



KeyCite Yellow Flag - Negative Treatment

Distinguished by [Miller v. Pilgrim's Pride Corp.](#), W.D.Va., January 16, 2008

212 F.3d 1272

United States Court of Appeals,
Federal Circuit.

ADVANCED DISPLAY SYSTEMS,
INC., Plaintiff–Appellee,
and
Bao Gang Wu, Third Party Defendant–Appellee.

v.

KENT STATE UNIVERSITY and [Kent
Research Corporation](#), Defendants/
Third–Party Plaintiffs–Appellants,
and
[Kent Display Systems, Inc.](#), Defendant/
Third–Party Plaintiff–Appellant.

Nos. 99–1012, 99–1013.

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May 18, 2000

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Rehearing and Rehearing En
Banc Denied Aug. 24, 2000.

Company that developed and promoted polymer-free liquid crystal displays (LCDs) brought action seeking declaratory judgment that patent was invalid. Patent assignee and licensees brought infringement action against company, and cases were consolidated. The United States District Court for the Northern District of Texas, Jeffrey A. Kaplan, J., entered judgment upon jury's finding that patent was invalid for anticipation and obviousness and was not infringed. After denial of their motion for new trial, assignee and licensees appealed. The Court of Appeals, [Gajarsa](#), Circuit Judge, held that: (1) whether and to what extent material has been incorporated by reference into an allegedly anticipating reference is a question of law; (2) instruction directing jury to determine whether and to what extent material was incorporated by reference was erroneous and prejudicial; (3) newly discovered evidence warranted new trial on issue of obviousness; (4) newly discovered evidence warranted new trial on issue of infringement; and (5) bad faith conduct of company's counsel warranted sanction of new trial.

Reversed in part, vacated in part, and remanded.

Attorneys and Law Firms

***1275** [Kevin C. Nash](#), of Dallas, Texas, argued for plaintiff-appellee and third party defendant-appellee. With him on the brief was [C. Michael Clark](#), Attorney at Law, of Corinth Texas.

[Richard J. Hoskins](#), Schiff Hardin & Waite, of Chicago, Illinois, argued for defendants/third party plaintiffs-appellants. With him on the brief were [Patricia J. Thompson](#) and Julie L. Brown. Of counsel on the brief was [Ray L. Weber](#), Renner, Kenner, Grieve, Bobak, Taylor & Weber, of Akron, Ohio. Of counsel were [V. James Adduci, II](#), and [Michael L. Doane](#), Adduci, Mastriani & Schaumberg, L.L.P., of Washington, DC.

Before [PLAGER](#), [SCHALL](#), and [GAJARSA](#), Circuit Judges.

DECISION

[GAJARSA](#), Circuit Judge.

This is an appeal from the judgment of the United States District Court for the Northern District of Texas, entered on a jury verdict, in a consolidated declaratory judgment and patent infringement action relating to [U.S. Patent No. 5,453,863](#) (the “West patent”). Advanced Display Systems, Inc. (“ADS”) filed a complaint in the Northern District of Texas seeking a declaratory judgment of invalidity of the West patent. Kent State University (“KSU”), an assignee of the West patent, and licensees Kent Research Corporation (“KRC”) and Kent Display Systems, Inc. (“KDS”) (collectively “Kent”) then filed an infringement action, and the two cases were consolidated with Kent as the nominal defendant and ADS as the nominal plaintiff. The parties agreed to have a magistrate judge preside over the jury trial. Following the two-week trial, the jury found that the West patent was invalid for anticipation and obviousness and not infringed by ADS. Kent then moved for a new trial on all the issues in light of newly discovered evidence. Kent also moved for a new trial on anticipation, alleging an erroneous jury instruction. In addition, Kent filed a motion for sanctions against ADS's counsel for withholding evidence during discovery. The magistrate judge denied all of these motions. On appeal, we hold that prejudicial legal error tainted the jury instruction, we vacate the judgment, and remand for a new trial on anticipation. We also remand for a new trial on obviousness and infringement in light of the

newly discovered evidence. Finally, we reverse the magistrate judge's ruling on the motion for sanctions.

BACKGROUND

Since 1965, scientists at KSU's Liquid Crystal Institute ("LCI") have been researching the various properties and applications of liquid crystal materials. An important area of research focused on liquid crystal displays ("LCDs"). A typical LCD consists of a sandwich of liquid crystal material between two glass substrates. An electrical driver¹ connects to the sandwich in order to stimulate or address the liquid crystal material, thereby creating readable numerical or alphabetical characters. Manufacturers of electro-optic products, *1276 such as digital watches and notebook computers screens, use LCDs to display images and information.

Traditionally, LCDs were constructed by combining varying concentrations of liquid crystal materials and polymers. For example, one method for creating LCDs involved evaporating water from an aqueous emulsion of liquid crystal material in a solution of water-soluble polymer. Another method involved phase separation of liquid crystal from a homogenous solution with a synthetic resin to generate a liquid crystal phase blended with a polymer phase. Those methods, however, were expensive and entailed complex manufacturing processes. In addition, the presence of polymers created a haze effect that obstructed visibility of the displayed information when the LCDs were viewed from oblique angles.

In early 1992, Dr. John West ("West"), director of LCI, began experimenting with techniques for developing polymer-free LCDs. West eventually developed a new, polymer-free LCD using cholestric visible materials.² West determined that applying an electric field pulse of sufficient duration and voltage to cholestric visible material creates a contrast between the material's light reflecting and light scattering textures, thereby enabling a stable image display. West further found that a stable image could be sustained through a single electric field pulse rather than continuous application of an electric field. Thus, through the unique use of cholestric visible materials, West achieved the advantages of prior LCDs without the drawbacks attendant to the use of polymers.

On May 4, 1993, West and his colleague, Dr. Deng-Ke Yang, filed a patent application covering their polymer-free device

and a method for stimulating it. On September 26, 1995, the application matured into the West patent. West then assigned the patent to KSU, which through its licensing arm KRC, subsequently licensed the patent to KDS.

In February 1992, Dr. Bao Gang Wu ("Wu"), a former KSU student and colleague of West, formed ADS. In June 1993, Jiamini Gao ("Gao"), ADS's vice-president of research and development, secured a written formula for Kent's cholestric LCD. Even with knowledge of that formula, however, ADS failed to develop a functional LCD device because it could not construct an effective electrical driver.

In early 1994, Dr. Zvi Yaniv ("Yaniv"), then president of KDS and a former classmate of Wu, visited ADS and demonstrated a prototype of Kent's cholestric LCD and its electrical driver. Following the demonstration, Yaniv went to lunch with Wu, leaving the prototype at ADS's offices. Seizing the opportunity, Gao clandestinely removed the prototype from its box and brought it into an ADS laboratory. Gao then instructed a group of ADS engineers, including Victor Zhou ("Zhou"), to disassemble the prototype, photograph its various components, and re-assemble it in such a manner as to avoid any indication of tampering. Throughout this process, Gao urged his employees to work quickly to avoid detection because he knew the implication of the theft.

Prior to Yaniv's visit, ADS failed to develop an operational, polymer-free LCD through its independent efforts. Equipped with the photographs of Kent's prototype, however, ADS replicated Kent's cholestric LCD and electrical driver within a month. On April 11, 1994, ADS also filed a patent application for a polymer-free LCD based on the equivalent subject matter that had been photographed and copied during the surreptitious disassembly of Kent's prototype. The patent listed Wu, Gao, Zhou, and Yao-Dong Ma as inventors. *1277 While ADS's application was pending, the West patent issued, and the Patent and Trademark Office Examiner rejected ADS's claims directed exclusively to polymer-free LCDs as anticipated by the West patent. ADS consequently amended and limited its claims to cover the application of surface treatment in polymer-free LCDs. The ADS application eventually matured into [U.S. Patent No. 5,625,477](#) on April 29, 1997.

In early 1996, Kent learned that ADS was promoting a polymer-free LCD and notified ADS that it intended to enforce the West patent. While Kent and ADS were

discussing licensing arrangements, ADS filed a complaint in the Northern District of Texas seeking a declaratory judgment of invalidity of the West patent. After settlement negotiations failed, Kent sued ADS for infringement of the West patent, and the cases were consolidated in the Northern District of Texas.

Concurrent with discovery in the present case, ADS filed suit in Texas state court against USA Display, a company with several former ADS employees, alleging trade secret misappropriation. ADS's attorneys in the USA Display suit and in the present case were from the same law firm. During discovery in the USA Display suit, Zhou's deposition was taken. The pertinent parts of the deposition are set forth below.

Q: Can you describe for me or explain to me what Exhibit 3 is?

A: This is a picture taken by an employee in ADS. I cannot remember who took it, but I know Dr. Zvi Yaniv [and Kent] also develop a similar display, they call [theirs] bistable display, but in ADS they call multistable display. But ADS did not know how to design the driver for this device. So one day Dr. Zvi Yaniv visited ADS with a sample, and [Kent] have [a] completed driver.... And Dr. Zvi Yaniv gave to Jianmi Gao, who is the vice president of ADS and boss of R & D group, so he opened Dr. Zvi Yaniv[s] ... sample, and took this picture, while at that time Dr. Zvi Yaniv was not there. So [Yaniv] did not know.

.....

Q: What is this picture of?

A: This picture is the picture for the sample brought by Zvi Yaniv.

.....

Q: And [Yaniv] gave [the sample to ADS]?

A: [H]e not gave a sample, he just waited at ADS with a sample and-

Q: [T]hen he left?

A: No, he did not [leave], he showed the sample. But during [t]his time period he left and [Gao] opened the box and took the picture.

.....

Q: You were there?

A: Yeah, I was there.

Q: Did you open up the driver?

A: Yes. I was an employee there. I did whatever my boss told me to do.

.....

Q: Where was Mr. Zvi Yaniv [at that time]?

A: Well, we are taking picture and I don't know who he was talking to, but he was somewhere within the building or maybe left for lunch.... I just know that [Gao] want us to take the picture, and we took it.

.....

Q: Prior to the meeting in which the Kent State product was taken apart and photographed at ADS ... was ADS working on a similar type of display?

A: Yeah. They were trying to develop the similar thing.

Q: You said ... that ADS was trying to but had not succeeded in making a driver for [their LCD]; is that correct?

A: Yes that's correct.

.....

***1278** Q: Would you please describe the difficulties?

A: Yeah, we did not know how to drive the new display since the driving is another difficult part for design[ing] the whole display. We did not know how to drive it, what kind of waveform.... We did not know that.

Q: [Was] exhibit 3 [helpful]?

A: Right. Exhibit 3. This is very big help. So since then we knew, we start to know how to design the driver.

.....

Q: [B]efore the photograph was made. How was [Gao] involved in trying to make the driver?

A: We tried [for] a long time—we tried to understand how to drive it, but were not successful.

Q: Did [Gao know?]

A: He had some idea but all not successful.

Q: None of his ideas were?

A: No. We didn't even-

.....

Q: [During] the time period before the Kent State product was taken apart and photographed in the ADS lab.... [Was] ADS ... trying to make a driver?

A: Right.

Q: And failed. Could not do it.

A: No. They did not have an idea at that time.

.....

Q: Why did ADS need a driver for [its LCD]?

A: Without the driving circuit, no one [is] interested in that [LCD]. That is just a piece of glass. You have to make the life.

.....

Q: Do you know when ... Mr. Gao brought you the formula for the Kent State cholestric material?

.....

A: Before June.

Q: Before June of what?

A: June '93.

Q: Before Mr. Gao gave you the formulation, had ADS succeeded in making any [LCD] cholestric materials?

A: I did not see it.

Q: After he gave you what he told you to be the Kent State formula, were you successful in making cholestric [LCD] material?

A: Yeah.

Q: You were?

A: After he gave me [the Kent State formulation].

Q: How long did it take you after he gave you the formulation?

A: Few days.

.....

Q: All right. Now after you used the Kent State formulation to make the [LCD], your next problem was the driver?

A: Yeah.

Q: And on the day that Zvi Yaniv visited ADS and brought the [Kent prototype] module to show everybody, that the photographs were made, did Zvi Yaniv know the module was being photographed?

A: [Gao] ... told us to be quick. Don't let Dr. Zvi Yaniv know....

.....

Q: So after the photographs were made, what happened to the [Kent prototype]? Was it reassembled?

A: Reassembled and the[n] gave [it back to Yaniv].

Q: How long did it take to photograph it?

A: Pretty quick.

Q: [Gao] told you to be quick, didn't he?

A: Yeah, pretty quick.

.....

*1279 Q: After the Kent State [prototype] was copied, were you successful in making a driver?

A: Yes. After about a month or so.

Q: How did your driver compare to the Kent State driver?

A: We changed the microprocessor but we used the driver. The driver is the key part, the most important to this.

.....

Q: The cholestric material that was developed at ADS was based upon the formulas from Kent State?

A: Yes.

Q: And the driver on the [LCD] at ADS was based upon the driver from Kent State?

A: Yeah, at that time, yes.

.....

Q: You didn't know whether Kent State or ADS owned the technology, did you?

A: I know—technically I know the basic[s] are the same.

Q: The basic[s] of the Kent State—

A: The chemistry mixture and the way they make the cell are the same.

Q: As Kent State and ADS?

A: Right....

.....

Q: Why didn't [ADS] just buy the functioning [driver] ... ?

A: [I]t is not market available, I think. We cannot buy it.

.....

Q: Is it true that there are hundreds of shelf drivers?

A: Thousands and thousands.

Q: And so theoretically you could begin today to test and test drivers for years and not, other than by accident, hit the right driver?

A: By luck you may get it in a second. If not luck, it takes 10 years, it takes your life.

Q: So in order to find one that [properly charged the LCD], you either do random experimentation to find a shelf driver or invent or create a new driver?"

A: Yeah.

Q: Or use somebody else's driver?

A: Right.

.....

Q: [N]one of [the drivers] was built before ADS got this photograph?

A: Right.

Q: So the entire system that makes this was still to be done?

A: Right.

Q: And was anybody working on designing this system?

A: [W]e did not know how to design.... We don't know.

.....

Q: [Dr. Wu] told you to change things around so that he could get out—away from an earlier patent?

A: He tried to find us a new way to build another kind of [polymer-free LCD] so we can avoid a conflict with Kent State, yes.

.....

Q: Why didn't you find a new way?

A: It is very hard.... We did not have the time, we did not have the money to test everything.

During this testimony, ADS's attorney attempted to terminate the deposition and telephoned the presiding judge to request a protective order. The judge denied ADS's request but suggested that both parties keep the deposition confidential until ADS filed a formal motion for a protective order. ADS, however, never filed the motion and eventually abandoned the suit. ADS's attorney also instructed the court reporter not to prepare a transcript of the deposition.

During discovery in the present case, ADS failed to disclose to Kent the events that took place during Yaniv's lunch with Wu in spite of various demands made upon *1280 ADS. In particular, Kent served upon ADS a document request for "[a]ll documents that refer or relate to any evaluation, analysis, examination, testing, performance, or investigation of any light-modulating reflective device comprising [cholestric material] or any compound thereof made by KDS, the [LCI], or any third party." ADS's attorneys,

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