

United States District Court,
N.D. Texas, Dallas Division.

**ADVANCED DISPLAY SYSTEMS,
INC.** Plaintiff.

v.

KENT STATE UNIVERSITY,
et al. Defendants.

Nos. 3-96-CV-1480-BD, 3-96-CV-1608-BD

Nov. 29, 2001.

MEMORANDUM OPINION AND ORDER

KAPLAN, Magistrate J.

Advanced Display Systems, Inc. ("ADS") has filed a motion for partial summary judgment on the issue of judicial estoppel in this consolidated declaratory judgment and patent infringement action. Kent Display Systems, Inc. ("KDS"), Kent State University ("KSU"), and Kent Research Corporation ("KRC"), collectively referred to as "Kent," have filed a motion to disqualify counsel for ADS and third-party defendant Bao Gang Wu. For the reasons stated herein, both motions are denied.

I.

KSU owns a patent on a polymer-free liquid crystal display ("LCD") device using cholesteric visible material that is stimulated and sustained through a single electric field pulse of sufficient duration and voltage to create a contrast between the material's light reflecting and light scattering textures. (U.S. Patent No. 5,453,863, also known as the "West patent"). FN1 The patent is licensed through KRC to KDS. In early 1996, Kent learned that ADS was promoting a polymer-free LCD and threatened suit to enforce its patent. This prompted ADS to file a declaratory judgment action to declare the West patent invalid. After settlement negotiations failed, the Kent parties sued ADS and its president, Dr. Bao Gang Wu, for infringement. The two cases were consolidated and proceeded to trial in November 1997.

FN1. LCDs are used in a variety of electro-optic products, such as digital watches and notebook computer screens, to display images and information.

Following two weeks of testimony and extensive deliberations, a jury found that the West patent was invalid for anticipation and obviousness and was not infringed. The Court entered a final judgment in favor of ADS. On appeal, the Federal Circuit reversed and remanded for a new trial. *Advanced Display Systems, Inc. v. Kent State University*, 212 F.3d 1272 (Fed.Cir.2000), *cert. denied*, 121 S.Ct. 1226 (2001). This decision was based, in large part, on the deposition testimony of Hongxi "Victor" Zhou, a former ADS

engineer, taken in another case.FN2 Zhou testified that ADS's own efforts to develop a polymer-free LCD had been wholly unsuccessful until Dr. Zvi Yaniv, the former president of KDS, visited ADS in early 1994 and brought with him a prototype of Kent's cholesteric LCD and its electrical driver. While Yaniv was at lunch, Zhou and other ADS engineers were instructed to surreptitiously disassemble the prototype, photograph its component parts, and then reassemble the device in such a manner so as to avoid any indication of tampering. Within a month, ADS had replicated the circuitry necessary to operate the device and filed its own patent application for a polymer-free LCD.

FN2. The Federal Circuit also remanded for a new trial on anticipation because the issue of incorporation by reference should not have been submitted to the jury. *Advanced Display Systems*, 212 F.3d at 1283-84.

Although Zhou testified to essentially the same facts during the patent trial, his prior deposition was never produced to Kent. In fact, counsel for ADS claimed that Zhou's deposition was subject to an oral protective order by a state court judge and characterized the photograph of Kent's prototype as "attorney work product" on its privilege log.FN3 The Federal Circuit found this evidence potentially outcome determinative on the issues of non-obviousness and infringement and chastised ADS's counsel for their role in the cover-up. In reversing and remanding the case for a new trial, the court wrote:

FN3. Despite the fact that this photograph was taken more than two years before ADS filed suit, counsel refused to produce the picture because the original print was photocopied by attorney. The Federal Circuit condemned this conduct as an "egregious discovery ploy." *Advanced Display Systems*, 212 F.3d at 1288-89 ("This court ... is unable to find any legal principle that even remotely supports the notion that an otherwise discoverable document alchemically metamorphosizes into privileged work product simply because an attorney photocopies it.").

From the record below, it appears to this court that ADS's development of its LCD technology consisted of deceitful and conniving machinations that amounted to nothing short of corporate espionage. Regretfully, the conduct of ADS's counsel in defending such actions was equally egregious. Indeed, to say that counsel's conduct during discovery raises the collective eyebrow of this court would be to understate the severity of their transgressions.

Id. at 1288.

ADS now seeks a partial summary judgment on its affirmative defense of judicial estoppel. Kent counters with a motion to disqualify C. Michael Clark and Kevin Nash, counsel for ADS and Wu. Both motions have been briefed by the parties and are ripe for determination.

II.

ADS contends that Kent successfully argued on appeal that the invention described in the West patent encompasses three types of technology allegedly copied from the Kent prototype: (1) a polymer powder used to make a cholesteric mixture; (2) a polymer formula described in an earlier Kent article and patent; and (3) the circuitry used to drive the cell. By contrast, the patent claims originally construed by this Court describe a polymer-free liquid crystal material and are not limited to any particular type of drive circuitry. Because Kent convinced the Federal Circuit to hold that the West patent claims include the Kent "powder," "formula," and "drive circuitry," ADS maintains that Kent is precluded from relying on this Court's claim construction order and should be required to prove each of these technical elements in order to establish

infringement. (ADS MSJ at 1, 3, 13-14).

A.

The common-law doctrine of judicial estoppel precludes a party who has assumed one position in its pleadings from later taking a contrary or inconsistent position. *United States v. McCaskey*, 9 F.3d 368, 378 (5th Cir.1993), *cert. denied*, 114 S.Ct. 1565 (1994); *Brandon v. Interfirst Corp.*, 858 F.2d 266, 268 (5th Cir.1988). "The policies underlying the doctrine include preventing internal inconsistency, precluding litigants from 'playing fast and loose' with the courts, and prohibiting parties from deliberately changing positions according to the exigencies of the moment." *McCaskey*, 9 F.3d at 378. Judicial estoppel applies only if two conditions are met: (1) the position of the party to be estopped is clearly inconsistent with its previous position; and (2) the party convinced the court to accept its previous position. *Matter of Coastal Plains, Inc.*, 179 F.3d 197, 206 (5th Cir.1999), *cert. denied*, 120 S.Ct. 936 (2000).

B.

The Federal Circuit determined that evidence relating to the surreptitious copying of Kent's prototype and ADS's inability to develop its own polymer-free LCD were potentially outcome determinative on the issues of non-obviousness and infringement, thereby warranting a new trial. *See Advanced Display Systems*, 212 F.3d at 1286-88. However, copying itself is not probative of infringement unless there is some nexus to the claimed invention. *See In re Paulsen*, 30 F.3d 1475, 1482 (Fed.Cir.1994). ADS therefore reasons that evidence of copying could not be outcome determinative unless the particular drive circuitry used in the Kent prototype is part of the West patent.

Nothing in the Federal Circuit's decision suggests that it was "induced" or persuaded by Kent to construe the West patent in a manner contrary to this Court's claim construction order. The patent is not limited to any particular drive circuitry, but rather covers:

[A] means for addressing said liquid crystal material, said means adapted to selectively establish an electric field pulse of magnitude effective to transform at least a portion of said liquid crystal from a focal conic texture to a light reflecting twisted planar texture, and an electric field pulse of a magnitude effective to transform at least a portion of said liquid crystal from a light reflecting twisted planar texture to a focal conic texture.

(Kent App., Exh. N, col. 13, ln. 1-8). The "means" described in the patent need only be capable of creating "an 'electric field pulse' with an amplitude and duration sufficient to transform some portion of the liquid crystal from a focal conic texture to a light reflecting twisted planar texture." (ADS App., Exh. B at 30). Any type of drive circuitry capable of producing such a waveform falls within the scope of the patent and the Court's claim construction order. Thus, while the drive circuitry found in the Kent prototype is one "means of addressing such liquid crystal material," it is not the *only* means. Stated differently, the drive circuitry found in the Kent prototype is just one manifestation of the claimed invention.

Zhou testified during his deposition that the design of ADS's device was directly "based upon" Kent's electrical driver circuitry. The Federal Circuit determined that this testimony "is compelling evidence relating to infringement." *Advanced Display Systems*, 212 F.3d at 1287. In particular:

Zhou's deposition directly addresses how ADS's electrical driver circuitry was designed and implemented. That circuitry provides a waveform to change portions of the liquid crystal. The way in which ADS's device

causes the liquid crystal to switch is material to the question of literal infringement because the West patent covers a particular method for stimulating the liquid crystal. In addition, the evidence of copying present in Zhou's deposition supports a claim of infringement under the doctrine of equivalents.

Id. (citations omitted). This holding is not inconsistent with the scope of the West patent or the Court's claim construction order.

C.

ADS further contends that the Federal Circuit made repeated references in its opinion to "a mysterious *polymer* powder" and "an illusory *polymer* formula"-none of which are elements of the claimed invention. (ADS MSJ at 3) (emphasis in original). Contrary to this representation, the appellate court made no reference whatsoever to a polymer. Instead, the Federal Circuit ordered a new trial because ADS concealed evidence that it had copied the formula for the cholesteric liquid crystal material. In explaining the importance of this evidence to the issue of non-obviousness, the court wrote:

Zhou's deposition reveals that ADS's device was virtually an identical replica of the claimed invention. Zhou testified that the Kent and ADS "chemistry mixture[s] and the way[s] in which they make the cell are the same." Underlying that comparison was Zhou's testimony that ADS developed its liquid cholesteric visible material by copying Kent's formula. Zhou also explained that ADS built its electrical driver by disassembling Kent's prototype, photographing its features, and then using the photograph essentially as an instruction manual. The import of such copying evidence merits even greater weight in view of ADS's failure to develop independently the claimed invention.

Id. at 1285-86 (citations omitted).

ADS has failed to prove that Kent took inconsistent positions at trial and on appeal regarding the scope of the West patent, or that the Federal Circuit decision is somehow contrary to this Court's claim construction order. Accordingly, ADS's motion for partial summary judgment on the ground of judicial estoppel is denied.FN4

FN4. ADS also invokes the doctrines of collateral estoppel and law of the case in support of its motion for partial summary judgment. Collateral estoppel, which precludes a party in one case from relitigating an issue decided in another case, is wholly inapplicable here. *See* Copeland v. Merrill Lynch & Co., 47 F.3d 1415, 1422 (5th Cir.1995). The law of the case doctrine prevents litigants from revisiting issues that already have been decided at an earlier stage of the litigation. *Suel v. Secretary of Health and Human Services*, 192 F.3d 981, 984-85 (Fed.Cir.1999). However, this argument presupposes that the Federal Circuit's decision is contrary to this Court's claim construction order. As previously discussed, it is not.

III.

The Kent parties have filed a motion to disqualify C. Michael Clark from appearing on behalf of ADS or Bao Gang Wu in any capacity, and to preclude Kevin Nash from representing ADS at trial. As grounds for their motion, Kent contends that Clark has an "insurmountable conflict of interest" with his clients because: (1) he is a party to a lawsuit that takes a position "flatly at odds" with arguments made on behalf of ADS and Wu in this case; (2) he has pursued a course of continued litigation which has defeated the settlement objectives of ADS; and (3) he is a potential witness on issues that ADS has fought to keep concealed. Kent

maintains that Nash also is a potential witness regarding the suppression of evidence and bad-faith litigation tactics that bear on the issue of willful infringement.

A.

A motion to disqualify counsel is governed by "ethical rules announced by the national profession in the light of the public interest and the litigant's rights." *FDIC v. United States Fire Insurance Co.*, 50 F.3d 1304, 1312 (5th Cir.1995), *quoting* *In re Dresser Industries, Inc.*, 972 F.2d 540, 543 (5th Cir.1992). Four sets of ethical rules are relevant to this determination: (1) the Model Rules of Professional Conduct; (2) the Model Code of Professional Responsibility; (3) the Texas Disciplinary Rules of Professional Conduct; and (4) the Local Rules of the Northern District of Texas. *United States Fire Insurance Co.*, 50 F.3d at 1312, *citing* *In re American Airlines, Inc.*, 972 F.2d 605, 610 (5th Cir.1992), *cert. denied*, 113 S.Ct. 1262 (1993). These rules do not provide a unitary standard for analyzing this issue. *United States Fire Insurance Co.*, 50 F.3d at 1312. The Court must therefore weigh the relative merits of each rule as it proceeds through its analysis. *Id.*; *see also* *Chatham Holdings, Inc. v. RTC*, 1996 WL 751052 at *3 (N.D.Tex. Dec. 30, 1996).

B.

The Kent parties argue that Clark has a conflict of interest which precludes his further participation in this case because he has sued KDS and Kent Displays, Inc. ("KDI") and taken a position contrary to the interests of his clients in that litigation. On May 29, 2001, while ADS and the Kent parties were in the midst of settlement negotiations, Clark filed a defamation action against KDS, KDI, and others in Texas state court. The lawsuit arises out of an article published in the *Texas Lawyer* that accuses Clark of being sanctioned by the Federal Circuit for suppressing the Zhou deposition and the photograph of Kent's prototype.FN5 According to Clark, KDS and KDI "republished an exact copy of this libelous article which can be accessed by going through their Internet home page." (Kent App., Exh. 7 at 65). The state court petition further alleges that "[KDI] is the alter ego of [KDS] ... or in the alternative, these two businesses were a single business enterprise." (*Id.*, Exh. 7 at 66). However, during the first trial of the patent case, Clark argued that KDI and KDS were separate entities. (*Id.*, Exh. 8 at 72).FN6 Kent maintains that these contrary arguments, as well as the inherent conflict created by filing his own claim against KDS and KDI, disqualifies Clark from representing ADS and Wu.

FN5. Neither Clark nor his co-counsel, Kevin Nash, were formally sanctioned by the Federal Circuit. Instead, the appellate court "strongly encourage[d] the magistrate judge to follow through on his desire to review very carefully the conduct of ADS's counsel and to consider, within his discretion, imposing disciplinary actions and additional sanctions beyond the granting of a new trial." *Advanced Display Systems*, 212 F.3d at 1289.

FN6. Clark made this argument to the Court, outside the presence of the jury, in an attempt to exclude the testimony of Kent's damage expert, Ed Lynch. At trial, Lynch testified that his damage calculations were based on the combined financial information of KDS and KDI. Clark objected to this testimony because KDI was not a party to the lawsuit. (Kent App., Exh. 8 at 72-73).

1.

The Model Rules of Professional Conduct provide, in relevant part:

A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:

- (1) the lawyer reasonably believes the representation will not be adversely affected; and
- (2) the client consents after consultation.

MODEL R. OF PROF. CONDUCT, Rule 1.7(b). Although the Model Code of Professional Responsibility and the Texas Disciplinary Rules contain slightly different language, both prohibit a lawyer from accepting employment if such representation would interfere with his responsibilities to another client or affect his own interests, unless the client consents after consultation. *See* MODEL CODE OF PROF. RESP., DR 5-101(A); TEX. DISC. RULES OF PROF. CONDUCT, Rule 1.06.FN7

FN7. The Local Rules for the Northern District of Texas do not address this issue.

Kent contends that Clark should be disqualified because he has taken a position in his defamation suit that is contrary to an argument previously made on behalf of ADS and Wu. The Court disagrees. First, this is not a situation involving the dual representation of two clients who are implicated in the same transaction. *Cf.* *Ciak v. United States*, 59 F.3d 296, 305-06 (2d Cir.1995). FN8 Clark's lawsuit and the patent case are based on different facts, occurring at different times, and involving different parties. Kent has wholly failed to show how the representation of ADS and Wu may be "materially limited" by virtue of the arguments presented by Clark in his defamation case and this patent case.

FN8. The defendant in *Ciak* was charged with illegal possession of two guns that were found under the seat of his car. At trial, counsel argued that the guns had been placed in the car by the defendant's sister and her fiancée, who jointly owned the vehicle. However, neither the sister nor her fiancée testified at trial, possibly due to the fact that defendant's attorney had previously represented them in a forfeiture proceeding involving the same car. On appeal from an order denying post-conviction relief, the Second Circuit held that his conflict of interest required the automatic reversal of defendant's conviction. *Ciak*, 59 F.3d at 305-06.

Moreover, the arguments themselves are not diametrically opposed. Under Texas law, courts will not pierce the corporate veil under an alter ego theory unless the failure to do so will work an injustice. *See Castleberry v. Branscum*, 721 S.W.2d 270, 273 (Tex.1986); *Lifshutz v. Lifshutz*, -S.W.3d -, 2001 WL 840596 at *1 (Tex.App.-San Antonio, July 25, 2001, pet. filed). While equity may require application of the alter ego doctrine in one case, it may not in another. Thus, Clark may permissibly argue that KDI is the alter ego of KDS in his defamation lawsuit without necessarily implying that the separateness of the two corporations should be disregarded for all purposes.

For these reasons, Clark is not disqualified from representing ADS and Wu based on arguments made in his defamation suit.

2.

Nor does the mere pendency of the defamation action disqualify Clark. Kent argues that a conflict of interest

"necessarily arises when a lawyer attempts to represent a client against a particular opponent while simultaneously pursuing a claim on his own behalf against the very same opponent." (Kent Br. at 9 para. 16). However, the only cases cited in support of that proposition arise in the context of class action litigation. *Matassarini v. Lynch*, 174 F.3d 549, 559 (5th Cir.1999), *cert. denied*, 120 S.Ct. 934 (2000); *Zylstra v. Safeway Stores, Inc.*, 578 F.2d 102, 104 (5th Cir.1978). There is a *per se* prohibition against a class member serving as class counsel because "[a]n attorney whose fees will depend upon the outcome of the case and who is also a class member ... cannot serve the interests of the class with the same unswerving devotion as an attorney who has no interest other than representing the class members." *Zylstra*, 578 F.2d at 104. Stated differently, an attorney cannot fulfill his duty as a class representative when he also has an interest in an award of attorney's fees. *Matassarini*, 174 F.3d at 559. Such a concern is unique to class actions and certainly is not implicated here.

There is no indication that Clark's fee in this patent case is tied to the outcome of his defamation suit. Thus, there mere fact that Clark has sued KDS and KDI does not mandate disqualification.

C.

Kent further argues that Clark and his co-counsel, Kevin Nash, are potential witness and should be disqualified for that reason. Despite this assertion, Clark is not listed as a potential witness by either party in the Joint Pretrial Order. *See* Jt. PTO, 11/26/01, Exh. E-1 & E-2. Nash is a potential fact witness regarding the concealment of the Zhou deposition and the photograph of Kent's prototype device. However, Nash withdrew as counsel for ADS after the Court ruled at the pretrial conference that he would be required to testify at trial. This effectively moots consideration of this aspect of the disqualification motion.

CONCLUSION

ADS's motion for partial summary judgment on the issue of judicial estoppel is denied. Kent's motion to disqualify C. Michael Clark is denied. The motion to disqualify Kevin Nash is denied as moot.

SO ORDERED.

N.D.Tex.,2001.

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