F.2d 1020, 1035-36 (Fed. Cir. 1992).

3. The district court made the same errors as Intel.

The district court adopted Intel’s argument that a presumption of prejudice applied. Appx2. And just like Intel, the district court counted the entire period of time X2Y sought new counsel as the period of delay, even twice suggesting the six-year duration of the stay was the relevant period. Appx 2 (“Plaintiff admits – as it must – to having delayed its request to reopen for nearly three years since the ITC proceedings ended; and six years since the lawsuits initially were filed...[T]he three- (or six-) year delay, under the circumstances, proves too much”).

The district court therefore adopted an “erroneous view of the law” and compounded that error with a “clearly erroneous assessment of the evidence.” *Bowers*, 475 F.3d at 538 (3d Cir. 2007).

C. X2Y affirmatively demonstrated that Intel’s claims of prejudice are without merit.

Even under Intel’s erroneous reading of *Poullis*, the only prejudice that can possibly be relevant is prejudice caused by the alleged failure to prosecute during

the post-October 2014 time period. X2Y affirmatively demonstrated to the district court that there was no such prejudice. It was an abuse of discretion for the district court to nonetheless wholesale adopt Intel's unsupported prejudice arguments in the face of that demonstration.

1. Intel is not prejudiced by the inability to take additional testimony from Bill Anthony.

Unlike the other facts Intel asked the district court to assume—lost prior art, faded memories, R&D dollars invested in reliance on X2Y's inactivity—Bill Anthony's death is unfortunately an actual fact. He died unexpectedly while the stay was still in place and X2Y was still attempting to retain new counsel. But that does not mean Intel will be prejudiced by his death, nor that any such prejudice resulted from a failure to prosecute.

a. Intel incorrectly assumes Bill Anthony would have been available for additional testimony but for the alleged failure to prosecute.

The critical premise of Intel's argument is that if (a) X2Y had earlier retained new counsel and moved to lift the stay then (b) Intel would have obtained additional testimony from Bill Anthony before his death. Intel simply assumes this to be true. In fact, Intel likely would not have taken a fourth day of deposition testimony from Mr. Anthony (or cross-examined him at trial) before his death.

To illustrate, consider the schedule in the parties' pending district court case in Oregon. X2Y filed that case in Erie, Pennsylvania, in June 2017. Intel moved

to change venue to Portland, Oregon (telling the district court it planned to do the same with these cases). The court granted Intel's motion in July 2018. The *Markman* hearing is set for January 31, 2020. Trial is not set but can come no sooner than the first half of 2020. To date neither party has noticed or taken any depositions. Accordingly, we are currently 20 months into the new case without any depositions, and trial is likely at least another 15-18 months away.

Now let's overlay that timeline here. Assume X2Y retained new counsel in August 2015 and that the stay was immediately lifted at that time. That would be the equivalent of the new case's filing. Fast forward 20 months, and we are now at the end of May 2017—four months after the unexpected death of Bill Anthony. Intel never asked for and never obtained a fourth day of deposition in that alternate timeline, and Intel would have been going to trial without the ability to cross-examine Mr. Anthony live.

The proposition that sooner action by X2Y would have allowed further testimony from Bill Anthony is highly questionable and should not have been assumed by the district court.

b. Intel failed to show that it would be prejudiced without a fifth day of testimony from Bill Anthony concerning the same patents and historical facts.

A defendant cannot credibly claim to be prejudiced by the death of a fact witness the defendant already cross-examined at length concerning all of the

relevant facts known to that witness.

Intel took three days of videotaped deposition testimony from Bill Anthony during the ITC investigation and also cross-examined him at the merits hearing. Intel questioned Mr. Anthony at length, under oath, on all the same facts and all the same topics that could have possibly been covered in a further deposition in the district court. The testimony covered the same six patents, the same historical facts, the same topics of claim construction, validity, infringement, willfulness and pre-filing interactions between the parties, and X2Y's agreements with its manufacturer-licensees. Appx211 (¶12).

Yet Intel continues to assert that the prior testimony did not address any “different infringement theories” or “damages theories” X2Y may assert in the district court, or any “new and different invalidity references or theories” that Intel may now assert. Red 39. This argument fails.

First, Intel does not identify any new theory of infringement, damages, or invalidity. And it is an abuse of discretion to issue a case-terminating sanction based on hypothetical claims of prejudice. *Adams*, 29 F.3d at 874 (3d Cir. 1994).

Second, Intel was never entitled to cross-examine Bill Anthony on “theories” of liability or damages. Theories, contentions, and opinions are the domain of lawyers and experts, not fact witnesses. Mr. Anthony was a fact witness. Intel therefore had no right—and lost no opportunity—to cross-examine

Mr. Anthony regarding new theories (e.g., whether a particular claim element is met by a particular structure). A defendant is of course permitted to question a party's fact witnesses about facts that are relevant to theories and contentions and expert opinions; but that brings us to the next problem with Intel's argument.

Third, the assertion of new "theories" (or contentions or expert opinions) in the district court would not require new factual testimony from Bill Anthony. Mr. Anthony had already testified exhaustively to all of the factual information he possessed regarding all subjects that could have any potential relevance to theories of liability or damages. Indeed, Intel does not actually dispute this and does not even attempt to explain why the assertion of a new "theory" by either party or its experts would require additional factual testimony from Bill Anthony.³

2. Intel fails to defend its remaining prejudice arguments.

a. No evidence was lost or memory faded as a result of the alleged failure to prosecute.

Intel asserts that "[t]he district court found that Intel's ability to present a defense would be impaired by...the inevitable fading of witnesses' recollections, and greater challenges locating older evidence including, for instance, prior art products." Red 36, citing Appx114-115. The appendix pages Intel cites are not to

³ Intel mentions Don Harris (who was also deposed at the ITC). Red 39. Intel does not explain how his death has prejudiced Intel, nor did Intel identify Mr. Harris's death as a source of prejudice below (which it could have done with supplemental briefing).

the dismissal order (which contains no actual discussion or analysis of any claimed prejudice), nor are they to any evidence (such as a declaration from counsel or a witness). They are pages from Intel's district court brief in which Intel simply recites *potential* categories of prejudice that *could* qualify under *Poullis* if found to exist. Appx.114-115. That is wholly insufficient to support a finding of prejudice, particularly in this case where there is (a) an exhaustive record of documents and testimony regarding the prior art and the accused products from the ITC investigation and (b) no basis for concluding that evidence was lost or faded during the post-October 2014 time period while X2Y sought new counsel.⁴

b. Intel's design-around argument is unsupported and implausible.

Intel argues that “[i]f X2Y had resumed the litigation in 2014, Intel would have had at least the *opportunity* to make design changes to its products.” Red 39-40 (emphasis in original). This argument is unsupported and demonstrably false.

In response to a three-year ITC investigation that threatened to ban billions of dollars of Intel products from entering the country, Intel did not take any steps to design around X2Y's patents. Indeed, Intel convinced the ITC that the process of redesigning the accused products would be enormously “time consuming and

⁴ Intel's key witnesses remain with the company (Appx192, n.11), and Intel preserved all documents relating to the ITC investigation (Appx193, n.12)—even confidential documents Intel would have destroyed or returned under the ITC protective order if it actually believed the district court cases had concluded.

costly.” *In the Matter of Certain Microprocessors, Components Thereof, & Prod. Containing Same*, Inv. No. 337-TA-781, Initial Determination, 2012 ITC LEXIS 2658, *475-478 (Dec. 14, 2012). For Intel to now argue it would have (a) begun that design-around process for the very first time in response to X2Y’s continued assertion of the patents—following the October 2014 affirmance in Intel’s favor—and (b) introduced non-infringing alternatives before the patents expired in April 2017, is not credible.

c. Intel’s “discretionary damages” argument fails.

In the district court Intel complained that X2Y would be able to “double the statute of limitations on patent damages” by recovering damages going back to six years before the 2011 filings. Appx.115. We explained that this argument makes no sense (particularly for the 218 case, which asserts a single 2011 patent). Blue 34-36.

Intel replies with a new argument: “If X2Y were to prevail on the merits in a reopened case, its three-year delay would have essentially transformed discretionary and uncertain post-verdict royalties into damages that would be calculated and awarded by the jury as part of a compensatory award.” Red 40-41. Intel’s argument is that: (a) if X2Y had immediately moved to reactivate the cases in October 2014, the cases would be tried prior to the patents expiring in April 2017, (b) the verdict would only cover damages up to the trial, (c) for the

remaining term of the patents, X2Y would have had to obtain an ongoing royalty from the court, and meanwhile (d) “Intel could have then pursued redesigns to cut off any ongoing royalty.” *Id.* This argument fails on all levels.

It was not a “three year delay,” and it is highly speculative to assume that even an immediate post-ITC motion to reactivate would have led to a pre-April 2017 trial. Had such a trial occurred and resulted in a verdict for X2Y, Intel would not be free to continue infringing royalty-free in the absence of an ongoing royalty. Intel would have faced an additional lawsuit for its post-verdict infringement and an additional award of past damages, which are not “discretionary.” 35 U.S.C. § 284 (“the court shall award the claimant damages”). And lastly, the chances of Intel finally getting around to beginning and completing a redesign effort with substantially less than three years left on the patents is vanishingly small.

d. Intel abandons its “upset understanding” argument.

Intel argued below that lifting the stay would “upset” its “reasonable expectations” that the district court cases were over. Appx116. Like each of Intel’s other prejudice arguments, the district court adopted this one. Appx2, Appx3. As we explained, it was an abuse of discretion for the district court to conclude that the mere upsetting of expectations constitutes prejudice in the absence of any evidence those expectations actually led to acts of reliance that were prejudicial. Blue 37. Intel no longer asserts its argument and does not defend

the district court's reliance on the argument. Red 35-41.

3. Intel unwittingly concedes that it needed “minimum evidentiary support” to claim prejudice. Intel had none.

Intel concludes the prejudice section of its brief with another appeal to the deferential standard of review. Red 41. But as Intel unwittingly acknowledges, it is clear error to make findings of fact in the absence of “minimum evidentiary support” or to draw conclusions that are not rationally tied to “supportive evidentiary data.” *Id.*, quoting *Berg Chilling Sys. v. Hull Corp.*, 369 F.3d 745, 754 (3d Cir. 2004) (“A finding of fact is clearly erroneous when it is ‘completely devoid of minimum evidentiary support displaying some hue of credibility or bears no rational relationship to the supportive evidentiary data.’” (quoting *Kool, Mann, Coffee & Co. v. Coffey*, 44 V.I. 419, 300 F.3d 340, 353 (3d Cir. 2002))). Here Intel submitted absolutely no evidentiary support or data to support its claims of lost evidence, detrimental reliance on X2Y's inaction, or even upset expectations. And the one piece of actual data that exists—Bill Anthony's death—does not rationally lead to the conclusion that Intel has been prejudiced by the inability to take yet another day of testimony from this fact witness about the very same facts.

D. Intel failed to mitigate its claimed prejudice.

This case is unlike any other case Intel cites. Here the party seeking sanctions has itself engaged in the exact same conduct complained of—inaction on the docket of two stayed cases—for the exact same period of time. And the

prejudice claimed by the moving party could have been avoided entirely by that party. If Intel had been truly uncertain about X2Y's intentions following the ITC decision's affirmance, Intel could have simply picked up the phone and called X2Y. Or it could have filed its own motion to reactivate or dismiss the cases. But instead, Intel sat back and waited for X2Y to either (a) take action or (b) remain inactive long enough to allow Intel to later claim surprise and prejudice.

A defendant should not be granted a case-terminating sanction based on purported prejudice that it could have entirely avoided had it not sat on its hands and watched as the plaintiff continued to remain inactive on the docket.

II. It was not within the district court's discretion to terminate the case when alternative sanctions were available and sufficient.

A. X2Y did not waive any argument.

Intel claims that X2Y waived its arguments by not proposing the specific example sanctions it presents on appeal and by arguing against the imposition of any sanctions at the district court. Red 54-55. Intel's arguments fail.

First, as the moving party the burden was on Intel, not X2Y, to demonstrate to the district court that alternative sanctions were inadequate. Intel barely paid lip service to this requirement below. Blue 52.⁵

⁵ Originally Intel stated that it might seek alternative sanctions—such as a limitation on the period of past damages. Appx66 (¶48). But Intel's motion did not argue for or address any such alternative sanction.

Second, as the finder of fact it was the duty of the district court to consider any alternative sanctions that would address any prejudice the district court found, not just the specific examples of alternative sanctions proposed by the parties. *Vorn v. Brennan*, No. 12-6930, 2017 U.S. Dist. LEXIS 98670, at *18 (E.D. Pa. June 27, 2017) (“The Third Circuit has instructed that alternative sanctions should always be explored due to the ‘drastic’ consequences of dismissing an action.”). Blue 53.

Third, a party does not waive its right to have lesser sanctions considered or imposed by also arguing there was no sanctionable conduct.

Fourth, X2Y’s argument on appeal is the same as that below: if any sanction were imposed, it should have been tailored and proportional to any specific prejudice that was found. In the district court, we argued “there are alternative sanctions that are much less severe and that are more suited to address the type of prejudice Defendants claim.” Appx36, Appx87. We argued that the district court should not impose “the sweeping blow of an outright dismissal” based on speculative claims of prejudice, but should instead impose sanctions that are “tailored and proportional” to any prejudice “Defendants were able to establish” (i.e., during the course of the case). *Id.* We provided an example sanction: precluding X2Y from accusing any product Intel could show it designed in reliance on X2Y’s inactivity. *Id.* The district court was not limited to considering just this

one example of an alternative sanction that is tailored to an actual finding of prejudice. Nor is X2Y asserting any “new argument” on appeal by providing additional examples of what a more appropriate sanction would look like.

B. Intel fails to rebut X2Y’s showing of alternative sanctions.

We explained that Intel’s alleged concern with the *possibility* of “new infringement theories” could be addressed by barring such theories. Blue 51. In response, Intel pivots to its *other* purported concerns—new invalidity theories and prior art, Intel’s “continued investment,” etc. Red 56. Those are different concerns that, if they actually materialized, could be addressed by different, additional sanctions. We explained that Intel’s alleged concerns with lost prior art and faded memories of prior art witnesses (which, again, cannot bear any weight unless lost or faded after October 2014) and with a longer damages period could be addressed by denying X2Y a validity expert or limiting our damages claims (rather than wholly extinguishing them). Blue 51. Intel again ducks the issue, pointing to different concerns that could be addressed by different sanctions, and claiming waiver. Red 56-57. And Intel still fails to recognize the fundamental flaw in all of its arguments: because Intel failed to produce any actual evidence of any actual prejudice, the best we can do is identify hypothetical sanctions that could be tailored to hypothetical prejudice.

C. The district court failed to carefully weigh alternative sanctions.

Intel characterizes the district court's decision to terminate the case as "careful." Red 53. The conclusory assertion that "no effective alternative has been identified" (Appx3) does not constitute a careful consideration of alternative sanctions. Nor was it within the district court's discretion to extinguish six X2Y patents that the court had never touched based on "the general interests of finality" or maxims such as "all things, eventually must come to an end." Appx4. That was directly contrary to the Third Circuit's strong preference for cases to be decided on the merits. *Briscoe v. Klaus*, 538 F.3d 252, 257 (3d Cir. 2008) ("dismissal with prejudice is only appropriate in limited circumstances and doubts should be resolved in favor of reaching a decision on the merits").

III. It was an abuse of discretion to find X2Y personally responsible.

A. X2Y was not responsible for prior counsel's last-minute abandonment of its client.

A party is not responsible for a delay caused by the decision of its counsel to drop the party as a client. Alston & Bird unexpectedly dropped X2Y following the ITC decision's affirmance, forcing X2Y to find new counsel and remain inactive in the district court until it did. Appx40 (¶¶5-6). That was not X2Y's fault.

Intel argues that "X2Y controlled its lawyers" and cannot "avoid the consequences of their actions (or inaction)." Red 27. This argument fails. The "personal responsibility" factor's purpose is to assign responsibility as between the

party and its counsel. Blue 19-21; *Poullis*, 747 F.2d at 868. If the party were always responsible for counsel's conduct, as Intel suggests, this would vitiate this factor. Moreover, X2Y did not control and was not responsible for Alston & Bird's last-minute decision to drop X2Y as a client. In certain circumstances a client may be responsible for counsel withdrawing; for example, if the client fails to pay its bills and does something illegal or unethical. But nothing like that happened here. This is simply the case of a large traditional law firm losing its appetite for pursuing a plaintiff-side patent case and waiting until the last possible minute to tell the client that it wanted out.⁶

B. X2Y was not responsible for new counsel's preconditions.

A party is not responsible for a delay caused by the extensive due diligence of its prospective new counsel or the insistence of that counsel that the client cancel or renegotiate preexisting contracts. Blue 21-23. Intel argues that "X2Y freely chose to enter into the contracts" and "freely chose to spend three years seeking to retain Dovel." Red 30, 31. But X2Y did not "freely choose" to be unexpectedly dropped by Alston & Bird at exactly the time that firm was supposed to be reactivating the district court cases. And it is irrelevant that X2Y freely

⁶ Intel asserts that "[t]he Alston & Bird lawyer who filed the cases maintained an appearance in the district court." Red 31, n.5. As we explained below, that lawyer stopped working on the X2Y matter shortly after the 2011 filing and certainly did not represent X2Y in or after 2014. Appx211 (¶13); Appx214 (¶4).

entered its prior contracts, because X2Y wasn't the one that insisted on renegotiating those contracts. That was a precondition imposed by new counsel. Appx71-72 (¶8, ¶10).

Finally, while X2Y did choose to retain Dovel & Luner, it did not “freely choose to spend three years” doing so. Neither X2Y nor the Dovel firm wanted or expected the pre-retention process to last as long as it ended up lasting, and the reasons that process lasted as long as it did were not the fault of X2Y. Blue 21-23. And while Intel has the ability to hire and pay any law firm in the world, the same is not true of X2Y. X2Y cannot be faulted for attempting in good faith to obtain the plaintiff firm that it found most qualified and trusted for its case.

C. Intel's remaining arguments fail.

1. X2Y did not “lie in wait.”

Intel accuses X2Y of “‘lying in wait’ for nine years so that Intel would continue to invest in the accused technology.” Red 28. The nine years Intel refers to (a) began with X2Y's 2002 discovery that the same Intel engineers who first approached X2Y in 1999 had copied X2Y's patented technology into their own Intel-assigned patent applications (Blue 5-6; Appx306-309) and (b) ended with X2Y's filing of the ITC and district court complaints in 2011, following a 2009 discovery of actual Intel products that infringed. Blue 6-7; Appx210-211 (¶¶10-

12). This has nothing to do with X2Y's attempt to find new counsel for the district court cases in the post-October 2014 time period.

2. X2Y was not required to seek the extension of an existing stay no one was trying to lift.

Intel argues that X2Y's reading of the stay and administrative closure orders was unreasonable and that X2Y should have realized the only time that was proper to move to reactivate the stayed cases was *immediately* when the ITC proceedings ended. Red 33-34. But it was not unreasonable for X2Y to apply the same interpretation of the court's stay orders as its new counsel, Appx43 (¶12), Appx54 (¶9), and the district court found no violation of those orders. Appx1-4.

3. The "limiting principle" is a diligent defendant who timely objects to the plaintiff's alleged failure to prosecute.

Intel asserts: "X2Y's argument that a party should have whatever time it needs to get its contractual affairs in order has no limiting principle." Red 32. The limiting principle is the action Intel failed to take: that of a diligent defendant who timely objects to the amount of time the case remains on the books but stayed. While X2Y worked diligently to retain new counsel, Intel sat on its hands, doing absolutely nothing to advance the case or to express any objection to its inactivity.

Just as X2Y had a duty to prosecute, Intel had a duty to defend. One can imagine the response from Intel if, after retaining new counsel, X2Y sought a default judgment based on Intel's complete "fail[ure] to plead or otherwise defend"

itself for more than two years in a stayed case that neither party was litigating. Fed. R. Civ. P. 55 (a) (“When a party against whom a judgment for affirmative relief is sought has failed to plead or otherwise defend, and that failure is shown by affidavit or otherwise, the clerk must enter the party’s default.”).

IV. It was an abuse of discretion not to weigh the absence of prior delays against terminating sanctions.

Intel claims it “collect[ed] cases” showing “a single, extended episode rather than a series of shorter episodes” is “sufficient under the case law.” Red 41 (citing Appx112-113). Intel’s collection contains two cases, *Adams* and *Windward*. As we explained to the district court (Appx179-181) and again here, neither case supports Intel.

Intel seizes upon *Adams*’ phrase “*Extensive or* repeated delay” (Red 43 (emphasis by Intel)), but Intel ignores the rest of the case. In *Adams* the Third Circuit excused an explained delay of four and one half years and did so in part because there was no prior history of delay. *Adams v. Trs. of the N.J. Brewery Employees’ Pension Tr. Fund*, 29 F.3d 863, 867 (3d Cir. 1994). Indeed, in addressing the “history of dilatoriness” factor *Adams* states that “a party’s problematic acts” (i.e., the complained of conduct—in this case the delay in moving to reopen) “must be evaluated in light of its behavior over the life of the case” (i.e., the preceding 3 years of the district court cases, during which X2Y was diligently prosecuting the ITC investigation). *Id.* at 875 (emphasis added). The

court then went on to cite an example of a prior case in which it overturned a dismissal because “among other mitigating factors,” the court had found “there was no indication of dilatory tactics during the first two and a half years in which the case was litigated”—i.e., no history of dilatoriness prior to the complained-of period of delay. *Id.* Notably, the *Briscoe* case we cite also uses the “extensive or repeated delay” phrase, *Briscoe v. Klaus*, 538 F.3d 252, 260 (3d Cir. 2008), but then goes on to explain that a “history of dilatoriness” requires prior dilatory acts and is not met by “a single instance of dilatory behavior.” *Id.* 260-262.

The *Windward* case is even worse for Intel. That case concerned a series of delays amounting to seven years occurring during what was supposed to be an active period of arbitration. Appx179-180; *Windward*, 353 F. Supp. 2d at 539.

Intel also argues that “X2Y’s entire history before the district court was dilatory” and in the very next sentence asserts: “X2Y first strategically delayed for years in filing its lawsuits in an effort to seriously prejudice Intel.” Red 44. But showing a purported delay *in initiating a lawsuit* does not show a delay “before the district court” in *prosecuting* the lawsuits. Nor does showing a delay in “moving to reopen its lawsuits” establish *a prior history of delays* in the district court.

Finally, and contrary to Intel’s suggestions, the *Windward* case did not involve pre-filing delays. Red 44-45, n.7. The delays in that case all came after

the plaintiff “commenced an action...when it filed a writ of summons.”

Windward, 353 F. Supp. 2d at 539.

V. It was an abuse of discretion not to weigh the absence of bad faith against terminating sanctions.

Intel asserts: “Just because the court was not prepared to say that X2Y engaged in bad faith conduct does not mean it was obliged to reward X2Y for its negligence.” Red 46. X2Y was not negligent and is not asking for a reward. We are asking that the absence of willful misconduct or bad faith be credited, as it must, against imposing case-terminating sanctions. The district court did not do this and instead implicitly changed the factor to require “excusable” conduct. Blue 44-45.

Intel’s reliance on the 2008 presentation is puzzling. That presentation provides an undisputed account of how Intel attempted in 2002 to claim X2Y’s technology in its own patent applications and X2Y successfully remedied that misconduct at the Patent Office in 2006. Blue 5-6, Appx210-211 (¶¶10-11); Appx301, Appx306-309. It does not show bad faith *by* X2Y, much less in its post-October 2014 effort to retain new counsel. *Id.* Indeed, the presentation demonstrates Intel’s bad faith in claiming it believed the district court litigation was over. If that were true, Intel would have returned or destroyed all confidential documents produced under the ITC protective order, including the 2008 presentation (which Intel took from its own ITC case file, not from any district

court production by X2Y). Instead, it is undisputed that Intel preserved all confidential materials from the ITC investigation, Appx193, n.12, because Intel knew those materials would be needed in the pending district court cases.

VI. It was an abuse of discretion not to weigh the merits factor against terminating sanctions.

Intel attempts to summarily construe and dispose of three patents that were never adjudicated and certainly never analyzed by the district court. Red 51, n.8. As to a fourth patent—the only one asserted in the 218 case—Intel asserts: “X2Y’s new argument that the ’241 patent should be construed differently from the other patents is wrong.” Red 52. The argument is not “new” (Appx196-197, Appx237-238), and Intel fails to refute it.

Most importantly, Intel does not dispute that the Rule 12(b)(6) standard governs the merits factor (Blue 45-46), and does not contend it could have obtained a dismissal under that standard, even when matters outside the pleadings are considered. Red 49. As a matter of law, this means the merits factor should have been affirmatively weighed against dismissal. Blue 45-49.

Conclusion

It was an abuse of discretion to award the most extreme sanction possible in the absence of any prejudice, bad faith, prior history of dilatoriness or contumaciousness, or any prior warning or objection from the court or Intel, and in the face of a well-pleaded showing that our district court claims deserved to be heard on the merits.

February 22, 2019

Respectfully submitted,

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Certificate of Service

I certify that today, February 22, 2019, I electronically filed the foregoing Plaintiff-Appellant X2Y Attenuators, LLC's Reply Brief with the Clerk of the Court for the U.S. Court of Appeals for the Federal Circuit using the appellate CM/ECF system. All participants in the case are registered CM/ECF users and will be served by the appellate CM/ECF system.

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February 22, 2019

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