

**Paul C. Ney, Jr.**

Application for Nomination to Judicial Office

for the

Tennessee Supreme Court

February 21, 2014

**The Governor's Commission for Judicial Appointments**

**State of Tennessee**

***Application for Nomination to Judicial Office***

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**INTRODUCTION**

The State of Tennessee Executive Order No. 34 hereby charges the Governor's Commission for Judicial Appointments with assisting the Governor and the people of Tennessee in finding and appointing the best and most qualified candidates for judicial offices in this State. Please consider the Commission's responsibility in answering the questions in this application questionnaire. For example, when a question asks you to "describe" certain things, please provide a description that contains relevant information about the subject of the question, and, especially, that contains detailed information that demonstrates that you are qualified for the judicial office you seek. In order to properly evaluate your application, the Commission needs information about the range of your experience, the depth and breadth of your legal knowledge, and your personal traits such as integrity, fairness, and work habits.

This document is available in word processing format from the Administrative Office of the Courts (telephone 800.448.7970 or 615.741.2687; website <http://www.tncourts.gov>). The Commission requests that applicants obtain the word processing form and respond directly on the form. Please respond in the box provided below each question. (The box will expand as you type in the word processing document.) Please read the separate instruction sheet prior to completing this document. Please submit original (unbound) completed application (*with ink signature*) and eight (8) copies of the form and any attachments to the Administrative Office of the Courts. In addition, submit a digital copy with electronic or scanned signature via email to [debra.hayes@tncourts.gov](mailto:debra.hayes@tncourts.gov), or via another digital storage device such as flash drive or CD.

THIS APPLICATION IS OPEN TO PUBLIC INSPECTION AFTER YOU SUBMIT IT.

**PROFESSIONAL BACKGROUND AND WORK EXPERIENCE**

1. State your present employment.

Shareholder at Waddey & Patterson, P.C., an intellectual property law firm in Nashville, Tennessee.

2. State the year you were licensed to practice law in Tennessee and give your Tennessee Board of Professional Responsibility number.

1985, BPR # 0011625.

3. List all states in which you have been licensed to practice law and include your bar number or identifying number for each state of admission. Indicate the date of licensure and whether the license is currently active. If not active, explain.

Tennessee 1985, BPR # 0011625.

California 1985, # 122682. My California license has been inactive since shortly after my admission to that bar because I returned to Tennessee to practice law and have had no need to keep that license active.

4. Have you ever been denied admission to, suspended or placed on inactive status by the Bar of any state? If so, explain. (This applies even if the denial was temporary).

No.

5. List your professional or business employment/experience since the completion of your legal education. Also include here a description of any occupation, business, or profession other than the practice of law in which you have ever been engaged (excluding military service, which is covered by a separate question).

**Waddey & Patterson, P.C., Nashville, Tennessee – *Shareholder***

*February 2010 to Present*

- Civil litigation and dispute resolution practice with an emphasis intellectual property law matters
- Registered Patent Attorney

**Mayor’s Office of Economic and Community Development, Metropolitan Government of Nashville and Davidson County, Nashville, Tennessee – *Director***

*January 2008 to October 2009*

Responsibilities

- Developed and coordinated programs, policies and plans to enhance economic and

community development objectives of Metro Nashville

- Worked with Mayor, Metro Director of Finance, Metro Council members, and other Metro officials to develop and implement sustainable programs, incentives, and initiatives to retain, grow and recruit business enterprise and investment and promote workforce development and job creation throughout Nashville
- Managed Metro Nashville's Foreign Trade Zone No. 78 and served as liaison to Japanese Consulate, Japan-America Society of Tennessee, Sister Cities of Nashville, and regional international trade interests
- Supervised Mayor's Office of Film and Special Events and collaborated with Tennessee Film Office and local and out-of-state industry representatives to support and promote Nashville's film and television production industry
- Served as liaison between business interests and community organizations and various Metro Government departments, offices, agencies, and affiliated entities, including the Office of the Mayor, Metropolitan Development and Housing Agency, Public Works, Water Services, Codes Administration, Planning, and Nashville Electric Service
- Assisted the Nashville Convention and Visitors Bureau, the Nashville Sports Council, and the Nashville Downtown Partnership in promoting and supporting tourism and hospitality, sporting events, and downtown revitalization
- Collaborated with the Nashville Area Chamber of Commerce, Nashville Health Care Council, regional economic development professionals, Nashville Career Advancement Center, Tennessee Valley Authority, the Tennessee Department of Economic and Community Development, and the Tennessee Department of Revenue on business relocation and expansion project opportunities and existing business retention and growth
- Developed, supported, and facilitated cooperation among a network of local area chambers of commerce, real estate and development professionals, community financial institutions, and merchant, business district, and small business associations
- Supervised Mayor's Office of Economic and Community Development intern program
- Mayor's designee on Metro Nashville Airport Authority Board of Commissioners
- Executive Director of Nashville's Metropolitan Industrial Development Board
- Speaker at numerous trade, industry, community and neighborhood association meetings and events on Metro's programs, policies, plans, and efforts to facilitate and promote sustainable economic growth, job creation and retention, and community prosperity

**United States Department of Defense, Washington, DC – Deputy General Counsel (Legal Counsel)**

*November 2006 to January 2008*

Responsibilities

- Advised senior Department of Defense officials on a wide variety of legal questions, including constitutional law issues, litigation, and detainee and Office of Military Commission matters, including the creation of the U.S. Court of Military Commission Review
- Directly managed over 20 Office of Legal Counsel lawyers and paralegals
- Supervised Office of Legislative Counsel which advised Assistant Secretary for Legislative Affairs, managed the Department's Congressional investigations and inquiries, and oversaw the Department's legislative review and proposal program
- Managed Department of Defense Office of Litigation Counsel and Department litigation

matters, including military justice appeals to the U.S. Supreme Court

- Coordinated Department litigation, detainee issues, and congressional investigation matters with U.S. Department of Justice Office of Legal Counsel and Office of the Solicitor General, Office of White House Counsel, the Legal Advisor to the Secretary of State, CIA Office of General Counsel, and legal counsel for various other federal departments and agencies
- Oversaw Defense Office of Hearings and Appeals, including Department's Alternative Dispute Resolution program
- Directed legal review of and litigation concerning Department of Defense Freedom of Information Act responses
- Security Clearance: TS/SCI (Top Secret/Sensitive Compartmented Information)
- Reporting senior for Office of Military Commissions' Legal Advisor to the Convening Authority
- Member of Deputy Secretary's Senior Oversight Group

**United States Department of the Navy, Washington, DC – *General Counsel (Acting)***

*January 2006 to October 2006*

**United States Department of the Navy, Washington, DC – *Principal Deputy General Counsel***

*November 2005 to October 2006*

Responsibilities

- Led over 600 Department of the Navy Office of General Counsel lawyers stationed throughout the world
- Managed 22 member Senior Executive Service Office of General Counsel leadership team in developing and implementing Office of General Counsel strategic planning, budgeting, personnel system management, information systems, professional training and development, succession planning, performance metrics, and quality improvement systems (balanced scorecard, Lean Six Sigma)
- Supervised Department's Alternative Dispute Resolution and Acquisition Integrity programs
- Oversaw Department of the Navy legal issues, including business and commercial law, fiscal law, civilian personnel and labor law, intellectual property law, environmental law, intelligence operations and law enforcement, and associated litigation
- Supervised Department of the Navy legislative proposal legal review program
- Implemented the National Security Personnel System and attorney certification program for Department of the Navy Office of General Counsel
- Directed Secretary of the Navy's Lean Six Sigma ethics and exemplary conduct initiative
- Security Clearance: TS/SCI
- Chief legal officer for the Department of the Navy, working in partnership with Navy Judge Advocate General, Staff Judge Advocate to the Commandant of the Marine Corps, and Special Counsel to the Chief of Naval Operations
- Principal legal advisor to the Secretary and Under Secretary of the Navy
- Principal ethics official for Department of the Navy (Designated Agency Ethics Official)
- Reporting senior for Naval Criminal Investigative Service
- Department of the Navy representative on Department of Defense Counterintelligence Board

- Member of Secretary's Strategic Planning Group
- Chairman of Performance Review Board for Office of Secretary Senior Executive Service personnel

**Trauger, Ney & Tuke, Nashville, Tennessee – Lawyer**

*1990 to 2005, Partner*

*1985 to 1990, Associate*

Responsibilities

- Practiced general civil and business law with concentration in business and commercial litigation, insurance defense, administrative law, and alternative dispute resolution
- Tennessee Supreme Court Rule 31 Mediator
- Managing Partner 1995 to 2001

**Honorable Adrian G. Duplantier, U.S. District Judge for Eastern District of Louisiana, New Orleans, Louisiana – Judicial Clerk**

*1984 to 1985*

Prior to attending law school, I worked various jobs including roofer, house painter, janitor, life guard, and stock clerk.

6. If you have not been employed continuously since completion of your legal education, describe what you did during periods of unemployment in excess of six months.

Not applicable.

7. Describe the nature of your present law practice, listing the major areas of law in which you practice and the percentage each constitutes of your total practice.

Approximately 70% of my current law practice is patent, trademark, and trade secret litigation. The balance of my practice comprises other types of civil litigation and ADR (15%) and intellectual property law matters, including trademark registration (15%).

8. Describe generally your experience (over your entire time as a licensed attorney) in trial courts, appellate courts, administrative bodies, legislative or regulatory bodies, other forums, and/or transactional matters. In making your description, include information about the types of matters in which you have represented clients (e.g., information about whether you have handled criminal matters, civil matters, transactional matters, regulatory matters, etc.) and your own personal involvement and activities in the matters where you have been involved. In responding to this question, please be guided by the fact that in order to properly evaluate your application, the Commission needs information about your range of experience, your own personal work and work habits, and your work background, as your legal experience is a very important component of

the evaluation required of the Commission. Please provide detailed information that will allow the Commission to evaluate your qualification for the judicial office for which you have applied. The failure to provide detailed information, especially in this question, will hamper the evaluation of your application.

Since I joined Waddey & Patterson, P.C. in 2010, my practice has been relatively focused on intellectual property litigation, with an emphasis on patent infringement cases. I am developing my skills as a trademark lawyer, and, after passing the Patent Bar Examination in late 2012, I have been a Registered Patent Attorney authorized to prosecute patent applications in the U.S. Patent and Trademark Office.

Previously, with the exception of my service at the Pentagon, my practice always had been best characterized as the general practice of civil law. Approximately 65% of my practice has been civil litigation and conflict resolution, ranging from plaintiff personal injury cases to complex commercial disputes. The litigation work has included employment disputes, securities cases, contract disputes, zoning, intellectual property, insurance defense, election law, personal injury, and various administrative law matters.

I have represented clients at all levels of our state court system, from the General Sessions Court to the Tennessee Supreme Court. In the federal court system, I have represented clients in all of the district courts in Tennessee and numerous other district courts throughout the nation, as well as the Sixth, Eleventh, and Federal Circuit Courts. My alternative dispute resolution advocate experience ranges from representing clients in arbitration proceedings in other states to a mediation in Europe.

I had developed a regular practice of serving as a mediator and arbitrator, which, at one time, comprised about 10% of my practice. The balance of my practice was principally corporate, commercial, and regulatory law in which my clients sought sound business and legal judgment in organizing and operating their businesses, avoiding legal disputes, and addressing regulatory matters before various government agencies.

Throughout my career, I also have practiced in these areas of law: federal and state elections, land use and zoning, medical malpractice, bankruptcy, worker's compensation, domestic relations, probate, various regulated businesses and industries (including alcoholic beverage licensing, and Federal Communications Commission), education, non-profit organizations, and tax assessment. Additionally, I have served as special legal counsel to Tennessee's Departments of Transportation, Commerce and Insurance, Safety, and Mental Health and Mental Retardation.

Most of my experience with criminal law has been in a *pro bono* context, such as my appointment under the Criminal Justice Act on a federal habeas appeal in the U.S. Sixth Circuit. In 2002, however, I represented a defendant charged with defrauding the state of Tennessee under a state awarded grant. My client was acquitted by the jury in state court in Memphis.

9. Also separately describe any matters of special note in trial courts, appellate courts, and

administrative bodies.

In 1993 I was lead plaintiff's counsel in a relator action in state chancery and appellate courts concerning the sale of a not-for-profit hospital to a for profit hospital chain. *State of Tennessee ex rel. Adventist Health System/Sunbelt Health Care Corporation, et al. v. Nashville Memorial Hospital, Inc., et al.*, 914 S.W.2d 903 (Tenn. App. 1995). This litigation led the Tennessee Attorney General to develop guidelines concerning review of the proposed sale of not-for-profit entities to for profit entities in this state.

From 1994 through 2000, I represented United States Senator Bill Frist in five lawsuits contesting the legality and constitutionality of certain types of campaign contributions made to his senate campaign committees. Those lawsuits were all filed in the United States District Court for the Middle District of Tennessee and were captioned as follows:

*Hooker, et al. v. Sasser, et al.*, CA No. 3-94-0750  
*Hooker v. Thompson, et al.*, CA No. 3-95-0688  
*Hooker v. Federal Election Commission, et al.*, CA No. 3-99-0794  
*Hooker v. All Candidates, et al.*, CA No. 3-00-0793  
*Hooker v. Thompson, et al.*, CA No. 3-00-0793

These lawsuits asserted claims under the United States Constitution and under the Tennessee State Constitution. Four of the lawsuits were dismissed on standing and direct estoppel grounds. The fifth lawsuit, *Hooker v. FEC*, in which the District court again ruled in favor of Senator Frist, was dismissed on appeal to the U.S. Sixth Circuit Court of Appeals.

In 1996 I was retained by the State of Tennessee to serve as special counsel to the Tennessee Judicial Selection Commission in a lawsuit brought by an applicant for consideration for appointment to the Tennessee State Supreme Court. The vacancy on the Court was created by the retirement of a State Supreme Court Justice, which raised a question under the Tennessee State Constitution and statutes relating to filling that vacancy as to whether a citizen residing in the geographic division of Tennessee in which the plaintiff resided was eligible to fill that position. The initial hearing on the petition was conducted in the Davidson County Chancery Court and, within a month, the case was before the Tennessee Supreme Court on appeal. The Supreme Court ruled that the applicant was eligible to fill the vacancy. The Commission that I represented (which was composed of twelve lawyers and three lay persons) was pleased with the definitiveness of the Supreme Court's ruling and the manner in which the Commission's impartiality was not compromised by its participation in that proceeding. *Holder v. Tennessee Judicial Selection Commission*, 937 S.W.2d 877 (1996).

I was retained as special counsel to the Tennessee Regulatory Authority to represent the Authority in an appeal to the Tennessee Supreme Court concerning the application of certain administrative rules to an administrative proceeding conducted by the Authority. The lawsuit had been brought by the State's Consumer Advocate. The Court ruled in favor of the Tennessee Regulatory Authority and clarified the Authority's power to act under the Tennessee statutes and



the Authority's rules and regulations. *Consumer Advocate Division v. Greer*, 967 S.W.2d 759 (1998).

10. If you have served as a mediator, an arbitrator or a judicial officer, describe your experience (including dates and details of the position, the courts or agencies involved, whether elected or appointed, and a description of your duties). Include here detailed description(s) of any noteworthy cases over which you presided or which you heard as a judge, mediator or arbitrator. Please state, as to each case: (1) the date or period of the proceedings; (2) the name of the court or agency; (3) a summary of the substance of each case; and (4) a statement of the significance of the case.

From 1995 to 2005 I served as a mediation neutral in more than 40 civil litigation disputes through the AAA mediation program, independently, as a member of the NAM mediation panel, or as a court appointed mediator. During that period I also served as an arbitrator for approximately ten commercial disputes through the AAA and independently. I recently began serving as a mediator again as part of my law practice.

Additionally, since 2008, I have been appointed to serve as a hearing officer for the Tennessee Office for Refugees ("TOR") in 3 refugee benefit final appeals, the Metropolitan Development and Housing Agency ("MDHA") in 3 employee disciplinary appeals, and the Davidson County Republican Party in a special proceeding to remove an officer.

I prepared written opinions in the arbitration proceedings, and the TOR and MDHA proceedings.

11. Describe generally any experience you have of serving in a fiduciary capacity such as guardian ad litem, conservator, or trustee other than as a lawyer representing clients.

I was the Executor of the estate of Rev. Edwin Conly in 1999. I serve and have served as a director and/or officer of numerous non-profit corporation boards to which I have or have had fiduciary obligations. Some of those organizations are identified in my response to Question 26 of this application form. I also serve as the Trustee to three trusts created by my friend, Avon N. Williams III, for the benefit of his family.

12. Describe any other legal experience, not stated above, that you would like to bring to the attention of the Commission.

Since the early 1990s I have assisted numerous local, state, and federal political candidates and their campaigns by providing legal advice relating to campaign finance and

election law. I also served as an adjunct professor at Vanderbilt Law School from 2002 to 2005, during which time I was the advisor to the Jessup International Moot Court Teams.

13. List all prior occasions on which you have submitted an application for judgeship to the Governor's Commission for Judicial Appointments or any predecessor commission or body. Include the specific position applied for, the date of the meeting at which the body considered your application, and whether or not the body submitted your name to the Governor as a nominee.

1. Twentieth Judicial District (Davidson County) Chancery Court, April 24, 1995 (Name not submitted to Governor).
2. Twentieth Judicial District (Davidson County) Chancery Court, August 21, 2003 (Name not submitted to Governor).

### EDUCATION

14. List each college, law school, and other graduate school that you have attended, including dates of attendance, degree awarded, major, any form of recognition or other aspects of your education you believe are relevant, and your reason for leaving each school if no degree was awarded.

Vanderbilt University, Nashville, Tennessee

Vanderbilt Law School--*J.D., August 1980 to May 1984*

Owen Graduate School of Management--*M.B.A, Finance, August 1981 to May 1984*

- Order of the Coif (Top 10% of class)
- Andrew Ewing Scholar
- Jessup International Moot Court Team 1981 to 1982
- Vanderbilt Law Review: Staff 1982 to 1983; Editorial Board 1983 to 1984
- Honor Council 1980 to 1981

Cornell University, Ithaca, New York

College of Arts and Sciences -- *A.B., Biology and Society, August 1976 to May 1980*

- National Merit Scholar
- Resident Advisor
- President, North Campus Student Union Board

### PERSONAL INFORMATION

15. State your age and date of birth.

Age: 55.

DOB: June 6, 1958.

16. How long have you lived continuously in the State of Tennessee?

I moved to Tennessee in 1980 to attend Vanderbilt University. After my graduation in 1984, I lived for a year in New Orleans, LA during my judicial clerkship. I then moved back to Tennessee to practice law. I have since been a resident of Tennessee continuously for 29 years. From October 2005 through January 2008, I worked and maintained an apartment in Arlington, VA, but I remained a legal resident of Tennessee and returned home to Nashville frequently.

17. How long have you lived continuously in the county where you are now living?

I have been a resident of Davidson County, Tennessee continuously for 29 years. From October 2005 through January 2008, I worked and maintained an apartment in Arlington, VA, but I remained a legal resident of Davidson County, Tennessee and returned home to Nashville frequently.

18. State the county in which you are registered to vote.

Davidson County.

19. Describe your military service, if applicable, including branch of service, dates of active duty, rank at separation, and decorations, honors, or achievements. Please also state whether you received an honorable discharge and, if not, describe why not.

None.

20. Have you ever pled guilty or been convicted or are you now on diversion for violation of any law, regulation or ordinance? Give date, court, charge and disposition.

Other than paying two speeding citations in 1976 (one in central New York and one in Pennsylvania), no.

21. To your knowledge, are you now under federal, state or local investigation for possible violation of a criminal statute or disciplinary rule? If so, give details.

No.

22. Please state and provide relevant details regarding any formal complaints filed against you with any supervisory authority including, but not limited to, a court, a board of professional responsibility, or a board of judicial conduct, alleging any breach of ethics or unprofessional conduct by you.

None.

23. Has a tax lien or other collection procedure been instituted against you by federal, state, or local authorities or creditors within the last five (5) years? If so, give details.

No.

24. Have you ever filed bankruptcy (including personally or as part of any partnership, LLC, corporation, or other business organization)?

No.

25. Have you ever been a party in any legal proceedings (including divorces, domestic proceedings, and other types of proceedings)? If so, give details including the date, court and docket number and disposition. Provide a brief description of the case. This question does not seek, and you may exclude from your response, any matter where you were involved only as a nominal party, such as if you were the trustee under a deed of trust in a foreclosure proceeding.

Yes, I have been a party, individually or as a member of a partnership, to the following legal proceedings:

In approximately 1993, my law firm was the petitioner in an American Arbitration Association arbitration proceeding in Nashville, TN concerning a dispute with a former client over the payment of legal fees. That proceeding was resolved through settlement with the former client.

My former law firm, Doramus & Trauger, was a party to a General Sessions Court lawsuit filed in Davidson County, Tennessee captioned *Doramus & Trauger v. Coy Peeper, et al.*, 95GT-787. That lawsuit was a detainer action concerning a former tenant of the office building owned by my law partnership in which our law offices were located. Our law firm regained possession and control of the building space and also reached a settlement with respect to monetary damages related to that action.

In March of 1997, Ms. Jennifer Curley, a former employee of Doramus & Trauger, filed a complaint in United States District Court for the Middle District of Tennessee alleging violations of the Family Medical Leave Act and the Pregnancy Discrimination Act. My two partners and I were named individually as defendants, along with our law partnership. Her

complaint was dismissed with prejudice by order entered December 8, 1997, on my firm's motion for summary judgment. *Curley v. Doramus & Traugher [sic], et al.*, U.S.D.C., M.D. Tenn., No. 3-97-0332.

By complaint dated July 19, 1999, filed in the United States District Court for the Middle District of Tennessee, Mr. Jessie McDonald named me individually as one of 15 defendants in a lawsuit seeking damages for various alleged violations of the Fourteenth Amendment to the United States Constitution. Mr. McDonald alleged that I was part of a conspiracy to issue a slanderous statement that was printed in a local newspaper. I was quoted in that article as saying "it's possible that McDonald's candidacy could hurt one of the big three [mayoral candidates]," and that "the main purpose a candidate like Mr. McDonald serves is to raise awareness of certain issues." Those quotes were made with respect to our local mayor's race. After I was served with a copy of the complaint, I telephoned Mr. McDonald, who was proceeding *pro se*, and asked if he would talk to me about this lawsuit. I met briefly with Mr. McDonald and asked him to dismiss his claims against me because they were meritless. Mr. McDonald agreed and an order of dismissal was entered pursuant to the notice of voluntary dismissal with prejudice filed by the plaintiff. *McDonald v. CBS Television Network, et al.*, U.S.D.C., M.D. Tenn., No. 3-99-0620.

In 1999, my former law partnership was a party to an action to collect attorney's fees in General Sessions Court in Davidson County, Tennessee. That action was captioned *Doramus, Trauger & Ney vs. Hoskins*. That matter was settled and the lawsuit voluntarily dismissed.

In 2011, I filed a complaint for divorce in Davidson County Circuit Court on the ground of irreconcilable differences. *Ney v. Ney*, No. 11D3388. After that case was administratively dismissed in June of 2013, I refiled the complaint in Davidson County Circuit Court. A final consent decree of divorce was entered on November 6, 2013. *Ney v. Ney*, No. 13D2394.

26. List all organizations other than professional associations to which you have belonged within the last five (5) years, including civic, charitable, religious, educational, social and fraternal organizations. Give the titles and dates of any offices that you have held in such organizations.

Leadership Nashville:	Program Committee 2008, 2009. Alumni Association
Knights of Columbus #544:	Member
Catholic Charities of Tennessee, Inc.:	President 2012 to present, 2005 to 2006; Board Member 2003 to 2008, 2010 to present; Vice President 2004; Tennessee Office for Refugees Committee 2008 to present; Volunteer of the Year Awards 2009 (Administrative), 2012 (Tennessee Office for Refugees)

Rotary Club of Nashville:	Member 2009 to 2012
Leadership Middle Tennessee:	Class Member 2010-2011, YOUth Summit Committee 2011; Executive Committee 2012 to present; Program Committee Chair 2012 to present
Angel Capital Group:	Advisory Council 2010
Nashville Conflict Resolution Center:	Board Member 2011
U.S. Naval Institute:	Member
National Rifle Association:	Member
Nashville Zoo:	Member
Frist Center for the Visual Arts:	Member
Greenways for Nashville:	Member
National Rifle Association:	Member
Belcourt Theater:	Member
NAMI Tennessee:	Member
Davidson County Republican Party:	Member
Tennessee Republican Party:	Member; Legal Counsel 2003 to 2005 (Chairs Harwell and Davis); Administrative Committee 2010 to present; Statesman of the Year, 5 <sup>th</sup> District, 2004

27. Have you ever belonged to any organization, association, club or society that limits its membership to those of any particular race, religion, or gender? Do not include in your answer those organizations specifically formed for a religious purpose, such as churches or synagogues.
- a. If so, list such organizations and describe the basis of the membership limitation.

- b. If it is not your intention to resign from such organization(s) and withdraw from any participation in their activities should you be nominated and selected for the position for which you are applying, state your reasons.

I am a member of the Knights of Columbus, Council #544. Membership is restricted to men of the Roman Catholic faith. The organization is affiliated with the Roman Catholic Church, but is a fraternal, community service organization, so I am uncertain as to whether it fits within the Commission's definition of an organization "specifically formed for a religious purpose." I do not believe that the Code of Judicial Conduct prohibits a member of the judiciary from membership in the Knights of Columbus, so I do not intend to resign from the organization if I am appointed to the Court.

### ACHIEVEMENTS

28. List all bar associations and professional societies of which you have been a member within the last ten years, including dates. Give the titles and dates of any offices that you have held in such groups. List memberships and responsibilities on any committee of professional associations that you consider significant.

Tennessee Bar Association:	Member 1985 to present; Chair, Membership Benefits Committee 1999 to 2001; Assistant Treasurer 2002; Treasurer 2003 to 2005; General Counsel 2011 to present
Nashville Bar Association:	Member 1985 to present; President 1998; Committee on Ethics and Unauthorized Practice of Law 1987 to 1991; Chair, Ethics and Professionalism Committee 1992; Chair, Community Relations Committee 1994; Chair, NBA Convention Committee 1994; Board of Directors and Finance Committee 1995; Executive Committee 1996 to 1998; President-elect 1997; Nominating Committee 2000
Vanderbilt University Law School	
Dean's Council:	1990 to 2005
Alumni Board:	Board Member 2001 to 2004
Belmont Law School	
American Inns of Court:	Master Charter Member 2011 to present
Nashville Bar Foundation:	Fellow 1995 to present; Trustee 1999 to 2000
Tennessee Bar Foundation:	Fellow 2000 to present
Republican National Lawyers Association:	Member 2004 to 2008
Federalist Society:	Member 2004 to 2010

Tennessee Intellectual Property Law Association: Member 2010 to present

29. List honors, prizes, awards or other forms of recognition which you have received since your graduation from law school that are directly related to professional accomplishments.

Department of Defense Medal for Distinguished Public Service, 2008

Department of the Navy Distinguished Public Service Award, 2006

Best of the Bar, Litigation, Nashville Business Journal, 2005

Best Lawyers in America, Commercial Litigation, 2004

30. List the citations of any legal articles or books you have published.

“The Use of Videotape Surveillance in Civil Cases”, Litigation Vol. 17, No. 4

Co-Author: “Special Project – An Analysis of the Legal, Social, and Political Issues Raised by Asbestos Litigation”, 36 Vand. L. Rev. 573 (1983)

31. List law school courses, CLE seminars, or other law related courses for which credit is given that you have taught within the last five (5) years.

Lawyer Advertising and Ethics, American Inns of Court, Belmont Law School Chapter, October 2011.

32. List any public office you have held or for which you have been candidate or applicant. Include the date, the position, and whether the position was elective or appointive.

The Sports Authority of Metropolitan Nashville and Davidson County: Appointed by the Mayor in 2000. Chair, Facilities & Operations Committee, 2002 to 2003. Vice Chair, 2003 to 2005.

Charitable Solicitations Commission of Metropolitan Nashville and Davidson County: Appointed by the Mayor and served from 1995 to 1997.

Tennessee Post-Conviction Defender Oversight Commission: Appointed by the Lieutenant Governor and served from 2010 to the present.

33. Have you ever been a registered lobbyist? If yes, please describe your service fully.



Although I was unable to confirm this through the records of the Tennessee Ethics Commission or other available records, I recall that I may have been registered as a lobbyist in Tennessee for one year (approximately 1993) on behalf of Adventist Health System. My law firm was representing the company and I was principally working on a litigation matter. Because there was a possibility that some policy related issues might be discussed with legislators, I recall registering to avoid any questions about making appropriate disclosures and compliance with the lobbying laws and regulations. I do not recall ever communicating with any public officials on behalf of that client.

34. Attach to this questionnaire at least two examples of legal articles, books, briefs, or other legal writings that reflect your personal work. Indicate the degree to which each example reflects your own personal effort.

1. Brief of *Amicus Curiae* Davidson County Election Commission in *Williamson County Election Commission v. Webb, et al.*, Tennessee Court of Appeals. (100%).
2. Brief of Plaintiff/Counterclaim Defendant-Appellant AIA Engineering in *AIA Engineering Limited, et al. v. Magotteaux Int'l S/A, et al.*, U.S. Court of Appeals for the Federal Circuit. (80%).
3. Brief of Appellants in *State, ex rel. Adventist Health System, et al.*, Tennessee Court of Appeals. (85%).

### ESSAYS/PERSONAL STATEMENTS

35. What are your reasons for seeking this position? *(150 words or less)*

A great sense of personal and professional fulfillment comes when clients, colleagues, friends, or family seek my help because they value my judgment and my ability to comprehend difficult or complex situations, to develop solutions, and to provide sound advice or personal judgments. Continuously developing and employing my legal analytical abilities and subject matter competencies has prepared me to serve more and serve better.

I enjoy working hard on matters of consequence. I am a curious, fair and open minded, yet decisive, person, I believe. These are traits that I see in friends and colleagues who have served admirably as judges and found great satisfaction in their service. I am attracted to the weighty personal and professional demands of the Court. In my experience, when the standards are raised, the challenge elicits a more worthy response and a more meaningful contribution to my community.

36. State any achievements or activities in which you have been involved that demonstrate your commitment to equal justice under the law; include here a discussion of your pro bono service throughout your time as a licensed attorney. *(150 words or less)*

I have consistently supported our Pro Bono and Legal Services programs, financially, as

a pro bono attorney, and in my community volunteer work.

Additionally, as a member and as President of the Nashville Bar Association, I helped establish a fundraising event for the CASA program, I helped develop the NBA's Everyday Law series of brochures containing free legal advice to the community, I served as the liaison to the Pro Bono committee, and I created and implemented a legal hotline program for victims of the 1998 Nashville tornado. I also worked on a committee to provide pro bono legal services to victims of the unauthorized practice of law and unethical lawyers.

In 1995, I met with Senator Frist to seek his support of certain congressional measures that would preserve the Legal Services Corporation. From 1996 to 2001, I served as a charter board member of the Tennessee Justice Center.

37. Describe the judgeship you seek (i.e. geographic area, types of cases, number of judges, etc. and explain how your selection would impact the court. *(150 words or less)*)

The Tennessee Supreme Court hears appeals in criminal and civil matters arising throughout the state. Additionally, the Court's five Justices supervise the courts and the practice of law through the Court's rules and authority to appoint members to certain commissions and positions, including the Attorney General.

I seek a position on the Court as a Middle Grand Division representative. My appointment would add to the breadth and variety of law practice experience and expertise among the members of the Court while adding another member with considerable trial and appellate court practice experience. I generally have been regarded as a thoughtful, capable legal writer and a good teammate. My experience in federal and local government showed me the value of maintaining healthy, cordial working relationships among all of your colleagues and among the branches. I also found that I enjoy the responsibility and duties of supervising a well-run organization.

38. Describe your participation in community services or organizations, and what community involvement you intend to have if you are appointed judge? *(250 words or less)*

For the past several years I have concentrated my attention and energy on my community service through Catholic Charities and affiliated organizations, while continuing to be willing and available to assist various other community service and non-profit organizations as a volunteer and supporter. As Catholic Charities of Tennessee has continued to expand its services to the poor and those in need throughout middle Tennessee, I have devoted more time to my responsibilities as an officer of the organization, particularly with regard to our development, outreach, and strategic planning initiatives. My term as Board of Trustees president concludes at the end of June 2014.

I enjoy my varying levels of participation in numerous community organizations, and I believe that I have a civic responsibility to remain as supportive of as many of these organizations as the Code of Judicial Conduct permits if I were to be appointed to the Court. I

would make those specific determinations after considering the nature of my continued involvement in the organization in light of RJC 3.1, RJC 3.7, and the other relevant provisions of the Code. I expect that my current level of community involvement would be curtailed significantly if I were to be appointed because I often serve in the role of a legal advisor to these organizations. Nevertheless, I fully intend to adhere to the letter and spirit of the Code of Judicial Conduct with regard to my community service activities and personal behavior.

39. Describe life experiences, personal involvements, or talents that you have that you feel will be of assistance to the Commission in evaluating and understanding your candidacy for this judicial position. *(250 words or less)*

My decision to become a lawyer was not the product of boyhood dreams or ambitions. I attended urban public schools and, until law school, my personal acquaintance with any lawyers was virtually nonexistent. Rather, I gradually discerned my attraction to and aptitude for legal reasoning and a call to service during my undergraduate years.

That initial attraction to the study of law was reinforced by a fair measure of success and a great measure of enjoyment early in law school. It was then that I began to perceive the unbounded opportunities for intellectual challenge and community service that the practice of law would offer. But not until I began to practice law could I fully appreciate how rewarding the practice of law, its privileges and responsibilities, could be. The path to most of the community service opportunities from which I have drawn so much personal fulfillment has been paved by my law degree.

Similarly, my interest in serving on the appellate bench has evolved over my years of practice. I have developed a keener interest in tackling the intellectual demands and considerable responsibility of the appellate courts to deliver justice and clear guidance on the law. I was most fortunate during my experience in the Pentagon to work with many highly intelligent men and women of unsurpassed integrity and an extraordinary work ethic. They continue to inspire me to dedicate what talent and energy I have to worthy and challenging civic and professional service such as serving in the judiciary.

40. Will you uphold the law even if you disagree with the substance of the law (e.g., statute or rule) at issue? Give an example from your experience as a licensed attorney that supports your response to this question. *(250 words or less)*

I will. My personal disagreement with the substance of or policy behind a statute, rule, or regulation that is constitutionally sound should not and will not prevent me from upholding and enforcing the duly promulgated laws of our state. As Chief Justice Roberts aptly reminded us

in his confirmation hearing, it is the judge's "job to call balls and strikes and not to pitch or bat." I foresee no impediment to my faithfully honoring the oath of office, and I understand and respect that the Executive and members of the Legislature are similarly duty-bound to support the Constitution of the United States and the Constitution of the State of Tennessee.

In private practice I, of course, have had many occasions to counsel persons about conforming their conduct or business practices to statutes and regulations, some of which appeared unwise or unjust. My service as a commercial arbitrator and as a hearing officer for various agencies, such as the Metropolitan Development and Housing Agency and Tennessee Office for Refugees, has provided me the experience of applying regulations and laws with consequence to the parties. While some of those laws or regulations struck me as too harsh, too lenient, or misguided, I nevertheless followed and applied those laws as the rules of the game required.

**REFERENCES**

41. List five (5) persons, and their current positions and contact information, who would recommend you for the judicial position for which you are applying. Please list at least two persons who are not lawyers. Please note that the Commission or someone on its behalf may contact these persons regarding your application.

A. Hon. William J. Haynes: EVP and General Counsel, Siga Technologies, New York, NY 10065. (212) 672-9100.
B. Sr. Sandra Smithson: Founder, Project Reflect, 3307 Brick Church Pike, Nashville, TN 37207. (615) 228-9886.
C. Mr. William Sinclair: Executive Director, Catholic Charities of Tennessee, 30 White Bridge Road, Nashville, TN 37205. (615) 352-3087.
D. Byron R. Trauger, Esq.: Partner, Trauger & Tuke, 222 Fourth Avenue North, Nashville, TN 37219. (615) 256-8585.
E. John F. Triggs, Esq.: Shareholder, Waddey & Patterson, P.C., 1600 Division Street, Suite 500, Nashville, TN 37203. (615) 242-2400.

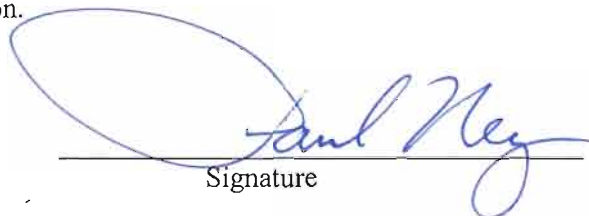
**AFFIRMATION CONCERNING APPLICATION**

Read, and if you agree to the provisions, sign the following:

I have read the foregoing questions and have answered them in good faith and as completely as my records and recollections permit. I hereby agree to be considered for nomination to the Governor for the office of Judge of the Supreme Court of Tennessee, and if appointed by the Governor, agree to serve that office. In the event any changes occur between the time this application is filed and the public hearing, I hereby agree to file an amended questionnaire with the Administrative Office of the Courts for distribution to the Commission members.

I understand that the information provided in this questionnaire shall be open to public inspection upon filing with the Administrative Office of the Courts and that the Commission may publicize the names of persons who apply for nomination and the names of those persons the Commission nominates to the Governor for the judicial vacancy in question.

Dated: February 21, 2014.

  
\_\_\_\_\_  
Signature

When completed, return this questionnaire to Debbie Hayes, Administrative Office of the Courts, 511 Union Street, Suite 600, Nashville, TN 37219.



**THE GOVERNOR'S COMMISSION FOR JUDICIAL APPOINTMENTS  
ADMINISTRATIVE OFFICE OF THE COURTS**

511 UNION STREET, SUITE 600  
NASHVILLE CITY CENTER  
NASHVILLE, TN 37219

**TENNESSEE BOARD OF PROFESSIONAL RESPONSIBILITY  
TENNESSEE BOARD OF JUDICIAL CONDUCT  
AND OTHER LICENSING BOARDS**

**WAIVER OF CONFIDENTIALITY**

I hereby waive the privilege of confidentiality with respect to any information that concerns me, including public discipline, private discipline, deferred discipline agreements, diversions, dismissed complaints and any complaints erased by law, and is known to, recorded with, on file with the Board of Professional Responsibility of the Supreme Court of Tennessee, the Tennessee Board of Judicial Conduct (previously known as the Court of the Judiciary) and any other licensing board, whether within or outside the State of Tennessee, from which I have been issued a license that is currently active, inactive or other status. I hereby authorize a representative of the Governor's Commission for Judicial Appointments to request and receive any such information and distribute it to the membership of the Governor's Commission for Judicial Appointments and to the Office of the Governor.

Paul Charles Ney, Jr.

\_\_\_\_\_  
Type or Print Name

\_\_\_\_\_  
Signature

February 21, 2014

\_\_\_\_\_  
Date

0011625

\_\_\_\_\_  
BPR #

Please identify other licensing boards that have issued you a license, including the state issuing the license and the license number.

California 122682 [Inactive]

U.S.P.T.O #70698

Paul C. Ney, Jr.  
Application for Nomination to Judicial Office  
February 21, 2014

1.

Brief of *Amicus Curiae* Davidson County  
Election Commission  
in  
*Williamson County Election Commission v. Webb, et al.*,  
Tennessee Court of Appeals

(100%)

IN THE COURT OF APPEALS OF TENNESSEE  
MIDDLE DIVISION AT NASHVILLE

2013 FEB 20 PM 2:00

WILLIAMSON COUNTY ELECTION )  
COMMISSION, )

Plaintiff-Appellant, )

v. )

PAUL WEBB, Mayor of Brentwood, )  
MICHAEL WALKER, )  
Brentwood City Manager, )  
BOARD OF COMMISSIONERS OF THE )  
CITY OF BRENTWOOD, TENNESSEE, )  
BRENTWOOD LIBRARY BOARD, and )  
CITY OF BRENTWOOD, TENNESSEE, )

Defendants-Appellees. )

APPELLATE COURT CLERK  
NASHVILLE

No. M2012-01418-COA-R3-CV

On appeal from the Chancery  
Court for Williamson County,  
No. 40537

---

BRIEF OF *AMICUS CURIAE*  
DAVIDSON COUNTY ELECTION COMMISSION

---

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*Attorneys for Amicus Curiae Davidson  
County Election Commission*



IN THE COURT OF APPEALS OF TENNESSEE  
MIDDLE DIVISION AT NASHVILLE

WILLIAMSON COUNTY ELECTION )  
COMMISSION, )

Plaintiff-Appellant, )

v. )

No. M2012-01418-COA-R3-CV )

PAUL WEBB, Mayor of Brentwood, )  
MICHAEL WALKER, )  
Brentwood City Manager, )  
BOARD OF COMMISSIONERS OF THE )  
CITY OF BRENTWOOD, TENNESSEE, )  
BRENTWOOD LIBRARY BOARD, and )  
CITY OF BRENTWOOD, TENNESSEE, )

On appeal from the Chancery )  
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No. 40537 )

Defendants-Appellees. )

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BRIEF OF *AMICUS CURIAE*  
DAVIDSON COUNTY ELECTION COMMISSION

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TABLE OF CONTENTS

ARGUMENT.....1

I. THE CHANCERY COURT'S FORMULATION OF THE COUNTY ELECTION COMMISSIONS' AUTHORITY TO DESIGNATE POLLING PLACES IN PUBLIC BUILDINGS IS UNSUPPORTED BY THE LANGUAGE OF THE TENNESSEE ELECTION CODE.....1

II. THE CHANCERY COURT'S FORMULATION OF THE COUNTY ELECTION COMMISSIONS' AUTHORITY TO DESIGNATE POLLING PLACES IN PUBLIC BUILDINGS IS UNWORKABLE AND THWARTS THE COUNTY ELECTION COMMISSIONS' ABILITY TO EFFECT THE EXPLICIT PURPOSES OF THE TENNESSEE ELECTION CODE.....5

CONCLUSION.....14

ADDENDUM.....15

TABLE OF AUTHORITIES

CASES	Page(s)
<i>Bemis Pentecostal Church v. State</i> , 731 S.W.2d 897 (Tenn. 1910).....	10
<i>City of Lenoir City v. State ex rel. City of Loudon</i> , 571 S.W.2d 297 (Tenn. 1978).....	8
<i>Lyons v. Rasa</i> , 872 S.W.2d 895 (Tenn. 1994).....	3
STATUTES	
Tenn. Code Ann. § 2-1-101.....	1
Tenn. Code Ann. § 2-1-102.....	6,14
Tenn. Code Ann. § 2-3-101.....	3,6,11
Tenn. Code Ann. § 2-3-103.....	11
Tenn. Code Ann. § 2-3-107.....	1,3,6,11
Tenn. Code Ann. § 2-3-108.....	6
Tenn. Code Ann. § 2-3-109.....	4,6
Tenn. Code Ann. § 2-6-101.....	11
Tenn. Code Ann. § 2-3-116.....	6
Ga. Code Ann. § 21-2-266.....	2,18
Miss. Code Ann. § 23-15-259.....	2,19
OTHER AUTHORITIES	
Op. Tenn. Att'y Gen. 91-50 (May 22, 1991), 1991 Tenn. AG LEXIS 54.....	3

## ARGUMENT

### I. The Chancery Court's Formulation of the County Election Commissions' Authority to Designate Polling Places is Unsupported by the Language of the Tennessee Election Code

The only reference in the Tennessee Election Code, Tenn. Code Ann. § 2-1-101 *et seq.* ("Election Code" or "Code"), to the role of local governmental authorities in the designation of polling places for election day voting or early voting is the directive that "the authority which has the control of any building or grounds supported by taxation under the laws of this state shall make available the necessary space for the purpose of holding elections and adequate space for the storage of voting machines without charge." Tenn. Code Ann. § 2-3-107(b)(2).

As explained thoroughly by Appellant in its briefs, the language of that directive is clear and unambiguous: when a county election commission asks to use the tax-supported building as a polling place, the building *shall* be made available without charge for that use. A "collaborative framework" in which the county election commission must negotiate with local authorities for the use of a publicly supported building and the local authority may prevent the use of the building as a polling place by identifying some inconvenience can only be divined by ignoring both the plain meaning of the Code's language and the purpose of the Code explicitly stated by the legislature.

Section 2-3-107(b)(2) does not remotely hint that the legislature intended to imbue the local governmental authority controlling publicly funded buildings with any discretion to object to the county election commission's designation and use of those buildings as polling places for election day or early voting. Had the legislature wished to create such a system it would have done so by using permissive language such as "the authority *may* make available the necessary space," or by specifying that the county election commission and local authority should negotiate the terms of the use of the space, or by providing either generally that the county election commission's use of the space shall not interfere with the authority's use of the space or more specifically by setting out some guidance as to why or when the authority's use of the space trumps the county election commission's designation of the space as a polling place. *See, e.g.,* Miss. Code Ann. § 23-15-259 (... "All facilities owned or leased by the state, county, municipality or school district *may* be made available at no cost to the board of supervisors for use as polling places *to such extent as may be agreed to by the authority having control or custody of such facilities.*") (Emphasis added); Ga. Code Ann. § 21-2-266(a) (... "School, county, municipal, or other governmental authorities, upon request of the superintendent of a county or the governing authority of a municipality, shall make arrangements for the use of their property for polling places; *provided, however, that such use shall not*

*substantially interfere with the use of such property for the purposes for which it is primarily intended.*") (Emphasis added). Our legislature did none of these.

Appellees argue that the use of the term "insofar as practicable" in Tenn. Code Ann. § 2-3-107(b)(1), another subsection of the statute, imposes an obligation on the county election commission to negotiate for the use of publicly supported buildings and empowers the local authority to effectively deny that use if it would be inconvenient to the local authority. That proposed construction of that term, however, fails to look to the remainder of the statute for its meaning. *See Lyons v. Rasa*, 872 S.W.2d 895, 897 (Tenn. 1994) ("Statutory terms draw their meaning from the context of the entire statute").

The phrase "insofar as practicable" expresses a clear statutory preference that the county election commissions use public buildings, such as schools, for polling places. Op. Tenn. Att'y Gen. 91-50 (May 22, 1991), 1991 Tenn. AG LEXIS 54, at \*2 (citing Op. Tenn. Att'y Gen. U86-49 at 3 (Mar. 14, 1986)). The term is untethered to the aforementioned, very limited role of the local authority in a county election commission's designation of polling places. To discern what is practicable within the context of the Code, the county election commissions need only look to the specifications concerning the necessary physical attributes of a facility suitable for use as a polling place as described in Tenn. Code Ann. § 2-3-107(a) and the requirements for the location of the polling places that serve specific precincts on election day. Tenn. Code Ann. § 2-3-101(Polling places—

Designation—Relocation). Under the Code, only if there is no publicly supported building meeting those specifications is the use of a public building as a polling place not practicable.

Indeed, the county election commissions, under certain circumstances, are mandated by the Code to designate certain buildings as polling places if they meet certain specifications. Section 2-3-109(d)(2) of the Tennessee Code provides that “[i]f a building suitable for use as a polling place which is [handicapped] accessible is available, *such building shall be designated as the polling place for that voting precinct.*” (Emphasis added). It is difficult to fathom how the local authority can have discretion to object to a county election commission’s designation of a publicly supported building as a polling place when the Code denies the county election commission any discretion concerning the designation of that building.

In view of the language of the statute properly read in the context of the voting procedures established by Tennessee Election Code, authorities controlling buildings supported by taxation under the laws of this state, such as a municipal library, are directed to make those buildings available to the county election commissions for use as polling places for early voting or election day voting when the county election commissions designate those buildings, notwithstanding whether the local authority has a rational or reasonable basis for objecting to such use.

II. The Chancery Court's Formulation of the County Election Commissions' Authority to Designate Polling Places is Unworkable and Thwarts the County Election Commissions' Ability to Effect the Election Code's Explicit Purposes

The Chancery Court's determination that the Election Code gives the local authority controlling a publicly supported building discretionary authority to object to the designation of that building as a polling place by a county election commission creates an unworkable, costly, and time-consuming process that the legislature could not have intended. Under the Chancery Court's formulation, the absence of statutory standards by which to judge whether a publicly supported building can be used as a polling place leaves both the county election commissions and the local authorities uncertain about whether the inconvenience or conflict identified by a local authority is sufficient to overcome the authority or needs of a county election commission in any particular instance. Consequently, that formulation invites litigation or compels the county election commission to accede to the local authority and struggle to meet its statutory obligations and the objectives of the Code.

The Legislature specifically identified the purpose of the Election Code:

[T]o regulate the conduct of all elections by the people so that:

...

(2) Voters are required to vote in elections in the election precincts in which they reside except as otherwise expressly permitted;

(3) Internal improvement is promoted by providing a comprehensive and uniform procedure for elections; and



(4) Maximum participation by all citizens in the electoral process is encouraged.

Tenn. Code Ann. § 2-1-102.

Additionally, the legislature stated that the purpose of the chapter of the Code relating to absentee and early voting included providing "a means for qualified voters to cast their votes when they would otherwise be unable to vote." Tenn. Code Ann. § 2-6-101(a). The Election Code is replete with directives and empowerment to the county election commissions that the legislature deemed necessary and appropriate to further these stated objectives. *See, e.g.*, Tenn. Code Ann. §§ 2-3-101(a)(1), 2-3-101(a)(3), 2-3-107(a), 2-3-107(b)(1), 2-3-108(a), 2-12-116(a)(7), and 2-3-109(d)(2).

After correctly acknowledging that the county election commissions have the "exclusive authority to designate polling places for both election day and early voting," the Chancery Court, however, erred by imposing a qualification on that exclusive authority. Despite the clear language of the statute and the authority of the state legislature to establish conditions on public buildings funded under state tax laws, it seemed unreasonable to the Chancery Court for a county election commission to decide how a publicly supported building could be designated as a polling place "without input from those who the designation will directly impact on a daily basis." R. Vol. 3 at 332.

Apparently, the Chancery Court then concluded that county election commissions' designation of polling places was subject to an abuse of discretion

review and that county election commissions must consider the reasonable objections of a local authority to the use of a publicly funded building as a polling place. Curiously, the Chancery Court did not find that the Williamson County Election Commission abused its discretion in designating the Brentwood Library as an early voting polling place, but, instead found that Brentwood did not abuse its discretion in determining that the library was not a practicable location for the early voting dates for which it had been designated.

Both the Chancery Court's formulation of the county election commissions' exclusive power to designate polling places and its application of that formulation illustrate the perils of this misconstruction of the Election Code. Lacking any statutory guidance as to how to weigh the competing interests of the county election commission and the local authority the Chancery Court cited the parties' "open and appropriate" efforts to resolve the dispute as well as Brentwood's stated concerns about the inconvenience that the designation would cause. The unsurprising contention that using the library for early voting would disrupt the daily operations of the library in some measure, in conjunction with Brentwood's efforts to help the county election commission identify alternative locations, was sufficient for the court to conclude that those reasons "could defeat the intentions of the election code and the purpose of early voting." R. Vol. 3 at 333.

The Chancery Court's reasoning is erroneous in at least two respects. First, the court apparently rejected a basic tenet of statutory construction, which directs

that the meaning of statutory terms is drawn, in part, from the statute's general purpose. *City of Lenoir City v. State ex rel. City of Loudon*, 571 S.W.2d 297, 299 (Tenn. 1978). Rather than seeing how the conflict between Brentwood's position and the statute's purpose informs the meaning of the term "insofar as practicable," the court simply elevated Brentwood's concerns over the legislature's intended purpose. Second, the court, assuming that the legislature did not foresee that the local authority would be inconvenienced by the use of a publicly supported building as a polling place, weighed the parties' respective interests without reference to any statutory standard.

The list of legitimate uses of a public building that may be disrupted by the building's designation as a polling place is endless: a bake sale, a book sale, a lecture series, an art exhibit, public meetings, educational instruction, *etc.* In some instances the local authority's intended or actual use of the building may be more compelling than in others or the inconvenience to the local authority caused by the designation as a polling place may be greater than in other instances. But no other use can be more important than the orderly conduct of public elections and the citizens' exercise of their right to vote. It is therefore understandable that the legislature would direct the county election commissions to use those publicly supported buildings and direct the local authorities to make those buildings available for use as polling places whenever the county election commissions request.

The prospect that the designation of a public building as a polling place might inconvenience the controlling authority or interfere with the daily or planned use of that building must have been readily evident to the legislature when it enacted this provision of the Code. It is inconceivable that the legislature intended that the reasonable expression of such an inconvenience by the local authority would make the use of the building impracticable and, therefore, unavailable to the county election commissions as a polling place. Such a construction of the statute completely undermines the exclusive authority of the county election commissions to designate polling places and thwarts their ability to comply with the stated purpose of the Code.

The Appellees assert that the legislature could not have intended to give the county election commissions the authority to "commandeer" a school during a school prom. Appellees Brief, p. 26. The Code, however, properly understood, does not amount to commandeering others' property. The buildings in question are public buildings, funded by state taxation, and being used temporarily by the county election commissions for a public purpose of tremendous importance to the state, its citizens, and the local government. There is nothing extraordinary about the idea that the legislature would direct how a publicly funded building would be used, especially when the use is to conduct the public elections.

Could the legislature have intended to empower the county election commissions to designate publicly supported buildings for use by its citizens during

the limited early voting period and/or election day in order to encourage and permit the maximum participation of its citizens in exercising their fundamental constitutional right to vote? See *Bemis Pentecostal Church v. State*, 731 S.W.2d 897, 901 (Tenn. 1987). The answer is, of course. That is what the statute says, and that meaning is sensible in the context of this statutory scheme governing the conduct of elections.

Viewed in isolation, the dispute between the Williamson County Election Commission and Brentwood concerning the designation of the library as an early voting polling place may not dramatically illustrate the hazard of misconstruing the Election Code to accord local authority's discretion to object to the county election commission's designation of a polling place in a publicly supported building. But the negative implications of divining a collaborative process in which a reasonable objection to the use of the building effectively vetoes the county election commission's designation of polling places are enormous, particularly as they relate to election day voting and polling places.

For early voting, the county election commissions have the option of establishing more than one early voting polling place. A local authority's rebuke of a county election commission's designation of an early voting polling place may only moderately diminish the county election commission's ability to meet the objective of encouraging maximum voter participation and making voting accessible to those who might not otherwise be able to vote on election day.

The Davidson County Election Commission operated 12 early voting polling places in the 2012 presidential election at which 48.39% of the county's active registered voters voted and over 60% of the total votes in that election were cast. Ten of those sites were in public buildings. While the administrative challenges of addressing a local authority's objections to the designation of an early voting site may pale in comparison to those of election day polling places, the consequence of such a contest could nevertheless thwart the Davidson County Election Commission's efforts to meet the statutory objectives of making voting available to those qualified voters who otherwise might not be able to vote. *See* Tenn. Code Ann. § 2-6-101(a).

An even graver threat to the duties and mission of county election commissions arises when the Chancery Court's construction of the statute is applied to the designation of election day polling places. The county election commissions are charged with designating and operating polling places on election day for each precinct, generally within the boundaries of the precincts. Tenn. Code Ann. § 2-3-101. Under the Election Code, county election commissions must designate the voting precincts according to a specified formula. Tenn. Code Ann. § 2-3-103.

Williamson County had 41 precincts in the 2012 election cycle. Identifying facilities that are preferably public buildings and that meet the facility requirements of T.C.A. § 2-3-107 (*i.e.*, practicability) poses a challenge akin to constructing and piecing together a large jigsaw puzzle. In Davidson County, where

there are more than twice the number of registered voters as in Williamson County and 161 precincts, constructing and piecing together the polling place puzzle is exponentially more challenging.

On election day, the Davidson County Election Commission used 153 buildings as polling places, 83 of which were publicly funded buildings designated as polling places by the Davidson County Election Commission pursuant to the statute in issue. Those public buildings included firehouses, community centers, public school buildings, and public libraries. Under the proper interpretation of the statute, the identification of the proper polling place for each of the 161 precincts can be challenging, but the designation of those buildings as polling places, once identified, is relatively straightforward. When the polling places are located in public buildings, the commission is certain that those locations can be used if they must be by notifying the proper representative of the controlling authority. The statutory scheme does not foreclose the commission from working with a controlling authority that expresses a concern about how the polling place designation may impact the building's use. But, properly construed, the statute provides the commission with certainty that a polling place meeting the statutory requirements will be available in a given precinct for election day voting.

Under the Chancery Court's construction of the Election Code, the Davidson County Election Commission could identify public buildings for use as election day polling places, but face the prospect of having to negotiate with several entities over

the designation of polling places if one or more of the controlling authorities objects to the use of its buildings or has concerns about the impact on the building's use. Practically speaking, the commission could face the prospect of negotiating with the Metro Fire Department, Metro Public Libraries, Metro Nashville Public Schools, Metro Parks & Recreation Department, and/or the satellite cities as to the use of any or all of the buildings under the respective control of those entities.

Presumably, the parties would negotiate in good faith, and, for example, the Department of Parks & Recreation would object to the use of a community center as a polling place only if the department believed that proposed use was significantly inconvenient to its operations or disruptive of its planned use for the facility. Those negotiations, however, would have to be conducted without any clear guidance as to whether the basis for any objection posed was sufficient to trump the Davidson County Election Commission's reason for designating that facility or preferring that facility to another facility (publicly supported or privately owned) that may be available for use as a polling place to serve that precinct.

Under the Chancery Court's interpretation of the Election Code, the Davidson County Election Commission would either have to forgo the use of those public buildings or contest each disputed site in Chancery Court by seeking a finding that its designation does not abuse its discretion despite, perhaps, a reasonably based objection by the local authority. The costs and time required and the uncertainty of outcome attendant to the judicial contest could well dissuade any



county election commission from pursuing that course. That would effectively divest the county election commission of its mandate and authority to designate polling places, and allow the local authority to thwart the legislature's express directive to use public buildings for polling places.

Should the county election commission pursue the judicial challenge course, the ensuing litigation would be costly, time-consuming, and possibly chaotic. Additionally, without any statutory standard or guidance as to how to weigh the competing interests of the county election commissions and the local authorities that control the public buildings, the outcomes of similar disputes could vary considerably from county to county. Such inconsistent judicial determinations would contravene one of the explicit objectives of the Election Code: to promote internal improvement of the conduct of all elections "by providing a comprehensive and *uniform procedure* for elections." Tenn. Code Ann. § 2-1-102(3). (Emphasis added).

### CONCLUSION

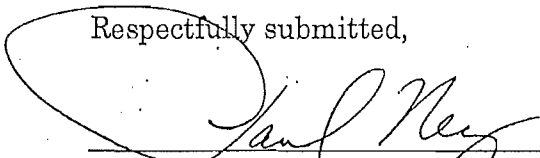
While the prudence of attempting to work with local authorities to minimize inconvenience and scheduling conflicts for the use of public buildings is self-evident, the wisdom of a courteous, collaborative approach does not supersede the statutory duties or authority of the county election commissions relating to the designation of polling places. In pursuit of the protection and promotion of the fundamental right to vote, it is little wonder that the legislature expressed its heightened regard for

ensuring access to the polls over other civic activities such as the day to day use of the facilities built and supported under the taxation powers of the state.

The responsibility of the county election commissions to promote and preserve the fundamental right to vote is of paramount importance, and the legislature fittingly gave the county election commissions concomitant broad authority to carry out their responsibilities. Both the plain language of the Election Code and the great weight of the critical public policy concerns support the Appellant's understanding of the county election commissions' sole and unconditional statutory authority to designate publicly supported buildings as election day and early voting polling places.

For these reasons, Davidson County Election Commission, as *amicus curiae*, respectfully submits that the judgment of the Chancery Court should be reversed, the Williamson County Election Commission motion for summary judgment should be granted, and the Court should declare that local authorities have no discretion to reject requests by county election commissions for use of publicly supported buildings as polling places for early voting or election day.

Respectfully submitted,



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# ADDENDUM

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**O.C.G.A. § 21-2-266** (Copy w/ Cite)

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O.C.G.A. § 21-2-266

GEORGIA CODE

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\*\*\* Current Through the 2012 Regular Session \*\*\*

TITLE 21. ELECTIONS

CHAPTER 2. ELECTIONS AND PRIMARIES, GENERALLY.

ARTICLE 7. PRECINCTS AND POLLING PLACES

O.C.G.A. § 21-2-266 (2012)

§ 21-2-266. Polling places -- Use of public buildings; use of portable or movable facilities

(a) In selecting polling places, the superintendent of a county or the governing authority of a municipality shall select, wherever practicable and consistent with subsection (d) of Code Section 21-2-265, schoolhouses, municipal buildings or rooms, or other public buildings for that purpose. In selecting polling places, the superintendent of a county or the governing authority of a municipality shall give consideration to the comfort and convenience those places to be selected will provide to both electors and poll officers. School, county, municipal, or other governmental authorities, upon request of the superintendent of a county or the governing authority of a municipality, shall make arrangements for the use of their property for polling places; provided, however, that such use shall not substantially interfere with the use of such property for the purposes for which it is primarily intended.

(b) The superintendent of a county or the governing authority of a municipality shall have discretion to procure and provide portable or movable polling facilities of adequate size for any precinct.

**HISTORY:** Code 1933, § 34-706, enacted by Ga. L. 1964, Ex. Sess., p. 26, § 1; Ga. L. 1978, p. 812, § 2; Ga. L. 1982, p. 1512, § 5; Ga. L. 1986, p. 348, § 1; Ga. L. 1998, p. 295, § 1.

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## MISSISSIPPI CODE OF 1972

*As Amended*

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**SEC. 23-15-259. Authority of boards of supervisors; availability of facilities for use as polling places.**

The boards of supervisors of the several counties are authorized to allow compensation of the officers rendering services in matters of registration and elections, to provide ballot boxes, registration and pollbooks, and all other things required by law in registration and elections. Said boards are also authorized, by order spread upon the minutes of the board setting forth the cost and source of funds therefor, to purchase improved or unimproved property and to construct, reconstruct, repair, renovate and maintain polling places or to pay to private property owners reasonable rental fees when the property is used as a polling place for a period not to exceed the day immediately preceding the election, the day of the election, and the day immediately following the election and to allow such reasonable sum as may be expended in supplying voting compartments, tables or shelves for use at elections.

All facilities owned or leased by the state, county, municipality or school district may be made available at no cost to the board of supervisors for use as polling places to such extent as may be agreed to by the authority having control or custody of such facilities.

**SOURCES:** Derived from 1972 Code Sec. 23-5-179 [Codes, 1892, Sec. 3704; 1906, Sec. 4211; Hemingway's 1917, Sec. 6847; 1930, Sec. 6255; 1942, Sec. 3284; Laws, 1976, ch. 350, Secs. 1, 2; 1985, ch. 397, Sec. 1; Repealed by Laws, 1986, ch. 495, Sec. 335]; En, Laws, 1986, ch. 495, Sec. 78, eff from and after January 1, 1987.

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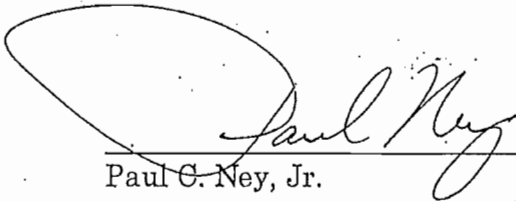
[Chapter Index](#) | [Table of Contents](#)

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing BRIEF OF *AMICUS CURIAE* DAVIDSON COUNTY ELECTION COMMISSION has been served via email and U.S. Mail, postage prepaid, on this 19th day of February, 2013, upon the following:

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Application for Nomination to Judicial Office  
February 21, 2014

2.

Brief of Plaintiff/Counterclaim Defendant-Appellant  
AIA Engineering  
in  
*AIA Engineering Limited, et al. v. Magotteaux  
International S/A, et al.,*  
U.S. Court of Appeals for the Federal Circuit

(80%)



No. 2013-1035

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

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AIA ENGINEERING LIMITED,

Plaintiff / Counterclaim Defendant-Appellant,

and

VEGA INDUSTRIES, LTD., INC.,

Third Party Defendant-Appellant,

v.

MAGOTTEAUX INTERNATIONAL S/A and  
MAGOTTEAUX, INC.,

Defendants / Counterclaimants-Appellees.

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APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE  
MIDDLE DISTRICT OF TENNESSEE IN CASE NO. 09-CV-0255,  
CHIEF JUDGE WILLIAM J. HAYNES, JR.

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**BRIEF OF PLAINTIFF/COUNTERCLAIM DEFENDANT-APPELLANT  
AIA ENGINEERING LIMITED AND THIRD PARTY DEFENDANT-  
APPELLANT VEGA INDUSTRIES, LTD., INC.**

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INSERT Certificate of Interest

## TABLE OF CONTENTS

CERTIFICATE OF INTEREST.....	i
TABLE OF CONTENTS .....	ii
TABLE OF AUTHORITIES.....	vi
STATEMENT OF RELATED CASES.....	1
LIST OF ABBREVIATIONS .....	1
STATEMENT OF JURISDICTION .....	2
STATEMENT OF THE ISSUES ON APPEAL .....	3
STATEMENT OF THE CASE .....	4
STATEMENT OF FACTS.....	7
SUMMARY OF THE ARGUMENT .....	13
ARGUMENT.....	16
I. Standard of Review.....	16
II. Because the Jury’s Verdict Was Contrary to the Great Weight of the Evidence and the District Court Improperly Instructed the Jury and Excluded Evidence AIA is Entitled to a New Trial on the Issue of Prior Public Use Claim .....	19
A. The Misleading and Inadequate Jury Instruction on Prior Public Use Was Prejudicial to AIA.....	19
B. The Erroneous Jury Instruction on the Law of Experimental Use Was Prejudicial to AIA .....	23

C. The District Court’s Exclusion of Evidence Relating to the Reduction to Practice of the Invention Before the Critical Date Was Unfairly Prejudicial to AIA .....	26
D. The Jury’s Verdict on AIA’s Prior Public Use Claim Was Contrary to the Great Weight of the Evidence.....	30
1. The claimed invention was used in the United States by someone other than the inventor before the critical date.....	30
2. MI did not maintain control over Empire’s use of the lifter bars that embodied the claimed invention .....	32
3. Empire was under no obligation of confidentiality to MI regarding its use of the lifter bars that embodied the claimed invention.....	32
4. Empire’s use of the lifter bars that embodied the claimed invention was not experimental use.....	33
5. Empire’s use of the lifter bars that embodied the claimed invention was not experimental use because the invention already had been reduced to practice .....	34
6. Empire’s use of the lifter bars that embodied the claimed invention was not experimental use because it was for the purpose of determining whether and how the invention could be tailored to use by Empire.....	36
III. AIA Is Entitled to a Judgment as a Matter of Law on Willfulness Because MI Failed to Prove by Clear and Convincing Evidence That AIA’s Actions Were Objectively Reckless .....	39
A. The Objective Recklessness Element of a Willful Infringement Claim is Determined by the Court as a Matter of Law .....	39
B. AIA Was Not Objectively Reckless.....	40

1. AIA asserted numerous reasonable defenses and credible invalidity claims .....	41
2. AIA’s non-infringement claim was reasonable during the life of the original ’176 patent.....	42
3. AIA’s reasonable and credible prior public use claim precluded a determination of willful infringement .....	46
4. AIA’s reasonable and credible improper recapture claim, especially in conjunction with AIA’s other claims and defenses, precluded a determination of willful infringement .....	48
C. Absent a Finding of Willfulness, Enhanced Damages May Not be Awarded .....	51
D. The District Court Erred in Finding this an Exceptional Case and Awarding Attorneys’ Fees and Non-Taxable Costs.....	51
IV. Because the Jury’s Verdict Was Contrary to the Great Weight of the Evidence and the District Court Improperly Excluded Evidence AIA is Entitled to A New Trial on the Obviousness Claim .....	52
A. The Prior Art Teaches Each and Every Element of the ’998 Patent Claims. ....	52
B. The Evidence Showed a Motivation to Combine the Elements of the Prior Art .....	57
C. Secondary Considerations Did Not Change the Conclusion that the ’998 Patent is Invalid as Obvious.....	60
D. The District Court’s Refusal to Allow AIA to Recall Dr. Glaeser to Move the Admission of the Prior Art Was an Unfairly Prejudicial Abuse of Discretion.....	61
CONCLUSION.....	63

ADDENDUM.....	64-187
CERTIFICATE OF SERVICE.....	188
CERTIFICATE OF COMPLIANCE.....	189

## TABLE OF AUTHORITIES

### CASES

<i>AIA Engineering Limited v. Magotteaux International S/A</i> , 657 F.3d 1264 (Fed. Cir. 2011) .....	1, 42
<i>AIA Engineering Limited v. Magotteaux International S/A</i> , 745 F.Supp.2d 852 (M.D. Tenn. 2010) .....	4
<i>Allied Colloids Inc. v. American Cyanamid Company</i> , 64 F.3d 1570 (Fed. Cir. 1995) .....	22
<i>American Seating Company v. USSC Group, Inc.</i> , 514 F.3d 1262 (Fed. Cir. 2008) .....	21
<i>Atlanta Attachment v. Leggett &amp; Platt, Inc.</i> , 516 F.3d 1361 (Fed. Cir. 2008) .....	36
<i>Ball Aerosol &amp; Specialty Container, Inc. v. Ltd. Brands, Inc.</i> , 55 F.3d 984 (Fed. Cir. 2009) .....	59
<i>Bard Peripheral Vascular, Inc. v. W.L. Gore &amp; Associates., Inc.</i> , 682 F.3d 1003 (Fed. Cir. 2012) .....	17, 39, 40, 48
<i>Baxter International, Inc. v. COBE Laboratories, Inc.</i> , 88 F.3d 1053 (Fed. Cir. 1996) .....	37
<i>Beatrice Foods Co. v. New England Printing &amp; Lithographing Co.</i> , 923 F.2d 1576 (Fed. Cir. 1991) .....	51
<i>Bettcher Industries, Inc. v. Bunzl USA, Inc.</i> , 661 F.3d 629 (Fed. Cir. 2011) ....	16, 18
<i>Bowman v. Koch Transfer Co.</i> , 862 F.2d 1257 (6 <sup>th</sup> Cir. 1988).....	19
<i>Bucyrus-Erie Co. v. General Products Corp.</i> , 643 F.2d 413 (6 <sup>th</sup> Cir. 1981).....	19

<i>Clock Spring, L.P. v. Wrapmaster, Inc.</i> , 560 F.3d 1317 (Fed. Cir. 2009) .....	23, 24, 25, 29, 31, 33, 37
<i>Cohesive Technologies, Inc. v. Waters Corp.</i> , 543 F.3d 1351 (Fed. Cir. 2008) .....	40
<i>Cybor Corp. v. FAS Technologies, Inc.</i> , 138 F.3d 1448 (Fed. Cir. 1998) (en banc) .....	18
<i>DyStar Textilfarben GmbH &amp; Co. Deutschland KG v. C.H. Patrick Co.</i> , 464 F.3d 1356 (Fed. Cir. 2006) .....	61
<i>Egbert v. Lippmann</i> , 104 U.S. 333 (1881) .....	20
<i>Electric Storage Battery Co. v. Shimadzu</i> , 307 U.S. 5 (1939).....	20
<i>Electromotive Division of General Motors Corp. v.</i> <i>Transportation Systems Division of General Electric Company</i> , 417 F.3d 1203 (Fed. Cir. 2005) .....	34
<i>Forest Laboratories, Inc. v. Abbott Labs.</i> , 338 F.3d 1324 (Fed. Cir. 2003) .....	51
<i>Graham v. John Deere Co.</i> , 383 U.S. 1 (1966) .....	52, 62
<i>iLOR, LLC v. Google, Inc.</i> , 631 F.3d 1372 (Fed. Cir. 2011).....	49, 50, 51
<i>In re O’Farrell</i> , 853 F.2d 894 (Fed. Cir. 1988) .....	59
<i>In re Omeprazole Patent Litigation</i> , 536 F.3d 1361 (Fed. Cir. 2008).....	34
<i>In re Peterson</i> , 315 F.3d 1325 (Fed. Cir. 2002) .....	55
<i>In re Seagate Technology, LLC</i> , 497 F.3d 1360 (Fed. Cir. 2007) (en banc) .....	17, 39, 40, 44, 48
<i>In re Wertheim</i> , 541 F.2d 257 (C.C.P.A. 1976).....	55
<i>KSR International Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007) .....	56, 59, 60



<i>Leader Technologies v. Facebook, Inc.</i> , 678 F.3d 1300 (Fed. Cir. 2012).....	18
<i>Leapfrog Enterprises, Inc. v. Fisher-Price, Inc.</i> , 485 F.3d 1157 (Fed. Cir. 2007) .....	61
<i>Lisle Corporation v. A.J. Manufacturing Company</i> , 398 F.3d 1306 (Fed. Cir. 2005) .....	33
<i>Media Technologies Licensing v. Upper Deck Co.</i> , 596 F.3d 1334 (Fed. Cir. 2010) .....	18
<i>Meyer Intellectual Properties Limited v. Bodum, Inc.</i> , 690 F.3d 1354 (Fed. Cir. 2012) .....	18, 62
<i>Mike’s Train House, Inc. v. Lionel LLC</i> , 472 F.3d 398 (6th Cir. 2006).....	17
<i>New Railhead Manufacturing, L.L.C. v. Vermeer Manufacturing Company</i> , 298 F.3d 1290 (Fed. Cir. 2002) .....	19, 22, 37
<i>Pfaff v. Wells Electronics, Inc.</i> , 525 U.S. 55 (1998).....	35
<i>Powell v. Home Depot U.S.A., Inc.</i> , 663 F.3d 1221 (Fed. Cir. 2011).....	40
<i>Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.</i> , 620 F.3d 1305 (Fed. Cir. 2010) .....	48, 49, 51
<i>Sundance, Inc. v. DeMonte Fabricating Ltd.</i> , 550 F.3d 1356 (Fed. Cir. 2008) .....	61
<i>Uniloc USA, Inc. v. Microsoft Corporation</i> , 632 F.3d 1292 (Fed. Cir. 2011) .....	40, 41
<i>United States v. Geisen</i> , 612 F.3d 471 (6th Cir. 2010).....	18
<i>Wedgetail, Ltd. v. Huddleston Deluxe, Inc.</i> , 576 F.3d 1302 (Fed. Cir. 2009).....	51
<i>Wyers v. Master Lock Co.</i> , 616 F.3d 1231 (Fed. Cir. 2010).....	58, 59, 60

STATUTES AND RULES

28 U.S.C. § 1295(a)(1).....3  
28 U.S.C. § 1331 .....2  
28 U.S.C. § 1338(a) .....2  
35 U.S.C. § 102(b) ..... 5, 8, 19, 20, 24, 25, 29, 31  
35 U.S.C. § 103 .....56, 59, 60  
35 U.S.C. § 284 .....6, 49, 51  
35 U.S.C. § 285 .....3, 6, 18, 49, 51, 52  
Fed.R.Civ.P. 50(b) .....2  
Fed.R.Civ.P. 59 .....2  
Fed.R.Evid. 403 .....27  
Fed.R.App.P. 4(a) .....2

OTHER AUTHORITIES

Manual of Patent Examining Procedure § 2144.05  
(8th ed. Rev. 8, July 2010).....55

## STATEMENT OF RELATED CASES

This appeal is related to *AIA Engineering Limited v. Magotteaux International S/A*, 657 F.3d 1264 (Fed. Cir. 2011) (No. 2011-1058, August 31, 2011). The panel in that appeal was composed of Chief Judge Rader, and Judges Lourie and Bryson. Counsel knows of no other appeal in or from this action that was previously before this or any other appellate court, or of any other case in this or any other court that may directly affect or be directly affected by this Court's decision in this appeal.

## LIST OF ABBREVIATIONS

The following abbreviations are used throughout this brief:

<u>Reference</u>	<u>Meaning</u>
AIA Engineering	Plaintiff /Counterclaim Defendant-Appellant AIA Engineering Limited
Vega	Third Party Defendant-Appellant Vega Industries, Ltd., Inc.
AIA	Plaintiff /Counterclaim Defendant-Appellant AIA Engineering Limited and Third Party Defendant-Appellant Vega Industries, Ltd., Inc., collectively
MI	Defendants/ Counterclaimants/ Third Party Plaintiffs-Appellees Magotteaux International S/A and Magotteaux, Inc., collectively
'998 patent	U.S. Patent No. RE39,998

'176 patent	U.S. Patent No. 6,399,176
PX	Plaintiff's Exhibit
DX	Defendants' Exhibit
DE	District Court Docket Entry Number
ID	Trial Exhibit Marked for ID, but not Admitted

### **STATEMENT OF JURISDICTION**

The United States District Court for the Middle District of Tennessee had jurisdiction over this patent litigation action giving rise to this appeal pursuant to 28 U.S.C. §§ 1331 and 1338(a). The district court entered a Judgment on all claims on July 3, 2012. A3. AIA filed post trial motions under Fed.R.Civ.P. 50(b) and 59 on July 31, 2012. A5868-5911, A5958-6044, A6045-6160.

On September 21, 2012, the district court entered an Order denying AIA's motion relating to willful infringement. A21. AIA filed a Notice of Appeal on October 16, 2012. A8367-69. On November 14, 2012, the district court entered an Order disposing of all of the remaining post trial motions. A104-07. On November 16, 2012, AIA, pursuant to Fed.R.App.P. 4(a), timely filed the Amended Notice of Appeal from the Final Judgment and the district court's Orders relating to the issues of willful infringement, exceptional case and attorneys' fees, prior public use, and obviousness. A8370-72.

Pursuant to 28 U.S.C. § 1295(a)(1), this Court has jurisdiction over this appeal from the district court's final judgment and orders disposing of all issues in this case.

### **STATEMENT OF THE ISSUES ON APPEAL**

1. Whether AIA is entitled to a new trial on the prior public use invalidity claim because the verdict was contrary to the great weight of the evidence, the jury instructions were erroneous and prejudicial, and the district court abused its discretion in excluding relevant evidence?
2. Whether the district court erred by denying AIA judgment as a matter of law of no willful infringement because MI failed to prove objective recklessness by clear and convincing evidence?
3. Whether the district court erred in finding an exceptional case under 35 U.S.C. § 285 and awarding MI attorneys' fees and non-taxable costs?
4. Whether AIA is entitled to a new trial on the obviousness invalidity claim because the verdict was against the great weight of the evidence and the district court erred by not permitting AIA to introduce relevant items of prior art?

## STATEMENT OF THE CASE

On March 16, 2009, AIA Engineering initiated this action in the district court by filing a complaint against MI seeking a declaration of noninfringement and invalidity of the '998 patent. A176-84. On May 18, 2009, MI filed an answer and counterclaim for patent infringement against AIA Engineering and a third-party complaint for patent infringement against Vega. A185-99,A200-14.

On September 3, 2010, the district court granted AIA's motion for summary judgment of invalidity of the '998 patent on the grounds of impermissible recapture of subject matter surrendered in the original patent examination. *AIA Engineering Ltd. v. Magotteaux Intern. S/A*, 745 F.Supp. 2d 852 (M.D. Tenn. 2010). A3305-3309. MI appealed the judgment to the Federal Circuit. On October 11, 2011, the Federal Circuit, finding that the claim terms "homogeneous solid solution" and "homogeneous ceramic composite" were synonymous, reversed the judgment and remanded the case to the district court. A3313-42.

On May 14, 2012, AIA filed a motion *in limine* to exclude evidence of willfulness. A4318-31. After granting MI's motion to strike AIA's motion *in limine* on May 18, 2012 (A4438), the district court, on June 5, 2012, reversed course and granted AIA's motion *in limine* on the grounds that AIA had previously prevailed on its summary judgment motion, which foreclosed a finding that there was an objectively high likelihood that AIA was infringing the '998 patent. A4725.

On June 11, 2012, MI filed a motion requesting the court to reconsider that ruling. A132-75(DE 332).

The district court then permitted MI to present the willful infringement claim in the trial that began on June 19, 2012 and continued through July 2, 2012. At the close of AIA's case-in-chief, MI moved for judgment as a matter of law on AIA's request for a declaration of non-infringement and claim of invalidity of the '988 patent under 35 U.S.C. § 102(b) (prior public use) and obviousness. A4970-5032. After the jury returned its verdict, the district court denied the motions as moot. A5187-88, A165 (DEs 385-87).

At the close of MI's case-in-chief, AIA moved for judgment as a matter of law of no willful infringement. A7448-66. The district court advised the parties that the jury's willfulness finding would be advisory. A7726, A7664 ll.5-8.

The jury returned a verdict on July 2, 2012, finding that AIA had infringed the '998 patent and that the '998 patent was not invalid on the grounds of prior public use or obviousness. The jury also found AIA's infringement was willful and infringement damages in the amount of \$1,668,028.00. A5189-91.

The jury verdict form did not distinguish between the objective and subjective prongs of the willfulness determination, but included space for a summary of the jury's reasons for its finding. *Id.*

“Based upon the jury’s findings” that AIA willfully infringed MI’s patent rights, the district court awarded MI enhanced damages under 35 U.S.C. § 284, doubling the verdict amount to \$3,336,056.00. A5192-5193. The July 2, 2012 order stated that the damages were not trebled based upon the court’s earlier ruling on recapture. *Id.* The district court also found, *sua sponte*, that this was an exceptional case under 35 U.S.C. § 285 and awarded reasonable attorneys’ fees in an amount to be determined. Judgment was entered on July 3, 2012. A1.

AIA timely filed, *inter alia*, motions for a new trial on the issues of prior public use and obviousness (A5958, A6045) and renewed its motion for judgment as a matter of law on the willful infringement issue, also requesting that the exceptional case finding and award of attorneys’ fees be vacated, and, in the alternative requesting a new trial on willful infringement. A5868.

On September 21, 2012, the district court denied AIA’s motion for judgment as a matter of law of no willfulness (A4-22), and on September 28, 2012 awarded MI \$3,188,395.42 in attorneys’ fees and non-taxable costs. A23-69.

Uncertain as to whether the district court’s order resolved all outstanding post trial motions, AIA filed a Notice of Appeal on October 16, 2012. A8367-69. On November 14, 2012, the district court entered an order denying the remaining



post trial motions. A70-107. On November 16, 2012, AIA filed an Amended Notice of Appeal. A8370-72.

### STATEMENT OF FACTS

Both MI and AIA are in the business of manufacturing and selling composite wear products used for crushing and grinding rock and other abrasive materials in various industrial settings including the cement, mining and recycling industries. *E.g.*, A5724-46. MI has a facility, the AMC plant, in Pulaski, Tennessee. A6693. AIA Engineering's U.S. based operations is Vega, also located in Tennessee. A141(Des23,29). DE Mr. Bhadresh Shah is the managing director and an owner of AIA (A5723,A5774), and Dr. Sudhir Bhide is a technology consultant for AIA who was the AIA employee who was responsible for managing AIA's technology during times relevant to this dispute. A6227.

The '998 patent , entitled "Composite Wear Component," is directed to a wear component produced by casting and consisting of a metal matrix that contains inserts of ceramic materials with a mixture of aluminum oxide (also "alumina" or "Al<sub>2</sub>O<sub>3</sub>") and zirconium oxide (also "zirconia" or "ZrO<sub>2</sub>"). A121-31. Hubert Francois is the inventor. *Id.*

MI owns the '998 patent, a reissue of MI's earlier '176 patent. *Id.* The '176 patent issued on June 4, 2002 (A116), and a broadening reissuance of the patent was applied for on May 30, 2003. A3320. Initially, MI sought to add new independent claim 12 which substituted the term "comprising" for claim 1's term "consisting of." MI later sought a further revision of the claims to replace the term "solid solution" with the term "ceramic composite." *Id.*

The date of the reissued patent is January 8, 2008. The '998 patent claims priority to two European patent applications, one of which was filed on October 1, 1996. A121. For purposes of U.S.C. § 102(b), the critical date of the patent is August 27, 1996. A121,A5076.

MI's patented technology is embodied in products that it manufactures and sells that is or has been known as "Xwin," "H+," and "padding." A6736 ll.5-6737 ll.22. The Xwin product reads on claims 1,12,13,16,17, and 18 of the '998 patent. A9959.

AIA manufactured and has sold a composite wear product incorporating ceramic inserts known as "Sintercast," which MI accused of infringing the '998 patent. A185-89. The ceramic grains used in the manufacture of Sintercast included, in addition to alumina and zirconia, titanium oxide. A8516(PX58),A6279-82.

In 1989 AIA and MI formed a joint venture. During this time, MI and AIA shared technology and information relating to the wear components. A5753-54. Mr. Shah regularly received a copy of the MI R&D internal newsletters, which he passed to his technology manager, Dr. Bhide. A6228 11.20-6229 1.1.

In late 1989, Mr. Francois became employed by MI and began his work on the development of wear components that eventually became the patented technology of the '176 patent and, consequently, the '998 patent. A6392-95.

By 1993 MI had manufactured and tested in Europe a composite wear component known as the Canica impeller which incorporated ceramic composite inserts of alumina and zirconia. A6439-44, A6923-28, A8517A-C(PX65). The Canica impeller embodied the patented technology of the '998 patent. A6927.

By 1994 the MI R&D newsletters sent by MI to AIA reported that MI's testing of the invention claimed in the '998 patent had demonstrated significantly increased wear resistance as compared with wear components that did not have the ceramic composite inserts. By then, MI had been "testing" the invention on numerous different types of components that were used by various customers in various industries to determine whether particular embodiments of the invention could be manufactured for use by the customers.

Those efforts continued long after the '176 patent application was filed and will continue. A6437. For just one type of component, the VSI, there are hundreds of patterns (or forms) used in the industry, and MI had focused on only about 12 of them through the date of the trial in this case. A6732.

In 1996, MI manufactured and shipped 10 Xwin lifter bars to the Empire Mining ("Empire") plant in Michigan for use in one of Empire's mills. A6680-90. MI shipped lifter bars to Empire "all the time." A6686 ll.20-23. The purpose of the "test" was to determine the best placement for the ceramic inserts in those wear components. A6684 ll.19-24, A8526-34(PX70). The Empire "test" was scheduled to run through February 1997, several months after the August 27, 1996 critical date. A7320 ll.20-7321 ll.8531. The Xwin lifter bars were installed and put into use by Empire by July 16, 1996, several weeks before the critical date. A6685, A8528(PX70).

The lifter bars were installed, maintained, and deinstalled by Empire employees, and the mill in which they were installed was operated by Empire employees. A6685-89, A7320. There was no limitation on access to the mill or lifter bars. A7310-17, A6688-89. The inventor never visited the Empire plant during the use of the lifter bars and had no personal knowledge about the arrangements for the use of the lifter bars at Empire. A6823. But, one of MI's

engineering sales representatives from outside the AMC plant (A6715) did visit about every two weeks in the normal course of his customer relations visits to the plant. AA7317 ll7-7314 ll.14.

Empire maintained control of the mill operations and access to the lifter bars, and could have removed them from the mill if it wanted to and use them freely any way they wanted. A7310-17. There was no confidentiality agreement or mutual understanding of confidentiality between MI and Empire or any of its employees concerning the Xwin lifter bars. A7310,A6689. But MI's customer representative who visited the plant about every two weeks trusted Empire. A7304.

When the lifter bars were removed they were shipped back to AMC to analyze (A7308 ll.17-19), but there is no evidence that any other information concerning the conditions of their use at Empire was sent to Mr. Francois. And, there is no evidence that Mr. Francois used or intended to use any information about the Xwin product to prepare or refine the patent application for the invention.

In 2000 the business relationship between MI and AIA ended. A5757-58. AIA developed, and in 2002 began selling Sintercast. A5766. In 2004 Mr. Shah became aware that MI was contending the Sintercast infringed its patent. Mr. Shah advised MI in writing why he believed that was not the case, citing the non-

homogeneous nature of Sintercast's ceramic grains and the presence of titanium oxide in those grains. A5767-68.

Believing that Sintercast did not infringe MI's patent, AIA invited an MI representative who was knowledgeable about the technology, Mr. Develkner, to visit the AIA plant in late 2004 to show how AIA was making Sintercast. A5768-69. Dr. Bhide talked with Mr. Develkner for about 4 hours concerning Sintercast, and Mr. Develkner expressed no disagreement with AIA's position that it was not infringing the patent. A6293-95. Subsequently, however, MI refined its request for reissuance of the '176 patent. A3320.

Dr. Bhide made inquiries to confirm that the Sintercast product did not infringe MI's patented technology, focusing on the composition of the ceramic inserts as claimed in the '176 patent. He learned from AIA's ceramic grain supplier, Treibacher, that the titanium oxide in the ceramic composite was both present in an amount by weight and had a function in the formation of the composite grains such that it was not an impurity. A6370-71,A8570A-C(PX99). Treibacher also advised MI that their ceramic grains were not homogeneous inasmuch as the alumina and titanium oxide were not distributed evenly throughout the grains. A6366-70,8558-60(PX96).

Dr. Bhide also had the ceramic grains used by AIA tested by a university laboratory. The results of that testing confirmed Dr. Bhide's and MI's belief that Sintercast did not infringe MI's patent.

AIA filed a protest in the '176 patent reissue examination, which was denied. The reissue date of the '998 Patent is January 8, 2008. On November 24, 2009, the International Trade Commission ordered Vega to cease and desist from activities in the United States that infringe "one or more claims 12-13 and 16-21 of the '998 patent." (ITC Inv. No. 337-TA-644, Limited Exclusion Order, pg. 1). Prior to that, on March 9, 2009, AIA had initiated this action seeking a declaration that the '998 patent was invalid as obvious, for prior public use, and improper recapture on reissue, as well as a declaration that AIA did not infringe the patent.

### **SUMMARY OF THE ARGUMENT**

The jury's verdict on AIA's claims of invalidity on the grounds of both prior public use and obviousness was contrary to the great weight of the evidence. The district court's erroneous exclusion of evidence and refusal to permit AIA to call a witness to offer evidence relevant to these claims were an abuse of discretion that substantially prejudiced AIA. Further, the district court's jury instructions on prior public use and the experimental use exception were misleading and incomplete and misstated the law and the facts of this case.

In the face of AIA's prior public use and obviousness claims, the district court's summary judgment for AIA on the impermissible recapture issue, and the additional facts and information of record of this litigation, MI failed to prove the objective recklessness element of its willful infringement claim by clear and convincing evidence. The record overwhelmingly showed that AIA's claims and defenses were both legitimate and reasonable. The district court's errors relating to the law of prior public use illustrated the court's misunderstanding of the law and inability to appreciate the reasonableness of that claim and the absence of objective recklessness. The district court's vacillation on whether and how to submit the willfulness issue to the jury further reflected the court's confusion. The district court, therefore, erred in denying AIA a judgment as a matter of law of no willful infringement. Consequently the court also erred in finding an exceptional case and awarding attorneys' fees.

The evidence showed that MI's claimed invention, a composite wear component, was embodied in a component used by an MI customer in the United States before the critical date. Additional evidence, some of which was erroneously excluded by the court, further showed that the invention was reduced to practice before its pre-critical date use in the United States. The undisputed evidence showed that there was no confidentiality agreement governing that customer's use



of the invention, and there was no evidence from which the jury could reasonably have found an implied confidentiality agreement.

Concerned about confusing the jury, the district court erroneously excluded AIA's MI R&D newsletters relevant to both the prior public use and willfulness issues, even though the court previously had admitted similar newsletters offered by MI. The court further instructed the jury incorrectly on both the law of prior public use and the experimental use exception. Most notably, the court's failure to instruct the jury as to the meaning of "public use," as requested by AIA, allowed the jury to be misled by suggestions that use in a private commercial plant could not be public use.

The record contained ample evidence that AIA was not objectively reckless: the prior public use claim, the obviousness claim, the district court's summary judgment on improper recapture (eventually reversed on appeal), and evidence that, early after the issuance of original patent, AIA had third party confirmation that the ceramic grains used by AIA in the accused product contained a third ceramic component that was not an impurity and, on some level, were not homogeneous. The court's misunderstanding of the law prevented it from recognizing that the reasonable and legitimate prior public use claim precluded a finding of objective recklessness. AIA was entitled to judgment as a matter of law

of no willfulness and there was, therefore, no basis for the \$1.8 million enhanced damages award or the exceptional case finding and award of over \$3 million in attorney's fees and non-taxable costs.

Finally, the evidence showed that the '998 patent was invalid as obvious over several prior art references to which AIA's expert, Dr. Glaeser testified. The court's refusal to allow him to be recalled as a witness to offer the actual references into evidence was an abuse of discretion that deprived the jury of the opportunity to fully and fairly evaluate the underlying fact issues relating to the issue of obviousness.

For all these reasons, AIA is entitled to a judgment of no willful infringement and no exceptional case, and to a new trial on the issues of prior public use and obviousness.

## **ARGUMENT**

### **I. Standard of Review**

In reviewing denial of a motion for judgment as a matter of law or a motion for a new trial, this Court applies the law of the regional circuit where the district court sits. *Bettcher Indus., Inc. v. Bunzl USA, Inc.*, 661 F.3d 629, 638 (Fed. Cir. 2011).

The Sixth Circuit reviews denial of a motion for judgment as a matter of law *de novo*. *Id.* “[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc). The objective determination of willfulness under the first prong of *Seagate* is a question of law to be reviewed by this Court *de novo*. *Bard Peripheral Vascular v. W.L. Gore & Assoc.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012).

The Sixth Circuit reviews denial of a motion for new trial for abuse of discretion. *Mike’s Train House, Inc. v. Lionel LLC*, 472 F.3d 398, 405 (6th Cir. 2006). An abuse of discretion in the Sixth Circuit “occurs when the district court relies on clearly erroneous findings of fact, improperly applies the law, or uses an erroneous legal standard.” *Id.* In the Sixth Circuit, a new trial is required “when a jury has reached a seriously erroneous result as evidenced by (1) the verdict being against the weight of the evidence; (2) the damages being excessive; or (3) the trial being unfair to the moving party in some fashion, *i.e.*, the proceedings being influenced by prejudice or bias.” *Id.* (internal citations omitted).

The legal sufficiency of jury instructions on an issue of patent law is a question of Federal Circuit law which this Court reviews *de novo*, ordering a new

trial on that basis only when errors in the instructions as a whole clearly misled the jury. *Bettcher*, 661 F.3d at 638.

A district court's decision to exclude evidence is a procedural question that is controlled by regional circuit law. *Meyer Intellectual Properties, Ltd. v. Bodum, Inc.*, 690 F.3d 1354, 1371 (Fed. Cir. 2012). In the Sixth Circuit, a district court's decision to admit or exclude evidence is reviewed for abuse of discretion. *United States v. Geisen*, 612 F.3d 471, 495 (6th Cir. 2010).

“Whether a patent is invalid for a public use or sale is a question of law, reviewed *de novo*, based on underlying facts, reviewed for substantial evidence following a jury verdict.” *Leader Techs. v. Facebook, Inc.*, 678 F.3d 1300, 1305 (Fed. Cir. 2012).

“Whether an invention would have been obvious at the time the invention is made is a question of law, which this Court reviews *de novo*, based on underlying factual determinations, which this Court reviews for clear error.” *Media Techs. Licensing v. Upper Deck Co.*, 596 F.3d 1334, 1337 (Fed. Cir. 2010).

Whether a case is exceptional under 35 U.S.C. § 285 is a question of fact reviewed for clear error. *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1456 (Fed. Cir. 1998) (en banc). A district court's decision to award attorneys' fees in an exceptional case is reviewed for abuse of discretion. *Id.*

**II. Because the Jury's Verdict Was Contrary to the Great Weight of the Evidence and the District Court Improperly Instructed the Jury and Excluded Evidence AIA is Entitled to a New Trial on the Prior Public Use Claim**

**A. The Misleading and Inadequate Jury Instruction on Prior Public Use Was Prejudicial to AIA**

Because the jury instructions regarding AIA's public use claim of invalidity, taken as a whole, were misleading and gave the jury an inadequate understanding of the law, AIA is entitled to a new trial. *See Bowman v. Koch Transfer Co.*, 862 F.2d 1257, 1263 (6th Circuit 1988), and *Bucyrus-Erie Co. v. General Products Corp.*, 643 F.2d 413, 418 (6th Cir. 1981).

On the issue of "Prior Public Use" the district court instructed the jury, *inter alia*, that:

The test for whether an invention is ineligible for a patent due to the section 102(b) public use bar is whether the purported use (1) was accessible to the public; or (2) was commercially exploited. A5076.

The entire prior public use instruction, however, failed to make it clear to the jury that the term "public" had a particular meaning. It did not mean the general public, but rather it meant *anyone other than the inventor*.

As used in 35 U.S.C. § 102(b), the "phrase 'public use' does not necessarily mean open and visible in the ordinary sense; it includes any use of the claimed invention by a person other than the inventor who is under no limitation, restriction, or obligation of secrecy to the inventor." *New Railhead Mfg., L.L.C. v.*

*Vermeer Mfg. Co.*, 298 F.3d 1290, 1297 (Fed. Cir. 2002) (citing, *inter alia*, *Egbert v. Lippmann*, 104 U.S. 333, 336 (1881)). See also *Electric Storage Battery Co. v. Shimadzu*, 307 U.S. 5 (1939) (the “ordinary use of a machine...in a factory in the usual course of producing articles for commercial purposes is a public use”).

MI’s counsel, aided by the district court’s misunderstanding of the law, steered the jury away from the proper understanding of term “public use.” In MI’s opening statement at trial the jury was advised that AIA would identify as public use the Empire trial of MI’s Xwin lifter bars before the critical date. Counsel described the use as “an experiment that was done in a private, sealed, nonpublic place where there was a secure plant” and he asked the jury to think about the words “public use.” A5715-16. He then told the jury that AIA is “trying to prevent [sic] that statutory requirement is [sic] the notion that you are out there in public showing off the invention long before you get your patent filed for.” *Id.* This alone required in fairness that the jury instruction provide the proper legal definition of the term “public use,” as AIA had proposed initially (A5158), and again requested throughout the trial. A7710-16.

The district court’s refusal to include the definition of “public use” under Section 102(b) in the jury instructions reflected a profound misunderstanding of the law, as evidenced by the court’s remarks during trial:

AIA Counsel: *The public for the public use is anybody other than the inventor.*

Judge: *No, that can't be right.* A7714-7715.

...

Judge: *If the public can be anyone but the inventor it effectively eviscerates City of Elizabeth.* A7834.

The district court's error of law is especially puzzling in light of its later reference to the very language AIA sought to have included in the jury instruction in the court's Memorandum denying AIA's motion for a new trial. A79 and A5158. *See American Seating Co. v. USSC Group, Inc.*, 514 F.3d 1262, 1267 (Fed. Cir. 2008).

MI again capitalized on the district court's error in closing argument arguing against AIA's prior public use invalidity claim by explaining to the jury that the Empire plant was "a private plant" "closed to the public" where people were not allowed "to wander in." A7758-59. After AIA's counsel accurately referred to the meaning of "public use" in closing argument (A7730-31), however, the district court admonished him for raising the definition of "public." A7796. Had the jury been properly instructed on the meaning of public use, as AIA requested, MI's argument might not have been misleading or unfairly prejudicial to AIA.

Additionally, the jury instruction on prior public use was misleading, inaccurate, and unfairly prejudicial to AIA because it directed:

Although a written promise of confidentiality is a factor to be considered in appropriate circumstances, such as when persons other than the patentee conduct the experiments, the absence of such a promise does not make a use “public” as a matter of law, or outweigh the undisputed fact that no information of a confidential nature was communicated to others.

A5076.

This segment of the instruction is flawed and was unfairly prejudicial to AIA in at least two respects. First, it erroneously incorporated a factual finding from the source authority (*i.e.*, “the undisputed fact that no information of a confidential nature was communicated to others,” *Allied Colloids v. American Cyanamid Co.*, 64 F.3d 1570, 1576 (Fed. Cir. 1995)) and presented it inappropriately in language that could easily have been misunderstood as a determination by the district court of the facts in this case. In *Allied* that passage reflected a fact determination by the Federal Circuit following its extensive analysis of the facts of that case. Here, the district court gave no indication in explaining its insertion of this language that it was purporting to make a finding on that issue, which would have improperly usurped the jury’s role as the finder of fact. A7707-16A7724.

This segment of the prior public use instruction also could have been easily misread by the jury to mean that, as a matter of law, a restriction, limitation or obligation of secrecy is not required for a use to be non-public, in direct contravention of this Court’s case law. *New Railhead*, 298 F.3d at 1297.



The instructions proposed by AIA established the definition of “public use” adopted by the Federal Circuit, and further clarified that “depending on the relationships of the observers and the inventor, an understanding of confidentiality can be implied.” AIA’s proposed instructions stated the accepted law that an obligation of secrecy between the inventor and the user is a requirement for a use to be considered non-public, and AIA’s instructions should have been adopted by the district court. A5158. The instructions given did not state the correct rule of law, and therefore constituted prejudicial legal error, particularly in view of the abundance of evidence showing that the lifter bars were used by someone other than the inventor, in a non-controlled environment, with no obligation of secrecy imposed on the user.

**B. The Erroneous Jury Instruction on the Law of Experimental Use Was Prejudicial to AIA**

The jury instruction on “Experimental Use” included the language:

Certain activities are experimental if they are a legitimate effort to perfect the invention or to determine if the invention will work for its intended purpose. So long as the primary purpose is experimentation, it does not matter that the public used the invention or that the inventor incidentally derived profit from it.

A5077.

This jury instruction misstated the law on the experimental use exception to a prior public use bar. *See Clock Spring, L.P. v. Wrapmaster, Inc.*, 560 F.3d 1317

(Fed. Cir. 2009). In *Clock Spring*, the Federal Circuit made it clear that “there is no experimental use unless claimed features or overall workability are being tested *for purposes of filing a patent application.*” *Id.* (emphasis added). Thus, the alleged “experimentation” must be related to testing of the features found in the claim language for the purpose of filing a patent application – not for optimizing a product for a specific customer.

The instruction given the jury on experimental use was incomplete and misleading because it did not indicate in any way that the burden was on MI to offer evidence that the alleged experimental use at Empire was somehow *tied to the actual claim limitations of the '998 patent.* Additionally, any “legitimate effort to perfect the invention” is not an experimental use under Federal Circuit law – the use must be related to claim limitations for the purpose of filing a patent application.

The trial of the lifter bars at the Empire plant was scheduled to run through February 1997 (A8531(PX70)), well after the October 1, 1996 filing of the European patent application as to which the '998 patent claimed priority. In light of that, the district court’s failure to clearly instruct the jury that, to qualify as experimental use under 35 U.S.C. § 102(b), testing must be for the purposes of filing the patent application, was highly prejudicial as well as legally erroneous.

*See Clock Spring*, 560 F.3d at 1328 (studies done after the date of the patent application cannot justify an earlier delay in filing the application).

The district court's confusion regarding the prior public use issue was further manifest in how it handled the question of whether the issue should be put to the jury. A7721-25, A7685-87, A7689, A7834. Recognizing that a determination of public use and a determination of the related experimental use exception are questions of law, the court vacillated on how to handle the matter. *Id.* While the court advised the parties that it would put the question of public and experimental use to the jury on an advisory basis (A7729), there is no clear indication in any order or memorandum issued by the court following the jury's verdict that the court determined that, as a matter of law, there was no public use of the invention before the critical date of August 27, 1996.

The legitimacy of the jury's verdict on public use was corrupted by the incomplete, misleading, and erroneous jury instructions. And, to the extent that the public use determination was implicitly made as a matter of law by the district court, the legitimacy of that determination is undermined by the court's misunderstanding of the law. In either case, AIA is entitled to a new trial on the issue of the invalidity of the '998 patent under 35 U.S.C. § 102(b).

**C. The District Court's Exclusion of Evidence Relating to the Reduction to Practice of the Invention Before the Critical Date Was Unfairly Prejudicial to AIA**

AIA is further entitled to a new trial because the district court's exclusion of certain evidence proffered at trial by AIA was erroneous and highly prejudicial, particularly with respect to AIA's prior public use claim. PX3(ID) and PX10(ID) are internal MI R&D newsletters that, at least, tended to show that the invention claimed in the '998 patent had been not only reduced to practice, but also "perfected," at least two years before the August 27, 1996 critical date. A6229-58, A8387-96(PX3(ID)), A8397-412(PX10(ID)).

When AIA offered the newsletters into evidence through Dr. Bhide, the manager of AIA's technology during the relevant time, MI initially objected to their admissibility on the limited grounds that the jury might be that they were being used to prove that AIA had a *de facto* license right to use the patented technology. A6230 ll.3-17. AIA counsel explained that they were being introduced to show that AIA had received this information from MI that MI's invention had been reduced to practice well before the use of the invention at Empire. A6228-52. PX3(ID) and PX10(ID) were relevant to both AIA's prior public use claim and defense to MI's claim of willful infringement.

There was no dispute that the newsletters were authentic MI documents. Nevertheless, citing possible “jury confusion,” the court excluded the exhibits. A6228-52,A6240 ll.16-24,A6250 ll.18-20. Mr. Shah immediately preceded Dr. Bhide as a witness at the trial. On cross-examination of Mr. Shah, MI offered and the district court admitted into evidence two similar Magotteaux R&D newsletters of a similar vintage. A9539-52(DX351),A9553-61(DX354),A5785,A5805-07, A5816-19.

The newsletters that AIA offered into evidence through Dr. Bhide, who testified that he was both the custodian of those newsletters received by AIA and responsible for managing technology development at AIA at the time they were received (A6228), similarly addressed development of the patented technology. Later in the trial, when AIA again sought to introduce PX3(ID) on cross-examination of the inventor (and one of the authors of the newsletter), Mr. Francois, the district court again refused to admit the exhibit, again expressing concern about confusing the jury. A6937-6942.

Even if there were a reasonable basis for concern about jury confusion, the balancing required under Fed.R.Evid. 403 weighed heavily in favor of admitting that relevant evidence for consideration by the jury. As AIA counsel explained to the district court, the reference in PX3(ID) to “perfected” technology and

“production conditions in the subsidiaries” of MI were statements by MI concerning the invention that the jury was entitled to consider and weigh in determining two critical issues to AIA’s case: first, was the invention ready for patenting on or before August 27, 1996, and, second, did AIA’s knowledge of this information support its defense to the claim of willful infringement? A6230-31. Similarly, PX10(ID) referenced the results of trials of certain types of components that embodied the patented technology that exhibited “a lifetime improvement of min. 50% up to 100% in some cases...”, and a lifetime of “+70 to +110 %” in comparison to similar components without the patented technology. A8401-02 (PX10(ID)).

There was no reasonable basis for the district court to conclude that PX3(ID) and PX10(ID) were any more likely to cause jury confusion than the two newsletters used by MI in Mr. Shah’s cross-examination and already admitted. Nor was there any reasonable basis for the district court to conclude that the admission of PX3(ID) and PX10(ID) were unduly prejudicial to MI, particularly in view of MI’s use of similar evidence. Instead, the court’s exclusion of the two exhibits unfairly deprived AIA of the opportunity to show the jury the totality of circumstances relating to the state of the patented technology before the critical date and AIA’s knowledge of that information.

This error further illustrated the perils of the district court's lack of understanding of the prior public use law and the meaning of "experimental use" under 35 U.S.C. § 102(b). In considering the admissibility of PX3(ID) and PX10(ID), AIA counsel attempted to explain the distinction between testing the technology for purposes of perfecting it for a patent application and simply testing it in a particular use for a customer. A6253-54. The court, believing that any internal testing of the technology within MI must be experimental use, stated that if the technology "is still in R&D, I'm not sure that that relates to prior public use. And I think it's going to confuse the jury." A6254 ll.2-24. Clearly, the district court did not understand that, under the law, once an invention is ready for patenting, it does not matter whether the continued testing of the invention occurs within the inventor's control (or , in this case, within MI's plants and facilities) or at a customer's facility. Once the invention is ready for patenting, no trials anywhere constitute experimental use. *Clock Spring*, 560 F.3d at 1326.

The exclusion of this relevant evidence offered by AIA was an abuse of the district court's discretion and was unduly prejudicial to AIA. Based on this error, a new trial on prior public use is warranted.

**D. The Jury's Verdict on AIA's Prior Public Use Claim Was Contrary to the Great Weight of the Evidence**

Finally, AIA is entitled to a new trial on the issue of prior public use because the jury's verdict of no invalidity due to prior public use was contrary to the great weight of the evidence which demonstrated clearly and convincingly the public use of the invention in the United States before the critical date of August 27, 1996. A5076. The evidence indisputably showed that more than one month before the critical date lifter bars embodying the invention were shipped by MI to a customer's plant in Michigan, the Empire plant. A6685-86, A8526-34(PX70). Those components were installed in a mill in the Empire plant and used by Empire by at least August 16, 1996. *Id.* There was no dispute that those Xwin lifter bars were used by Empire in the normal commercial operations of its mill for more than a week before the critical date.

**1. The claimed invention was used in the United States by someone other than the inventor before the critical date**

Tim Carr of MI's AMC operation in Pulaski, TN, which fabricated the lifter bars used at Empire, testified that "Xwin" was the commercial name of the MI castings that have ceramic composite padding embedded in them and that the lifter bars at Empire were MI's Xwin product. A6744 ll.10-13. Those Xwin components were also referred to at MI as "paddings" and "H+." A6736 ll.5-6737 ll.22. Dr.



Faber, MI's expert witness, testified that Xwin read on claims 1,12,13,16, 17, and 18 of the '998 patent. A6959.

Under 35 U.S.C. § 102(b) "public use" is the use of the claimed invention by any person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor. *Clock Spring*, 560 F.3d at 1325. The use of the lifter bars by Empire in its commercial operations was undisputed at trial. Further, the evidence that the use by Empire was under no limitation, restriction or obligation of secrecy was clear and convincing.

The lifter bars were installed by Empire employees and used in a mill in the plant that was not restricted to the inventor, MI personnel, or any particular Empire employees assisting with a trial. Indeed, the inventor never visited Empire to observe the use of the lifter bars. A7315-17. While Doug Halverson of MI was present at the installation of the lifter bars by Empire employees and he inquired about the performance of the lifter bars when he visited the plant approximately every two weeks, his plant visits were routine customer relations calls rather than visits specifically associated with the use and evaluation of the performance of the lifter bars. A7313 ll.7-7314 ll.14.

**2. MI did not maintain control over Empire's use of the lifter bars that embodied the claimed invention**

There was virtually no evidence adduced at trial that supported the district court's conclusion that MI had sufficient control over Empire's use of the lifter bars and maintained confidentiality. Other than Mr. Halverson's customer relations visits to Empire every two weeks, no evidence suggested, much less proved, any ongoing tracking by MI of Empire's use or the performance of the lifter bars or that MI in any way influenced, much less controlled, the operation of the mill and the use of the lifter bars. Nor was there any evidence that MI chronicled or regularly measured the type or volume of materials processed in that mill.

The operation of the mill and the use of the Xwin lifter bars was controlled by the customer, Empire, not the inventor or MI. A7310-17. The actions of MI related to the lifter bars, such as selecting those used and color coding and identifying them by serial numbers in no way reflected control of the use of the lifter bars once they were installed and put into use by Empire. A7305 ll.2-14.

**3. Empire was under no obligation of confidentiality to MI regarding its use of the lifter bars that embodied the claimed invention**

MI's own witnesses confirmed that there was no confidentiality agreement between MI and Empire concerning the use of the Xwin lifter bars. A7310 ll.18-21. Furthermore, there was no evidence that supported a reasonable conclusion

that there was implied confidentiality restriction concerning the lifter bars on Empire. Mr. Halverson's trust in Empire simply did not amount to an implicit understanding by Empire that any form of confidentiality agreement governed its use of the lifter bars. A7304. In fact, MI's evidence confirmed that Empire could have removed the lifter bars and tested them for their composition had it wanted to.

**4. Empire's use of the lifter bars that embodied the claimed invention was not experimental use**

Given that AIA established a prima facie case of invalidating prior public use, MI was charged with coming forward with convincing evidence of experimental use to counter AIA's prior public use claim. *Lisle Corp. v. A.J. Mfg. Co.*, 398 F.3d 1306, 1316 (Fed. Cir. 2005). It failed.

“Something that would otherwise be a public use may not be invalidating if it qualifies as an experimental use.” *Clock Spring*, 560 F.3d at 1326. “A use may be experimental only if it is designed to (1) test claimed features of the invention or (2) to determine whether an invention will work for its intended purpose—itsself a requirement of patentability... There is no experimental use unless claimed features or overall workability are being tested for purposes of the filing of a patent application.” *Id.* at 1327. Consequently, it is clear that “experimental use” does not negate a public use when it is shown that the invention was reduced to practice or

ready for patenting before that use. *See In re Omeprazole patent Litigation*, 536 F.3d 1361, 1372 (Fed. Cir. 2008).

**5. Empire’s use of the lifter bars that embodied the claimed invention was not experimental use because the invention already had been reduced to practice**

The evidence did not support a finding that the use of the lifter bars at Empire was performed by MI to perfect claimed features of the invention (*i.e.*, Xwin) or to perfect features inherent to the claimed invention. *See Electromotive Div. of Gen. Motors Corp. v. Transp. Sys. Div. of Gen. Elec. Co.*, 417 F.3d 1203, 1211 (Fed. Cir. 2005). Rather, the evidence showed that MI’s claimed invention was reduced to practice before the pre-critical date use of the lifter bars at Empire, and that the Empire “test” was conducted for the purpose of fabricating just one particular embodiment of the invention for use by a specific customer in one of the many applications for which the ’998 patent’s ceramic composite wear component might be used. A8518-21(PX67),A6715 ll.4-7,A6727 ll.16-17. Also, the evidence of MI’s lack of control over the use of the lifter bars and the alleged testing of those Xwin components, as noted above, showed that the use of the lifter bars at MI was not experimental use.

Either proof of reduction to practice or proof that the inventor had prepared a description of the invention sufficiently specific to enable a person skilled in the art

to practice the invention suffices to show that the invention was ready for patenting, and that, therefore, any subsequent testing of the technology could not be experimental use. *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67, 119 S.Ct. 304, 312 (1998). The jury was provided evidence of such a written description of the procedure for making metal-ceramic composite castings (*i.e.*, the Xwin product) that MI established as a norm in 1994 and the inventor refined in February 1996 for use in Japan. A8546-52(PX75),A6818-19.A6442 11.15-25(standard procedure for making ceramic composite castings in 1995).

Additionally, had the district court not erroneously excluded PX 3(ID) and PX10(ID), the jury would have further seen that by October 1995 MI already had confirmed that tests of the invention had demonstrated significantly improved wear performance (*i.e.*, durability) in one embodiment of the invention (Paddings Blow Bars). A8401-02(PX10-(ID)). This could have been critical because durability and increased wear was the measure of workability that MI asserted required proving prior to applying for a patent on the invention. But for the court's error, the jury would also have seen evidence that MI perfected the invention in another embodiment by August 1994. A8392(PX3(ID)). Nevertheless, despite the district court's exclusion of that evidence, the jury saw that by July 1995, MI knew that the invention, embodied in impellers, had a lifetime that was about twice that of

impellers that did not embody the invention. A6923-96,A6439-41,A8517A-D(PX65).

By the time the Xwin lifter bars were used at Empire, the invention had been reduced to practice. A6424-25. None of the testimony offered by MI concerning “testing” and “trials” countered this evidence of reduction to practice of the claimed invention. Each claim of both the ’998 patent and the ’176 patent merely required a “composite wear component,” rather than any particular type of component. A120,127-28 (as of July 1994, “some parts were deemed to be okay”). Yet, MI’s evidence related to efforts (continuing to this day) to develop particular embodiments of the invention for various customers in various settings, including blow bars, anvils, clinker hammers, and impellers. A6732-33(MI still working on making new patterns). That type of testing and trials cannot sustain an experimental use exception to the prior public use bar.

**6. Empire’s use of the lifter bars that embodied the claimed invention was not experimental use because it was for the purpose of determining whether and how the invention could be tailored to use by Empire**

“[E]xperimentation conducted to determine whether the invention would suit a particular customer’s purposes does not fall within the experimental use exception.” *Atlanta Attachment v. Leggett & Platt, Inc.*, 516 F.3d 1361, 1366 (Fed. Cir. 2008). Additionally, it is axiomatic in patent law that an invention may be

considered reduced to practice even though it may be later refined or improved for a particular purpose. *New Railhead*, 298 F.3d at 1297.

The evidence showed that the public use at Empire was done to improve the lifter bar product – not to refine the claimed invention. Such testing to improve a particular embodiment of a product to fit a customer’s specific application can never amount to “experimental use” if it is performed after the *claimed* invention has been reduced to practice or if the use is performed to optimize an already functioning product. *Id.* at 1299; *see also Baxter Intern., Inc. v. COBE Labs., Inc.*, 88 F.3d 1053, 1060 (Fed. Cir. 1996) (“Further refinement of an invention to test additional uses is not the type of experimental use that will negate a public use.”).

The evidence clearly demonstrated that the use at Empire was performed to analyze the design and location of the padding in a commercial lifter bar – a problem unique to the specific application of the technology employed in the machines at Empire. A8518-21(PX67),A6715 ll.4-7 (Q: “...moving the padding and such were those solutions that were specific to the type of casting you were making here with the lifter bar?” A: “Yes.”).

The evidence showed that the use at Empire was not related to refining any of the limitations of the claims of the ’998 patent, as required for experimental use. *Clock Spring*, 560 F.3d at 1327. Indeed, the problems being “tested” at Empire

had nothing to do with the limitations of the claimed invention (*i.e.*, the ceramic composite or the metal matrix). A6715 ll.8-11 (Q: Did you have any significant problems do you recall this development process with getting the metal to infiltrate the padding? A: No.); A6727 ll.16-17 (“The development was--I considered it to be tailoring a product to a specific customer.”); A6730 ll.18-6731 ll.4 (Q: When we were talking generally about problems you were having with castings did any of these problems come with the chemical composition of the ceramics that you were using? A: I don’t think so. Q: Did any of them come from the particular percentages of the alumina or zirconia in the ceramics? A: I don’t think so. Q: Did any of the problems result from something about the physical properties or micro structure of the ceramic materials? A: I don’t think so.).

The evidence further showed the alleged “testing” at Empire included as its only control variables the manufacturer of the ceramic composite used in the padding and the location of the padding. A8531(PX70),A8535(PX71). MI offered no evidence of any kind showing that the Empire “test” was aimed at reducing any limitations recited in the claimed invention to practice. Neither the inventor nor any MI witness testified to what was learned by the use of the lifter bars at Empire was or could have been used in any way for the purposes of preparing the patent application.



The evidence at trial (even without the improperly excluded evidence) overwhelmingly showed that the use of the lifter bars at Empire was a prior public use of the invention directed to perfecting only a specific embodiment of the already reduced to practice invention.

**III. AIA Is Entitled to a Judgment as a Matter of Law on Willfulness Because MI Failed to Prove by Clear and Convincing Evidence That AIA's Actions Were Objectively Reckless**

**A. The Objective Recklessness Element of a Willful Infringement Claim is Determined by the Court as a Matter of Law**

In *Seagate* this Court determined that willful infringement required a showing of recklessness. *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)(en banc). A two-pronged test was established for showing the requisite recklessness. First, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. *Id.* Once the threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk was either known or so obvious that it should have been known to the accused infringer. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012)

In *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011), the Federal Circuit Court stated unequivocally that “[i]f the accused infringer’s position is susceptible to a reasonable conclusion of no infringement, the first prong of *Seagate* cannot be met.” *Id.* at 1310. See also *Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1374 (Fed. Cir. 2008). The question to be decided is whether the infringer’s claims or defenses were reasonable. See *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011).

*Powell* and many other pre-*Bard* opinions regarding the determination of willfulness discussed whether the judge or jury should determine objective recklessness when a defense or theory asserted by an infringer was purely legal (e.g., claim construction), turned on an issue of fact before the jury (e.g., anticipation) or on legal questions dependent on underlying facts (e.g., obviousness). The court in *Bard* made it clear that the judge remains the final arbiter of whether the infringer’s position was reasonable. *Bard*, 682 F.3d at 1007.

## **B. AIA Was Not Objectively Reckless**

MI failed to meet its considerable burden of proving willful infringement by clear and convincing evidence. Most notably, in the face of AIA’s credible invalidity arguments and legitimate defenses to infringement, MI did not meet its heavy burden of proving that AIA was objectively reckless.

MI failed to meet the objective prong of the willfulness test by failing to present any evidence showing why AIA could not reasonably have determined that the '998 patent was invalid for improper recapture, or that the claims were invalid as obvious or by prior public use. *See Uniloc*, 632 F.3d at 1310. MI presented no evidence specifically directed to the objective reasonableness or legitimacy of AIA's defenses or claims.

**1. AIA asserted numerous reasonable defenses and credible invalidity claims**

In addition to AIA's credible recapture challenge, on which the district court entered summary judgment of invalidity of the '998 patent (A3305-06), AIA has throughout the course of this litigation maintained a non-infringement defense and additional invalidity arguments. At the time the district court granted AIA a judgment of invalidity in September 2010, the court also dismissed as moot several other motions by AIA for summary judgment, *id.*, including a motion directed to its non-infringement defense (A145 (DE 116)) and another motion directed to its claim of invalidity based on obviousness . A145 (DE 118).

None of those claims and defenses was subjected to summary judgment motions by MI. Despite MI's motions for judgment as a matter of law at trial, those issues were put to the jury, which is at least some indication of their reasonableness. While the recapture argument naturally had its genesis in the

reissue proceedings initiated in 2003, in which AIA filed a protest on the improper recapture grounds (A3321,5812-12), the foundation of AIA's non-infringement defense dates back to when AIA first learned of the '176 patent, the precursor to the '998 patent.

**2. AIA's non-infringement claim was reasonable during the life of the original '176 patent**

To properly assess the objective recklessness prong of willfulness, especially as it pertains to the original claims in the '176 patent, it is necessary to consider the circumstances before and around 2002, when the '176 patent issued.

Claim 1 was the only independent claim of the '176 patent. A120. In pertinent part, it spoke to a homogeneous solid solution consisting of two elements, zirconia and alumina. *Id.* Until this Court ruled on the appeal of the summary judgment in favor of AIA based on improper recapture neither of the terms "homogeneous solid solution" or "homogeneous ceramic composite" had been construed by a court. *AIA Eng'g, Ltd.v. Magotteaux Int'l S/A*, 657 F.3d 1264, 1279 (Fed. Cir. 2011).

In August 2011, over two years after the initiation of this lawsuit and nine years after the issuance of the '176 patent, this Court construed those two terms to be synonymous and provided the parties with this definition of "homogeneous

ceramic composite”: “an aggregation of relatively consistent grains at least AL2O3 and ZrO2, wherein each of the Al2O3 and ZrO2 retains a distinct composition and/or crystal structure.” A3332. Only as the trial was about to begin did the district court provide the parties with the further claim construction of the term “homogeneous”: “The term homogeneous does not require uniform nor near uniform distribution of crystals. Rather homogeneous refers to relatively consistent grains of the chemicals in this patent.” A5058. That construction was included in the jury instructions over the objections of AIA.

Until that time AIA had conducted itself and prepared its non-infringement case under a different, reasonable understanding of the meaning of the term homogeneous, which was based on a different scale of relative consistency of the grains, as Dr. Glaeser testified at trial. A6511-13,A6514-12. In light of the district court’s eleventh hour construction of the term, AIA’s understanding of the meaning of the term proved to be wrong, but MI offered no evidence, much less clear and convincing evidence, through its expert or otherwise that AIA’s was an unreasonable interpretation of the claim term.

Also, before the ’176 patent issued in June 2002, AIA’s allegedly infringing product, Sintercast, was known to contain a third component, titanium oxide. A8516(PX58),A6279-82. The evidence showed that the titanium oxide had a

substantial effect on the ceramic composition and was present, by weight, in an amount beyond the level of a simple impurity. In 2004, Mr. Shah advised MI in a letter responding to his understanding that MI thought that AIA's product infringed the '176 patent that the presence of titanium oxide in the ceramic composite used in AIA's product distinguished AIA's product from MI's patented technology. A5767-68. At that time, an objective observer would reasonably have believed that with this third component the AIA product would not meet the limitation of the '176 patent's "ceramic pad *consisting* of a homogeneous solid solution of 20 to 80% of Al<sub>2</sub>O<sub>3</sub> and 80 to 20% of ZrO<sub>2</sub>."

The jury heard that AIA, after learning of MI's '176 patent invited a representative of MI to its plant to see its product and processes in late 2004. A5768-69, A6293-95. This conduct is so totally inconsistent with the reasonable acts of one who is aware of or should be aware of a high likelihood of infringement that it underscores the lack of objective recklessness, as well as undermines a finding of willfulness under the subjective prong of the *Seagate* test.

During the life of the '176 patent, AIA investigated the ceramics that it uses in its Sintercast product. In 2004 AIA commissioned a university in India to analyze the Sintercast. A6291-92. The university test results led Dr. Bhide to

believe that the Sintercast product did not infringe. *Id.* Evidence of this university test further supported the conclusion of no objective recklessness.

AIA also asked its ceramics supplier, Treibacher, whether the ceramic grains that were used in Sintercast created an infringement issue. Treibacher confirmed that the ceramics were not a solid solution and that the grains were not homogeneous. A6296-97. AIA acknowledges that the Treibacher material sheet does say that the ceramic material is homogeneous on some level. However, as confirmed by the email strings, the only homogeneity was on a bag to bag level as opposed to grain to grain level. Otherwise, Treibacher confirmed that the ceramics were not homogeneous. A6365-69,A8556.

Treibacher also confirmed that the grains included titanium oxide and were additions to the ceramic grains purchased by AIA that served two purposes. The titanium oxide aided the melting process of the alumina and zirconia and helped stabilize the zirconia in its tetragonal phase. A6297-98,A6369-71,A8554,A8563-70(PX98). Dr. Glaeser testified as to the importance of the zirconia in the ceramic grains being in the tetragonal phase because of its toughening properties. A6509 ll.5-20,A36 ll.2-4. Dr. Bhide testified that, based on this information from Treibacher, he did not believe that the titanium oxide in the grains AIA used were an impurity, which distinguished the AIA product from the '176 patent claims in

which the ceramic composite *consisted* of alumina and zirconia. A6297-98,A6350-51,A6353-54,A8516-17(PX58). The Treibacher statements further supported a determination of no objective recklessness.

**3. AIA's reasonable and credible prior public use claim precluded a determination of willful infringement**

AIA also asserts that its invalidity claim premised upon prior public use foreclosed a finding of objective recklessness. At trial, this issue was vigorously contested on the facts and the law. Following entry of judgment, AIA filed a motion for judgment as a matter of law on the claim of prior public use invalidity, which the district court denied. That issue remains contested and the legitimacy and reasonableness of AIA's invalidity claim based on prior public use are not in doubt. *See supra* at Argument, Section II.

In denying AIA's motion for a judgment as a matter of law of no willfulness the district court determined that "AIA was objectively reckless in its claim of prior public use." A14. That determination, though, is starkly at odds with the court's own characterization in that very same memorandum of the presentation of the prior public use claim to the jury. A13-14. The district court essentially only reiterated its findings upon which it based its denial of AIA's motion for a new trial on the prior public use claim: "AIA failed to present sufficient evidence of prior public use...", "there is insufficient evidence to prove clearly and



convincingly that the tests at Empire Mine were public, commercial, or anything more than experimental and confidential,” and “the record reflects sufficient evidence that the tests were not public and pertained only to research.” *Id.*

Nothing in the district court’s description of the prior public use claim as presented to the jury hints that AIA’s claim was not a reasonable or credible claim. Nor did the district court suggest that there was clear and convincing evidence that AIA’s reliance on this claim was objectively reckless. Indeed, but for the district court’s misunderstanding of the law, which resulted in the unfairly prejudicial exclusion of relevant evidence and the incomplete and misleading jury instructions on prior public use and experimental use, *see supra* Argument Section C, the prior public use claim considered by the jury would have been even stronger.

Moreover, the district court’s misunderstanding of the law likely blinded it to the relevance of that excluded evidence to AIA’s defense to the willful infringement claim. PX3(ID) and PX10(ID) contained evidence that the invention had been reduced to practice before the pre-critical date lifter bar “trials” at Empire. That evidence should have been weighed in both the objective recklessness prong by the court and in the subjective prong of the willfulness determination by the jury. But, because the district court was under the

misapprehension that any testing in MI's R&D division must be experimental, it is clear that this evidence was not given due consideration by the court.

**4. AIA's reasonable and credible recapture claim, especially in conjunction with AIA's other claims and defenses, precluded a determination of willful infringement**

In addressing AIA's invalidity argument based on recapture, the district court applied the "objective public observer" standard to conclude that claim 1 of the '998 patent was invalid. In granting AIA's motion for summary judgment, the district court affirmed the objective reasonableness, though ultimately not the legal correctness, of one of AIA's defenses to MI's infringement claims in this action. A149(DE169 at 34). As the jury instructions correctly stated: "legitimate or credible defenses to infringement, even if not ultimately successful, demonstrate a lack of recklessness." A5065.

Even before *Bard* clarified that the objective prong is purely a matter of law for the court to decide, this Court provided significant guidance in *Seagate* that informs this circumstance. In *Spine Solutions*, this Court observed that the objective prong of *Seagate* necessary to prove willfulness tends not to be met where an accused infringer relies on a reasonable defense to a charge of infringement. *Spine Solutions, Inc. v. Medtronics Sofamor Dane USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010).

Here, one of AIA's several invalidity claims was sufficiently reasonable that the district court entered summary judgment in AIA's favor and dismissed the case. Furthermore, in *Spine Solutions* this Court noted that the district court had, in the context of the enhanced damages analysis, stated that the defendant's obviousness arguments were "reasonable." *Spine Solutions*, 620 F.3d at 1312. Similarly, in this case, the district court: 1) explicitly found that an "objective public observer" would have discerned the surrender of the subject matter during the prosecution of the original patent in order to overcome prior art and obtain the patent (A149(DE169 at 33-34)); and 2) implicitly credited AIA's improper recapture claim as reasonable in relying upon that claim to limit its award of enhanced damages under § 284. A16,A5192.

This Court in *iLOR* addressed and reversed a finding of an exceptional case. *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372 (Fed. Cir. 2011). The Court first observed that the standard for showing objective recklessness for purposes of a §285 exceptional case finding is "identical" to the objective recklessness standard for enhanced damages and attorney's fees against an accused infringer for § 284 willful infringement. *Id.* at 1377. Because the standards are identical, the similarity of the facts between this case and those in *iLOR* underscore the necessity of granting AIA a judgment of no willful infringement.

The patentee in *iLOR* first appealed a summary judgment of non-infringement, contesting the district court's claim constructions. *Id.* at 1375. This Court affirmed the claim construction. *Id.* The district court then found an exceptional case and awarded defendant attorney's fees, and the patentee appealed the exceptional case finding and award of fees, which was reversed by this Court, finding that the district court had abused its discretion. *Id.* at 1380.

The patentee in *iLOR* lost its claim construction argument at both the trial court and circuit court levels, yet this Court refused to find that the patentee's disputed claim construction was objectively baseless. *Id.* Unlike the patentee in *iLOR*, AIA initially *prevailed* in the trial court on its invalidity defense, which was at its core a claim construction issue decided as a matter of law.

In the face of the district court's initial ruling on the recapture issue, especially when joined with AIA's prior public use claim, and the evidence of AIA's understanding of the distinction between its product and the '176 patent, MI failed to show by clear and convincing evidence that AIA was objectively reckless, and AIA is entitled to judgment as a matter of law of no willful infringement.

**C. Absent a Finding of Willfulness, Enhanced Damages May Not be Awarded**

Because “enhancement of damages [under § 284] must be premised on willful infringement or bad faith,” *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991), and because the district court’s award of enhanced damages was explicitly based “the jury’s finding that Plaintiffs willfully violated Defendants’ patent rights” (A16,A5192), the award of enhanced damages must be vacated if this Court grants AIA’s request for a finding of no willful infringement. *See Spine Solutions*, 620 F.3d at 1320.

**D. The District Court Erred in Finding this an Exceptional Case and Awarding Attorneys’ Fees and Non-Taxable Costs**

Like an award of enhanced damages under 35 U.S.C. § 284, an award of attorney’s fees under 35 U.S.C. § 285 is a penalty reserved for the most egregious cases in which an award of fees is “necessary to prevent a gross injustice.” *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1329 (Fed. Cir. 2003). The universe of circumstances that warrant a finding of an exceptional case is limited. *Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304 (Fed. Cir. 2009). “The sanctions imposed under § 285 carry serious economic and reputational consequences for both litigants and counsel.” *iLOR*, 631 F.3d at 1376.

As the district court's finding of an exceptional case is predicated completely upon its erroneous finding of willful infringement, the award of attorneys' fees and non-taxable costs under 35 U.S.C. § 285 should be vacated with either a finding of no willful infringement by this Court or the alternative relief of a new trial. A19.

**IV. Because the Jury's Verdict Was Contrary to the Great Weight of the Evidence and the District Court Improperly Excluded Evidence AIA is Entitled to A New Trial on the Obviousness Claim**

The evidence at trial indisputably showed that all the elements of the asserted claims of the '998 patent were present in the prior art long before the "invention" was made by MI. AIA's expert witness, Dr. Glaeser, presented evidence on all relevant *Graham* factors. *See Graham v. John Deere Co.*, 383 U.S.1, 17-18 (1966) Moreover, that evidence clearly demonstrated that the claims of the '998 patent would have been obvious to one of skill in the art at the time of the invention.

**A. The Prior Art Teaches Each and Every Element of the '998 Patent Claims.**

The evidence at trial showed, without dispute, that each and every element of the claims of the '998 patent was known in the prior art before October 1, 1996, the priority date of the '998 patent. Dr. Glaeser's testimony extensively reviewed the scope and content of several pieces of prior art known in the industry before the

priority date. A6518-23. Even without the admission into evidence of the corresponding actual prior art references, Dr. Glaeser's testimony established unequivocally that all the elements of the asserted claims were not new. Instead, the claimed features in the '998 patent include nothing more than a combination of pre-existing and known technology combined in a predictable way to achieve predictable results, making the invention obvious and invalid.

First, the evidence included testimony concerning *Ariake*, a 1989 Japanese patent publication titled "Antifriction metal ceramics composite and method of manufacture thereof." A6520-21,A8801-18(PX295(ID)). Dr. Glaeser testified that *Ariake* teaches:

- a composite wear component based on ceramics and metal;
- a porous homogeneous ceramic composite integrated into a metal matrix by impregnation of a liquid metal in the porous ceramic composite; and
- the ceramic composite including alumina-zirconia ceramic pre-formed material. *Id.*

The evidence also showed other prior art references pre-dating the priority date that also teach these elements of the '998 patent claims. For example, as early as 1987, the *Tamura* reference taught the use of alumina and zirconia ceramic grains being encased in molten metal for use on the surface of a metallic component exposed to wear. A6519-20,A8934-44(PX361(ID)).

To further solidify this point, Dr. Glaeser presented evidence that a 1989 Japanese patent publication to *Kawashima* also taught a wear-resistant part including a porous ceramic composite with a metal matrix infiltrating the ceramic to form a wear-resistant part. A6521,A8850-71(PX325(ID)). Notably, *Kawashima* also teaches the use of alumina-zirconia as the ceramic composite material. *Id.* Based on the independent teachings of these three references, it becomes apparent that the core technology '998 patent of using an alumina-zirconia ( $\text{Al}_2\text{O}_3\text{-ZrO}_2$ ) ceramic pre-form, or padding infiltrated with a metal to form a wear component was well-known in the art as early as 1987.

Each of these three references – *Ariake*, *Tamura*, and *Kawashima* – independently teaches almost all the recited limitations of the claims at issue, with the exception of the precise numeric 80%-20% percentage composition ranges of alumina-zirconia recited in the patent claims. A6519-22. As further illustrated by Dr. Glaeser's testimony and the evidence of record, the 80%-20% ratio was also known in the art before the priority date of the '998 patent. For example, Dr. Glaeser testified that the 1965 *Marshall* reference taught an alumina-zirconia composition ratio that falls within the ranges recited in the claims of the '998 patent. A6522,A8918A-E(PX337(ID)). It is axiomatic in patent law that “[a] *prima facie* case of obviousness typically exists when the ranges of a claimed



composition overlap the ranges disclosed in the prior art.” *In re Peterson*, 315 F.3d 1325 (Fed. Cir. 2002); *In re Wertheim*, 541 F.2d 257 (C.C.P.A. 1976); Manual of Patent Examining Procedure § 2144.05 (8th ed. Rev. 8, July 2010).

Next, the evidence included testimony explaining a 1982 technical publication to Lange entitled “Fabrication, Fracture Toughness and Strength of Alumina-Zirconia [Al<sub>2</sub>O<sub>3</sub>-ZrO<sub>2</sub>] Composites” (hereinafter “*Lange*”) clearly and indisputably teaches a range encompassing all variations of the 80%-20% range recited in the ’998 patent claims. A6526-27,A8872-80(PX331(ID)). *Lange* explicitly shows a chart at Table 1 identifying an Al<sub>2</sub>O<sub>3</sub>-ZrO<sub>2</sub> ceramic composite having a 20% Al<sub>2</sub>O<sub>3</sub> – 80% ZrO<sub>2</sub> composition ratio and being suitable for improving mechanical properties related to wear resistance. *Id.* This factual finding from *Lange*, presented by Dr. Glaeser during trial, further demonstrated that the precise composition ratio of alumina-zirconia claimed in the ’998 patent was known at least fourteen years before the priority date and certainly was not new.

The only remaining claim limitation arguably not included in the above-cited prior art is the requirement that the ceramic composite be “homogeneous”. However, like all the other claim elements, the evidence also showed the “homogeneous” ceramic composite feature was well known in the art at least as

early as 1981. Dr. Glaeser presented undisputed evidence that a 1981 technical article entitled “Design of transformation-toughened ceramics” by Claussen and Ruhle that addressed the “homogeneous” claim limitation. A6524-26,A8819 (PX306(ID)). The *Claussen & Ruhle* reference explicitly taught one of skill that zirconia can be added to ceramics including alumina for enhancing “toughening” properties. *Id.*

More specifically, *Claussen & Ruhle* states:

The *homogeneous* dispersion of  $ZrO_2$  [zirconia] is the *most important step* in the technology of  $ZrO_2$ -toughened ceramics.”

A8819(PX306(ID)) (emphasis added). Dr. Glaeser summarized this statement in his testimony. A6524-26. This evidence showed the limitation “homogeneous” in the ’998 claims was not only known in the art for at least fifteen years before the priority date, but it was also considered to be a very important feature in producing tougher ceramic composites using zirconia.

Thus, the alleged “inventions” recited in the claims of the ’998 patent are nothing more than combinations of known elements using known methods to achieve predictable results – *i.e.*, improved wear resistance. This is precisely the type of obvious invention that both Supreme Court precedent and 35 U.S.C. § 103 seek to exclude from patentability. *KSR Int’l. Co. v. Teleflex Inc.*, 55 U.S. 398,

415 (2007) (“The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results.”).

**B. The Evidence Showed a Motivation to Combine the Elements of the Prior Art**

Not only did the evidence presented at trial demonstrate that the '998 patent claim elements were known in the art for years before the priority date, but the evidence also showed that one of skill in the art at the time of the invention would have been able to use common sense to combine these references and arrive at the claimed invention. A6530-32. At trial, Dr. Glaeser testified:

- “The materials used by Magotteaux and by AIA are not the product of internal development of a new and homogeneous ceramic composite. They are instead based on products that have been commercially available and are used for a broader range of applications.”
- “Composites of alumina and zirconia for wear applications had already been prepared and it was known that the combinations of alumina and zirconia could be prepared in forms that led to lower wear rates. Thus, if one looks at the full body of the independent claims and tries to identify what is new, and where the invention is, one comes up empty. There is no new process.”
- “There is no new alumina-zirconia material, there is no unexpected outcome. There is no surprise. There is ultimately no invention here.”
- “A person of ordinary skill in the art looking at the available literature would have been led inevitably to this outcome, and there was overwhelming amount of such information available.”

- “At best, this amounts to producing a result that anyone skilled in the art would have predicted.”

A6531-32. Thus, the evidence showed that persons of skill in the art already knew how to form a homogeneous ceramic composite of alumina and zirconia impregnated with molten metal to form a wear-resistant part well before the invention. Additionally, the evidence showed that the composition range of 80% - 20% was also known in the art for improving toughness long before the priority date.

One of skill in the art of ceramic composite castings would unquestionably have known to look both to patent publications and to scientific literature, such as *Ariake* and *Lange*, related to ceramic technology when seeking to improve wear resistance of cast metal-ceramic composite parts. Both strands of prior art identified by Dr. Glaeser at trial – exemplified by *Lange* and *Ariake* – were aimed at the same problem: improving material properties of wear resistance and toughness for mechanical parts.

A skilled artisan certainly would have perceived a reasonable expectation of success as a result of combining the known alumina-zirconia homogeneous composite in the %80 – %20 composition range taught by *Lange* with known porous ceramic-metal castings as taught by *Ariake*, *Tamura*, and *Kawashima*. See,

e.g., *Wyers v. Master Lock Co.*, 616 F.3d 1231, 1242 (Fed. Cir. 2010) (citing *In re O'Farrell*, 853 F.2d 894, 904 (Fed. Cir. 1988) (“For obviousness under Section 103, all that is required is a reasonable expectation of success.”)).

In many applications, common sense alone may guide one of skill in the art to combine references. *KSR*, 55 U.S. at 420 (“Common sense teaches, however, that familiar items may have obvious uses beyond their primary purposes, and in many cases a person of ordinary skill will be able to fit the teachings of multiple patents [or references] together like pieces of a puzzle.”). Additionally, as noted by the Supreme Court:

When there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions, a person of ordinary skill has good reason to pursue the known options within his or her technical grasp. If this leads to the anticipated success, it is likely the product not of innovation but of ordinary skill and common sense.

*KSR*, *supra* at 421. See also *Wyers*, 616 F.3d 1231; *Ball Aerosol & Specialty Container, Inc. v. Ltd. Brands, Inc.*, 55 F.3d 984 (Fed. Cir. 2009).

Here, it was undisputed that, at the time of the invention, there was market pressure to produce cast wear components with increased durability and wear resistance. Additionally, at the time of the invention, Dr. Glaeser’s testimony showed it was well known in the art to use a ceramic composite of alumina and zirconia to enhance the desired mechanical properties of wear parts. Moreover, Dr.

Glaeser's testimony showed the use of metal to infiltrate into a porous ceramic composite pre-form was also established long before the '998 patent priority date. Combination of these features was merely a predictable variation of known elements. The Supreme Court in *KSR* noted that "[i]f a person of ordinary skill can implement a predictable variation, § 103 likely bars its patentability." *KSR*, 55 U.S. at 417.

Where, as Dr. Glaeser showed at trial, "all of the limitations of the patent were present in the prior art references, and the invention was addressed to a 'known problem,' *KSR* compels [a determination of] obviousness." *Wyers*, 616 F.3d at 1240.

**C. Secondary Considerations Did Not Change the Conclusion that the '998 Patent is Invalid as Obvious.**

That AIA did not present evidence related to "secondary considerations" is of no moment. "[W]here [as here] the invention represents no more than 'the predictable use of prior art elements according to their established functions,' the secondary considerations are inadequate to establish nonobviousness as a matter of law." *Wyers*, 616 F.3d at 1246 (quoting *KSR*, 127 S.Ct. at 1740). Moreover, "secondary considerations of nonobviousness ... simply cannot overcome a strong prima facie case of obviousness." *Id.*

MI's evidence of secondary considerations was not sufficient to overcome the strong prima facie showing that the elements of the '998 patent claims were all known in the prior art long before the priority date and that it would have taken no more than common sense for a person of skill in the art to combine those references to arrive at the claimed invention. *See, e.g., Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356, 1367-68 (Fed. Cir. 2008); *Leapfrog Enters., Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1162 (Fed. Cir. 2007) (holding that the objective considerations of nonobviousness presented, including substantial evidence of commercial success, praise, and long-felt need, were inadequate to overcome a strong showing of primary considerations that rendered the claims at issue invalid); *DyStar Textilfarben GmbH & Co. Deutschland KG v. C.H. Patrick Co.*, 464 F.3d 1356, 1371 (Fed. Cir. 2006) ("The presence of certain secondary considerations of nonobviousness are insufficient as a matter of law to overcome our conclusion that the evidence only supports a legal conclusion that claim 1 would have been obvious.").

**D. The District Court's Refusal to Allow AIA to Recall Dr. Glaeser to Move the Admission of the Prior Art Was an Unfairly Prejudicial Abuse of Discretion**

Despite Dr. Glaeser's testimony regarding several specific items of prior art supporting his opinion that the '998 patent was invalid for obviousness (*i.e.*, PX

295(ID)(A8801-18),PX361(ID)(A8934-44),PX325(ID)(A8850-71),PX331(ID)  
(A8872-80), and PX306(ID)(A8819-34)) the district court refused to allow AIA to recall Dr. Glaeser for even the limited purpose of moving the admission of those prior art documents into evidence. A7385 ll.4-7,A7387 ll.20-23, A7640-42.

The Court's refusal to thus allow Dr. Glaeser to be called as a rebuttal witness unfairly deprived AIA the opportunity to enter clearly relevant prior art documents in the record for consideration by the jury. Consequently, it deprived the finder of fact of the opportunity to fully and accurately assess Dr. Glaeser's testimony on obviousness, the scope and content of the relevant prior art and the difference between the prior art and the claims at issue in making the underlying factual inquiries required for AIA's obviousness claim. *See Graham v. John Deere Co.*, 383 U.S.1, 17-18 (1966). This evidentiary ruling was a highly prejudicial abuse of the Court's discretion. *See Meyer*, 690 F.3d at 1373-74.

Based on Dr. Glaeser's testimony, the great weight of the evidence compels the legal conclusion that the claims of the '998 patent were obvious in view of the prior art. Accordingly, AIA respectfully requests a new trial on the issue of obviousness.





INSERT ADDENDUM  
(PP. 64-187)



**CERTIFICATE OF COMPLIANCE**

I certify that the foregoing the foregoing Brief of Plaintiff/Counterclaim Defendant-Appellant, AIA ENGINEERING LIMITED, and Third Party Defendant-Appellant, VEGA INDUSTRIES, LTD., INC., contains 13,766 words as measured by the word processing software used to prepare this brief and complies with the requirements of F.R.App.P. 32(a)(7)(B).

/s/ Paul C. Ney, Jr.  
Paul C. Ney, Jr. (TN BPR 011625)

Paul C. Ney, Jr.  
Application for Nomination to Judicial Office  
February 21, 2014

3.

Brief of Appellants  
in  
*State, ex rel. Adventist Health System, et al.*,  
Tennessee Court of Appeals

(85%)

IN THE COURT OF APPEALS FOR THE MIDDLE SECTION  
OF TENNESSEE

STATE OF TENNESSEE, EX REL. )  
ADVENTIST HEALTH SYSTEM/SUNBELT )  
HEALTH CARE CORPORATION, a )  
Florida Not-For-Profit Corporation )  
and ADVENTIST HEALTH SYSTEM/ )  
SUNBELT, INC. d/b/a TENNESSEE )  
CHRISTIAN MEDICAL CENTER, a )  
Florida Not-For-Profit Corporation, )  
and ADVENTIST HEALTH SYSTEM/ )  
SUNBELT HEALTH CARE CORPORATION, a )  
Florida Not-For-Profit Corporation )  
and ADVENTIST HEALTH SYSTEM/ )  
SUNBELT, INC. d/b/a TENNESSEE )  
CHRISTIAN MEDICAL CENTER, a )  
Florida Not-For-Profit Corporation, )

Plaintiffs/Appellants, )

and )

WILLIAM GRAY DAVIS, M.D., on behalf )  
of NASHVILLE MEMORIAL HOSPITAL, )  
INC., as a Director of Same, )  
HOMER CHANCE, JEFF PENNINGTON, )  
M.D., ROBERT L. PETTUS, JR., M.D., )  
and WENDALL WILSON, M.D., for )  
Themselves and Other Members of )  
NASHVILLE MEMORIAL HOSPITAL, INC. )  
Similarly Situated and as Relators, )

Intervening-Plaintiffs )  
and Relators/Appellants, )

v. )

NASHVILLE MEMORIAL HOSPITAL, INC., )  
NASHVILLE MEMORIAL HEALTH SYSTEMS, )  
INC., NASHVILLE MEMORIAL FOUNDATION )  
INC., MEMORIAL COMPANIES, INC., )  
NASHVILLE MEMORIAL OUTREACH )  
SERVICES CORPORATION, COMMUNITY )  
HEALTH SERVICES, and MEDICAL CREDIT )  
CLEARING, INC., )

Corporate Defendants/ )  
Appellees, )

and )

J.D. ELLIOTT, JAMES A. RAINEY, )  
WILLIAM P. PURYEAR, GARLAND ROSE, )  
CHARLES BECK, M.D., FRANK BUMSTEAD, )

Appellate Ct. No.  
01A01-9409-CH-00454

On appeal, pursuant  
to T.R.A.P. 3(a), from  
Chancery Court  
Civil No. 93-3413-I  
Davidson County

EDWARD C. DUNN, CHARLES PENTRESS,  
THOMAS HANES, M.D., ALICE HOOKER,  
RUSS KERSTEN, DREW MADDUX, JAMES  
MARTIN, HERBERT T. McCALL, M.D.,  
and DAVID E. McKEE, M.D.,  
Individually and in their capacity  
as Directors, Trustees, or Officers  
of the Corporate Defendants,

Individual Defendants/  
Appellees,

and

HEALTHTRUST, INC. -- THE HOSPITAL  
COMPANY,

Intervening-Defendant/  
Appellee.

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BRIEF OF APPELLANTS ADVENTIST HEALTH SYSTEM/  
SUNBELT HEALTHCARE CORPORATION and ADVENTIST HEALTH SYSTEM/  
SUNBELT, INC. d/b/a TENNESSEE CHRISTIAN MEDICAL CENTER,  
individually and on relation of THE STATE OF TENNESSEE

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ORAL ARGUMENT REQUESTED

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## I. TABLE OF CONTENTS

	<u>Page</u>
II. Table of Authorities	4
III. Statement of Issues Presented for Review	7
IV. Statement of the Case	8
V. Statement of Facts	11
VI. Argument	15
1. The Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacks standing under the quo warranto statutes to bring those claims because Tennessee Christian Medical Center was entitled to an <u>in limine</u> hearing on whether it was could proceed as a relator.	16
a. Nashville Memorial Hospital, Inc. and its nonprofit affiliates were at all times pertinent to this action charitable corporations for purposes of Tenn. Code Ann. § 29-35-101, <u>et seq.</u>	16
b. The Tennessee Nonprofit Business Corporation Act did not supersede the quo warranto action established with respect to charitable corporations.	17
c. Tennessee law required the Trial Court to conduct an <u>in limine</u> hearing, as requested by Tennessee Christian Medical Center, to determine whether Tennessee Christian Medical Center stated a prima facie case or whether the District Attorney General's failure to join this relator action was arbitrary, capricious, unjustified, improper or was an abuse of discretion.	18
d. Tennessee law does not require that Tennessee Christian Medical Center	



show or have a special interest to proceed in this action as a relator.

22

2. The Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacks standing to bring those claims because Tennessee Christian Medical Center has independent standing to bring this action.

23

a. Tennessee Christian Medical Center has standing to pursue its claims against Nashville Memorial Hospital, its affiliates and officers because Tennessee Christian Medical Center was a competing bidder for the charitable assets which Nashville Memorial Hospital was selling.

25

b. Tennessee Christian Medical Center has standing to pursue its claims against Nashville Memorial Hospital, its affiliates and officers because Tennessee Christian Medical Center, as a competitor of Nashville Memorial Hospital, likely would suffer an injury distinct from those injuries that the general public would suffer in the absence of the equitable relief sought by Tennessee Christian Medical Center in this action.

28

3. The Trial Court erred in dismissing Counts VI and VII of Tennessee Christian Medical Center's complaint because Tennessee Christian Medical Center stated claims for breach of contract and promissory estoppel upon which relief could be granted.

29

a. Tennessee Christian Medical Center properly alleged a contract with Nashville Memorial Hospital, breach of the contract by Nashville Memorial Hospital, and injury that Tennessee Christian Medical Center suffered as a result of Nashville Memorial Hospital's breach of contract.

30

b. Tennessee Christian Medical Center properly alleged the conduct and willfulness of Nashville Memorial Hospital and the detrimental reliance of Tennessee Christian Medical Center necessary to state a claim for promissory estoppel. 34

VII. Conclusion 35

VIII. Appendix 37

## II. TABLE OF AUTHORITIES

<u>Cases</u>	<u>Pages</u>
<u>Airport Inn v. Metropolitan Knoxville Airport Auth.</u> , 627 S.W.2d 949 (Tenn. App. 1981)	25, 28, 29
<u>Apco Amusemnet, Inc. v. Wilkins Family Restaurants of America</u> , 673 S.W.2d 523 (Tenn. Ct. App. 1984)	33
<u>Bayberry Assocs. v. Jones</u> , 783 S.W.2d 553 (Tenn. 1990)	21
<u>Bennett v. Stutts</u> , 521 S.W.2d. 575 (Tenn. 1975)	15, 18, 19
<u>Cede &amp; Co. v. Technicolor, Inc.</u> , Nos. 336, 1991, 337, 1991, 1993 WL 437646 (Del. Nov. 1, 1993)	21
<u>Channel Home Centers v. Grossman</u> , 795 F.2d 291 (3rd Cir. 1986)	32, 33
<u>Crane Co. v. Harsco Corp.</u> , 511 F.Supp. 294 (D.Del. 1981)	27
<u>Edelman v. Fruehauf Corp.</u> , 798 F.2d 882 (6th Cir. 1986)	20, 21, 32
<u>Fuerst v. Methodist Hosp. South</u> , 566 S.W.2d 847 (Tenn. 1978)	29
<u>Gordon v. City of Henderson</u> , 766 S.W.2d 784 (Tenn. 1989)	13, 29
<u>Holt v. College of Osteopathic Physicians &amp; Surgeons</u> , 394 P.2d 244 (Cal. 1964)	25
<u>Hooker v. Edes Home</u> , 579 A.2d 608 (D.C. Ct. App. 1990)	25
<u>Humana v. American Medicorp</u> , 445 F.Supp. 613 (S.D.N.Y. 1977)	27
<u>Itek Corp. v. Chicago Aerial</u> , 248 A.2d 625 (Del. 1968)	32

<u>Kapilani Park Preservation Soc'y v. Honolulu</u> , 751 P.2d 1022 (Hawaii 1988)	24
<u>Knierim v. Leatherwood</u> , 542 S.W.2d 806 (Tenn. 1976)	24, 26
<u>Lane v. Associated Housing Developers</u> , 767 S.W.2d 640 (Tenn. Ct. App. 1988)	30
<u>Owen of Georgia, Inc. v. Shelby County</u> , 648 F.2d 1084 (6th Cir. 1981)	25, 26
<u>Arnold Palmer Golf Co. v. Fuqua Indus., Inc.</u> , 541 F.2d 584 (6th Cir. 1976)	30, 32, 33
<u>Paramount Communications Inc. v. QVC Network, Inc.</u> , Nos. 427, 1993, 428, 1993 (Del. Dec. 9, 1993)	21
<u>Paterson v. Paterson Gen. Hosp.</u> , 235 A.2d 487 (N.J. Super. Ct. 1967)	24, 25
<u>Phan v. Sanders</u> , 818 S.W.2d 18 (Tenn. Ct. App. 1991)	30
<u>Pierotti v. Sundquist</u> , 1994 WL 541141 (Tenn. Aug. 29, 1994)	17, 18
<u>Revlon, Inc. v. MacAndrews &amp; Forbes Holding Inc.</u> , 506 A.2d 173 (Del. 1986)	20, 21
<u>Skinner v. Thomas Nelson, Inc.</u> , No. 88-73-II, 1988 WL 99726 (Tenn. Ct. App. Sept. 28, 1988)	34
<u>State ex rel. Anderson v. Fulton</u> , 712 S.W.2d 90 (Tenn. 1986)	18
<u>State ex rel. Canale v. Minimum Salary Dep't of the African Methodist Episcopal Church, Inc.</u> , 477 S.W.2d 11 (Tenn. 1972)	22
<u>Torchmark Corp. v. Bixby</u> , 708 F. Supp. 1070 (W.D.Mo. 1988)	28
<u>Unisys Corp. v. Department of Labor</u> , 600 A.2d 1019 (Conn. 1991)	25

<u>Weeks Dredging &amp; Contracting</u> <u>v. American Dredging,</u> 451 F.Supp. 468 (E.D.Pa. 1978)	27
<u>Whitehead v. Dycho Co.,</u> 775 S.W.2d 593 (Tenn. 1989)	13
<u>Statutes and Rules</u>	
Tenn. Code Ann. § 29-35-101	12, 22, 35
Tenn. Code Ann. § 29-35-102	17
Tenn. Code Ann. § 29-35-110	15, 22
Tenn. Code Ann. § 48-11-101	24
Tenn. Code Ann. § 48-51-101	8, 13, 24
<u>Miscellaneous</u>	
1 E. Allan Farnsworth, <u>Farnsworth on Contracts</u> § 3.26b, at 331 (1990)	32
Henry B. Hansmann, <u>Reforming Nonprofit</u> <u>Corporation Law,</u> 129 U. Pa. L. Rev. 497 (1980)	25

### III. STATEMENT OF ISSUES PRESENTED FOR REVIEW

1. Whether the Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacks standing under the quo warranto statutes to bring those claims.
2. Whether the Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacked independent standing to bring those claims.
3. Whether the Trial Court erred in dismissing Counts VI and VII of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center failed to state claims for breach of contract and promissory estoppel upon which relief could be granted.

#### IV. STATEMENT OF THE CASE

This action was commenced in the Chancery Court for Davidson County, Tennessee (hereinafter referred to as the "Trial Court") by the filing of a Verified Complaint for Injunctive Relief on November 18, 1993 (R-I p.1) by plaintiffs/appellants, two not-for-profit corporations, Adventist Health System/Sunbelt Health Care Corporation and Adventist Health System/Sunbelt, Inc. d/b/a Tennessee Christian Medical Center, individually and on relation of the State of Tennessee (collectively referred to as "TCMC" or "Tennessee Christian Medical Center"). On November 19, 1993, TCMC filed its First Amended Verified Complaint for Injunctive Relief (R-I p. 46) (referred to as the "Complaint").

The Complaint sought injunctive and equitable relief against defendants Nashville Memorial Health Systems, Inc., Nashville Memorial Hospital, Inc., Nashville Memorial Outreach Services Corporation, Nashville Memorial Foundation, Inc., Medical Credit Clearing, Inc. (each of which was at the time a Tennessee nonprofit corporation), Memorial Companies, Inc., a Tennessee for-profit corporation, and J.D. Elliot, an officer of the corporate defendants (hereinafter collectively referred to as the "Defendants"). The action sought injunctive relief from the intentional and willful breach of Defendants' fiduciary duties, to prevent ultra vires acts of the Defendants, to compel Defendants' compliance with the Tennessee Nonprofit Corporation Act, T.C.A. § 48-51-101, et seq., and to enforce an agreement between TCMC and

the Defendants with respect to the proposed sale of the charitable assets of the corporate Defendants.

By Order dated December 28, 1993, the Trial Court granted the motion of HealthTrust, Inc. -- The Hospital Company, a for-profit corporation seeking to purchase the assets of the corporate Defendants, to intervene as a defendant in this action (R-III p.302) (HealthTrust, Inc. -- The Hospital Company is hereinafter included within the designation "Defendants" unless otherwise specified).

Pursuant to the Trial Court's Order of December 28, 1993 (R-III p. 304), William Gray Davis, M.D., Homer Chance, Jeff Pennington, M.D., Robert L. Pettus, Jr., M.D., and Wendall Wilson, M.D., on their own behalf and on behalf of Nashville Memorial Hospital, Inc. (hereinafter referred to as "Intervenors") filed their Petition of Intervenors (hereinafter referred to as "Petition"). The Petition named as additional defendants the individual directors of the nonprofit corporate Defendants and alleged breach of fiduciary duty and breach of contracts claims against those defendants (R-III p. 307-321).

This is TCMC's direct appeal as of right, pursuant to Rule 3(a) of the Tennessee Rules of Appellate Procedure, from the February 28, 1994 Trial Court Order (R-V p. 634) denying TCMC's motion for an in limine hearing. This appeal is also TCMC's direct appeal from the February 28, 1994 Trial Court Order (R-V p. 634) granting the motion to dismiss of Defendants (R-I p. 113) and the motion to dismiss of the intervening defendant (R-I p. 81) with



respect to TCMC's First Amended Verified Complaint for Injunctive Relief.

This appeal is further the direct appeal as of right, pursuant to Rule 3(a) of the Tennessee Rules of Appellate Procedure, by Intervenors from the March 24, 1994 Trial Court Order (R-VII p. 939) granting Defendants' Motion to Dismiss and for Summary Judgment on the Intervening Complaint filed by William Gray Davis, et al. (R-III p. 397) and the Supplemental Motion of HealthTrust, Inc. -- The Hospital Company to Dismiss Action or, in the Alternative, to Stay Action, Including all Discovery (R-III p. 373) with respect to the Petition of Intervenors (R-III p. 307).

## V. STATEMENT OF FACTS

Appellant, Tennessee Christian Medical Center, operates a nonprofit hospital in the same community served by Defendant Nashville Memorial Hospital (R-V p. 607; R-I p. 123; R-V p. 635). Tennessee Christian Medical Center and Nashville Memorial Hospital are, thus, competitors in the health care industry. Id. In October 1993, the president of Tennessee Christian Medical Center and the president of Nashville Memorial Hospital met to discuss the merger of the two health care facilities (R-I p. 52). At that time an agreement was reached between the two parties to negotiate in good faith the terms and conditions of a merger of the two facilities (R-I pp. 48, 52-53). As a consequence of that agreement, Tennessee Christian Medical Center postponed the commencement of two projects planned by TCMC in reliance upon the promises of Nashville Memorial Hospital's president (R-I p. 63).

Shortly thereafter, the Board of Trustees of Nashville Memorial Hospital announced that it had signed a letter of intent with HealthTrust to sell substantially all of the assets of Nashville Memorial Hospital and its affiliated nonprofit charitable corporations to HealthTrust (R-I p. 53). TCMC then made an offer to purchase the assets of Nashville Memorial Hospital and its affiliated nonprofit companies for \$110,000,000 (R-V pp. 608-609). Thus, TCMC became a competing bidder with HealthTrust for the charitable assets of the corporate defendants (R-V p. 636; R-I pp. 125-126; R-V pp. 609-610; R-I pp. 46, 55). TCMC, however, was advised that Nashville Memorial Hospital was not permitted under

the terms of its letter of intent with HealthTrust to negotiate with TCMC or entertain TCMC's offer of purchase (R-V p. 608).

On November 19, 1993, TCMC initiated this action by filing a Verified Complaint for Injunctive Relief (R-I p. 1). In this action, TCMC seeks equitable relief against the defendants for: violating their fiduciary duties of care and loyalty by agreeing to sell corporate Defendants' charitable assets to HealthTrust at a price below that offered by TCMC; for authorizing the conveyance of charitable assets without appropriate inquiry and competitive bidding, and without due consideration of the mission of Nashville Memorial Hospital and its obligations to the community; for attempting to convey assets without complying with the Charter and Bylaws of the corporate Defendants and the laws of the State of Tennessee governing nonprofit corporations; and for refusing to enter negotiations with TCMC concerning the sale of the charitable assets (R-I pp. 46-66).

TCMC also brought this action under the quo warranto statutes of the state of Tennessee, T.C.A. § 29-35-101, et seq., as a relator to enjoin the corporate Defendants from exercising powers not conferred on them by law and to bring Defendants to account for the disposition of property entrusted to their care, prevent malversation, speculation and waste, to set aside or enjoin the improper alienation of the charitable assets of the corporate Defendants, and to generally compel the faithful performance of the duties of the corporate Defendants and their directors and officers as required by the Tennessee Nonprofit Corporation Act, Tenn. Code

Ann. § 48-51-101 et seq., and Tennessee common law. (R-I pp. 46-66).

TCMC also asked the Trial Court to require Defendants to specifically perform on the agreement to negotiate with TCMC in good faith for the merger of Nashville Memorial Hospital and Tennessee Christian Medical Center or the purchase of Nashville Memorial Hospital by TCMC (R-I pp. 46-66).

The Trial Court, by Order entered February 28, 1994, granted the motions to dismiss filed by Defendants.<sup>1</sup>(R-V pp. 634-639). In granting those motions, the Trial Court found that TCMC is a competing hospital with Nashville Memorial Hospital, a nonprofit, charitable corporation (R-V p. 635). The Trial Court further found that TCMC was a bidder on the assets of Nashville Memorial Hospital (R-V p. 636). The Trial Court concluded that TCMC had not shown that it had an interest in the Nashville Memorial Hospital/HealthTrust transaction not common to the general public (R-V p. 638), that TCMC failed to state a claim upon which relief could be granted with respect to Counts VI and VII of the Complaint concerning breach of contract and promissory for estoppel, and that the Tennessee Nonprofit Corporation Act superseded the Tennessee quo warranto statutes, thereby divesting the district attorney

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<sup>1</sup>It is unclear from the Trial Court's Order whether the Trial Court granted a motion to dismiss or a motion for summary judgment with respect to Counts I through V of the Complaint. The standards of appellate review of the granting of a motion to dismiss and the granting of a summary judgment motion are virtually identical and, therefore, any uncertainty as to the Trial Court's ruling is not material to this review. See, e.g., Gordon v. City of Henderson, 766 S.W.2d 784, 787 (Tenn. 1989); and Whitehead v. Dycho Company, 775 S.W.2d 593, 598 (Tenn. 1989).

general of any standing to challenge the transaction (R-V p. 639). The Trial Court further denied TCMC's Motion for In Limine Hearing on whether TCMC could act as a relator under the quo warranto statutes, also on the grounds that the Tennessee Nonprofit Corporation Act superseded the quo warranto statutes with respect to nonprofit charitable corporations (R-V p. 639).

## VI. ARGUMENT

TCMC has advanced two distinct legal grounds for standing to challenge the actions of the Boards of the nonprofit corporate Defendants. First, TCMC brought this action on relation of the State of Tennessee pursuant to Section 29-35-110 of the Tennessee Code. Tenn. Code Ann. § 29-35-110 (the "relator statute"). In determining whether the action may proceed under the relator statute, the operative inquiry is whether TCMC has defined a "prima facie meritorious case," or the District Attorney's decision not to bring the action or authorize its institution was improper, unjustified, arbitrary, or capricious, or a palpable abuse of his discretion. Bennett v. Stutts, 521 S.W. 2d 575, 577 (Tenn. 1975). Standing simply is not at issue. The Tennessee Legislature has conferred standing on private citizens to proceed as relators.

Alternatively, TCMC sought the same remedies against Defendants on its own behalf. In that context, standing is relevant to whether the action may proceed. The purpose of the standing requirement would be met in this case because Nashville Memorial Hospital and TCMC are truly adverse parties and directly concerned with the matters in this case. TCMC, as a bidder for Nashville Memorial Hospital and as a competitor of Nashville Memorial Hospital, has a "special interest" in this transaction and would suffer a "special injury" if it is not allowed to proceed. TCMC, therefore, may bring this action on its own behalf.

Finally, TCMC has requested injunctive relief based on breach of contract and promissory estoppel claims. J.D. Elliott, the

president of Nashville Memorial, and Milton Siepman, president of TCMC, entered into an agreement in October 1993 to negotiate in good faith toward the sale of Nashville Memorial Hospital to TCMC. The breach of contract claims raise no standing issues.

1. The Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacks standing under the quo warranto statutes to bring those claims because TCMC was entitled to an in limine hearing on whether it could proceed as a relator.

a. Nashville Memorial Hospital, Inc. and its nonprofit affiliates were at all times pertinent to this action charitable corporations for purposes of Tenn. Code Ann. § 29-35-101 et seq.

The Trial Court properly concluded that Nashville Memorial Hospital was a nonprofit, charitable corporation to which the Tennessee Nonprofit Corporation Act applied. R-V p. 639. This point was implicitly conceded by Defendants throughout the proceedings below by the Defendants' reliance upon certain provisions of the Act in support of their argument that the State Attorney General alone had standing to challenge the proposed sale of the charitable assets of the hospital and its affiliates. See, e.g., R-TR (February 4, 1994) p. 30. It is, therefore, undisputed that the nonprofit, corporate Defendants are precisely the type of charitable corporations to which the Tennessee Supreme Court's

analysis in Pierotti v. Sundquist, 1994 WL 541141 (Tenn. Aug. 29, 1994) was intended to apply. See also First Amended Verified Complaint for Injunctive Relief (R-I pp. 49-50) and Affidavit of J.D. Elliot (R-I p.116).

- b. The Tennessee Nonprofit Business Corporation Act did not supersede the quo warranto action established with respect to charitable corporations.

The Tennessee Supreme Court in Pierotti v. Sundquist, 1994 WL 541141, at \*5 (Aug. 29, 1994) unequivocally rejected the premise upon which the Trial Court relied in denying TCMC's motion for an in limine hearing on their standing as a relator under the Tennessee quo warranto statutes. The Trial Court, in its Memorandum and Order, held that " the District Attorney General lacked standing to challenge the negotiation for the sale of the assets of a nonprofit, charitable corporation, such as Nashville Memorial Hospital." R-V p.639. The Pierotti opinion says otherwise.

In Pierotti, the Tennessee Supreme Court expressly rejected the Defendants' argument that the Tennessee Nonprofit Corporation Act superseded the Tennessee Quo Warranto statutes, Tenn. Code Ann. § 29-35-102, et seq. The Pierotti Court further affirmed the appellate court's ruling that the plaintiffs in Pierotti were entitled to proceed with their quo warranto action against certain officers and directors of a nonprofit charitable corporation alleging willful violations of their fiduciary duties, similar to those claims asserted by TCMC against the defendants in this



action. Pierotti, supra at 6. See also First Amended Verified Complaint for Injunctive Relief. R-I pp. 46-66.

- c. Tennessee law required the Trial Court to conduct an in limine hearing , as requested by Tennessee Christian Medical Center, to determine whether Tennessee Christian Medical Center stated a prima facie case or whether the District Attorney General 's failure to join this relator action was arbitrary, capricious, unjustified, improper or was an abuse of discretion.

By letter dated January 14, 1994, Davidson County District Attorney General Johnson notified the Trial Court and the parties that he would not join in this action. R-III p. 367. In a quo warranto action in which the plaintiff seeks to proceed as a relator, the trial court has an obligation to conduct an in limine hearing when considering a motion to dismiss. See State ex rel. Anderson v. Fulton, 712 S.W.2d 90, 91 (Tenn. 1986); Bennett v. Stutts, 521 S.W.2d 575, 577 (Tenn. 1975). It is the duty of the trial court, after a copy of the complaint has been served on the District Attorney General, to conduct an in limine hearing to determine whether to permit the plaintiff to proceed as a relator if the District Attorney General elects not to join in the action.

The Supreme Court of Tennessee has since Bennett reaffirmed this position in State ex rel. Anderson v. Fulton, 712 S.W.2d 90, 91 (Tenn. 1986) (citing Bennett as mandating an in limine hearing in such a situation). The purpose of the in limine hearing is to determine whether the District Attorney General's refusal to bring

the action, or to authorize the use of his name in its institution, was improper or unjustified, or "that the plaintiff's case is prima facie meritorious." Bennett, 521 S.W.2d at 577. The court in Bennett, therefore, set forth the necessary procedures for determining whether a relator action under the quo warranto statute should be allowed to proceed. If a plaintiff can make such a showing, then the Trial Court must allow the action to proceed without the participation of the District Attorney General. Id.

Citing the Anderson case, supra, the Defendants acknowledged that TCMC is entitled to show that it should be permitted to proceed with this action under a quo warranto theory. See Memorandum in Support of Motion to Dismiss, R-II pp. 128-29, and Memorandum of Law in Support of Supplemental Motion of Intervenors, HealthTrust, Inc. - The Hospital Company to Dismiss Action or, in the Alternative, to Stay Action, Including All Discovery, R-I p. 90.

If the Trial Court had conducted the requisite in limine hearing, TCMC would have established that it had standing under the quo warranto statute, in that TCMC has met the requirements for proceeding as a relator under the quo warranto statute by showing that: (1) it has a meritorious claim; and/or (2) the District Attorney General's decision not to bring suit was arbitrary, capricious, and/or a palpable abuse of discretion.

Under Tennessee statutory and common law, the directors of nonprofit public benefit corporations must satisfy two fiduciary duties: the duty of care and the duty of loyalty. The duty of

care requires directors to act with the care that an ordinarily prudent person in a "like position would exercise under similar circumstances." Tenn. Code Ann. § 48-8-301 (1980). The duty of care mandates that the directors sell corporate assets on a reasoned and informed basis. In particular, the duty of care requires that the directors auction the corporate assets or take other reasonable steps to insure that the corporation receives the maximum price for its assets. See Revlon, Inc. v. MacAndrews & Forbes Holding Inc., 506 A.2d 173 (Del. 1986). The duty of loyalty is met if the director acts in good faith, and in a manner reasonably believed to be in the best interest of the corporations. Id. The directors owed these duties to the corporation, its members, and, in the case of Nashville Memorial Hospital and its affiliated nonprofit companies, to the citizens of Madison and Nashville. The Board of Nashville Memorial has clearly breached its duty of care.

When a nonprofit public benefit corporation decides to dispose of the charitable assets that it holds for the benefit of the public it must place those assets on the open market to ensure that the fair market value is paid for those assets. "Once it becomes apparent that a takeover target will be acquired by new owners, whether by an alleged 'raider' or by a team consisting of management and a 'white knight,' it becomes the duty of the target's directors to see that the shareholders obtain the best price possible for their stock." Edelman v. Fruehauf Corp., 798 F.2d 882, 887 (6th Cir. 1986) (emphasis added). When the company is

for sale, "[t]he directors' role change[s] from defenders of the corporate bastion to auctioneers charged with getting the best price for the stockholders at a sale of the company." Revlon, Inc., 506 A.2d at 182; Edelman, 798 F.2d at 887; Cede & Co. v. Technicolor, Inc., Nos. 336, 1991, 337, 1991, 1993 WL 437646, at \*24 (Del. Nov. 1, 1993); Bayberry Assoc's v. Jones, 783 S.W. 2d 553, 561 (Tenn. 1990). The duty of care requires that the directors of the selling corporation "search for the best value available to the stockholders." Paramount Communications Inc. v. QVC Network Inc., Nos. 427, 1993, 428, 1993, order at 9 (Del. Dec. 9, 1993).

The duty of the directors to obtain fair market value is particularly important in the nonprofit sector when charitable assets will be transferred to the for-profit sector. The absence of competitive bidding permits the for-profit buyer to purchase the charitable assets at a substantial discount from the fair market value. The for-profit buyer then may resell the charitable assets at fair market value and retain the difference. Alternatively, the for-profit buyer may retain the assets and derive an enhanced rate of return on the assets because of the discounted purchase price. In either case, the for-profit buyer will have diverted valuable charitable assets to the for-profit sector, while the citizens of Tennessee, who are the beneficiaries of the nonprofit's mission, will be permanently deprived of the full value of those assets.

As set forth in the Verified Complaint, the directors of the nonprofit corporate Defendants have knowingly and willfully breached their duty of care by refusing to consider TCMC's offer to

purchase all of the assets and to assume all of the liabilities of Nashville Memorial for \$110 million. R-I p. 55. Recourse for these violations is provided to the citizens of the community through TCMC as a relator under the quo warranto statutes, Tenn. Code Ann. §§ 29-35-101, et seq.

- d. Tennessee law does not require that Tennessee Christian Medical Center show or have a special interest to proceed in this action as a relator.

By its plain meaning Section 29-35-110 of the Tennessee Code Annotated authorizes "any person" to bring an action on relation of the state. TCMC clearly is a person authorized by the relator statute to bring this action. Neither the statute, nor Bennett v. Stutts, requires anything else, and the Trial Court was mistaken to the extent that it denied TCMC's motion for an in limine hearing on the grounds that TCMC had no interest in Nashville Memorial Hospital uncommon to the general public. R-I p. 636.

Relator actions remedy public, not private, wrongs. Nashville Memorial's suggestion that a relator must establish private injury denudes the statute of its basic purpose. The private injury requirement would equate the relator action with a private right of action. Stated differently, to impose a private injury requirement under the relator statute reduces the public interested nature of relator actions to private rights of action.

The Tennessee Supreme Court in State ex rel. Canale v. Minimum Salary Dep't of the African Methodist Episcopal Church, Inc., 477 S.W.2d 11, 13 (Tenn. 1972), rejected a similar effort to dismiss a

relator action on the grounds "that relators do not possess the requisite interest to maintain the suit." In no uncertain terms, the court responded:

This ground is not good. [The relator statute], a part of the quo warranto statute, provides that anyone who gives security for the costs of the proceedings can be a relator."

Id. (emphasis added).

The Trial Court apparently failed to appreciate the distinction between the relator action, in which public citizens are authorized to vindicate a public wrong, and private actions in which private litigants may redress only private injuries.

2. The Trial Court erred in dismissing Counts I through V of Tennessee Christian Medical Center's complaint on the grounds that Tennessee Christian Medical Center lacks standing to bring those claims because TCMC has independent standing to bring this action.

Quite apart from its relator action, TCMC has alleged the same claims against the Defendants on its own behalf for which TCMC has standing to proceed. As explained below, TCMC has two bases in addition to and independent of the quo warranto action for standing: (1) As a competing bidder for Nashville Memorial Hospital, TCMC had a special interest sufficient to sustain its action (R-V p. 636; R-V pp. 609-10; R-I pp. 125-26), and (2) As a nonprofit hospital serving the same community, TCMC was likely to suffer a special type of harm, not common to all citizens of Tennessee, as the result of the sale of the Hospital's assets to another bidder. R-V p. 607.

In states like Tennessee that have no constitutional case or controversy requirement, standing is a prudential, judge-made doctrine rather than a rule of constitutional dimension. See Knierim v. Leatherwood, 542 S.W.2d 806, 808 (Tenn. 1976).

Prudential standing simply identifies what parties are entitled to judicial relief. MARTA v. Metropolitan Government of Nashville, 842 S.W.2d 611, 615 (Tenn. App. 1992). In so doing, the court must decide "whether the party has a sufficiently personal stake in the outcome of the controversy to warrant the exercise of the court's power on its behalf." Id.

When charitable assets are at stake, standing must be liberally applied for the benefit of the community which owns those assets. In the for-profit sector, shareholders have direct economic incentives to police the conduct of their corporate boards -- they share in the profits of the corporation. Tenn. Code Ann. § 48-11-101 et seq. In the nonprofit context, however, members of the corporation are prohibited from deriving any economic benefit from the corporation. Tenn. Code Ann. §48-51-101 et seq. Precisely because of these inefficiencies, the responsibility to monitor the conduct of nonprofit corporations must be shouldered by concerned members of the community, legitimate competitors in the marketplace, and the Attorney General. Courts and commentators have endorsed liberal standing rules when the issues concern the administration of charitable trusts or nonprofit corporations. See, e.g., Paterson v. Paterson Gen. Hosp., 235 A.2d 487, 495 (N.J. Super. Ct. 1967); Kapilani Park Preservation Soc'y v. Honolulu, 751

P.2d 1022, 1025 (Hawaii 1988); Hooker v. Edes Home, 579 A.2d 608, 615-618 (D.C. Ct. App. 1990); Holt v. College of Osteopathic Physicians & Surgeons, 394 P.2d 244 (Cal. 1964); Henry B. Hansmann, Reforming Nonprofit Corporation Law, 129 U. Pa. L. Rev. 497, 600-615 (1980).

The court in Paterson explained:

It must be conceded that in this State, and throughout the country as a whole, supervision of the administration of charities has been neglected. Charities in this State, whether or not incorporated, are, in general, only subject to the supervision of the Attorney General. The manifold duties of this office make readily understandable the fact that such supervision is necessarily sporadic. . . . While public supervision of the administration of charities remains inadequate, a liberal rule as to the standing of a plaintiff to complain about the administration of a charitable trust or charitable corporation seems decidedly in the public interest.

Paterson, 235 A.2d at 495 (emphasis added).

- a. Tennessee Christian Medical Center has standing to pursue its claims against Nashville Memorial Hospital, its affiliates and officers because Tennessee Christian Medical Center was a competing bidder for the charitable assets which Nashville Memorial Hospital was selling.

Tennessee Christian, as a competing bidder excluded from the bidding process, has standing sufficient to maintain this action. Courts long have held that competing bidders have standing to challenge the transaction from which they have been excluded. See, e.g., Owen of Georgia, Inc. v. Shelby County, 648 F.2d 1084, 1088-89 (6th Cir. 1981); Unisys Corp., 600 A.2d at 1022; see also Airport Inn v. Metropolitan Knoxville Airport Auth., 627 S.W.2d 949



(Tenn. App. 1981), and MARTA v. Metropolitan Government of Nashville, 842 S.W.2d 611 (Tenn. App. 1992).

In Owen of Georgia, the court explained that standing in Tennessee turns on "whether the plaintiff has a special interest defined in terms of potential, or realized, injury." 648 F.2d at 1089 (citing Knierim, 542 S.W.2d at 808). In holding that the spurned low bidder for a public construction project had standing to challenge the contract the court stated:

In stark contrast to this absence of injury is the situation of a low, qualified bidder . . . which suffers serious adverse economic consequences from illegal action.

. . . .  
In the present Case, Owen alleges that it, as low bidder, would have received the structural steel contract . . . . This loss of business is sufficient to convince us that the Tennessee courts would conclude that Owen has standing.

648 F.2d at 1089-90.

This Court, in MARTA v. The Metropolitan Government of Nashville, 842 S.W.2d 611 (Tenn. App. 1992), acknowledged that standing of competing bidders serves to vindicate the public's interest. Id. at 617. In MARTA, this Court vacated the chancellor's dismissal of the plaintiff's claims insofar as it was premised upon plaintiff's lack of standing.

The MARTA plaintiff was a bidder for a public contract who challenged the bidding procedure after losing the contract to another bidder. The MARTA court held that the bidder need not be the low bidder, nor does it need to show that it would have been awarded the contract but for the challenged conduct, to have standing to sue. Id. at 617.

As in MARTA, the challenge by TCMC of Defendants' conduct in this action serves the public interest. In MARTA the plaintiff bidder's action had the effect of ensuring compliance with competitive bidding procedures designed to promote the public interest by guarding against fraud and favoritism and achieving a fair and honest result. TCMC's action for equitable relief was designed to promote the public interest in protecting the charitable assets of a public, charitable corporation, which held those assets for the benefit of the community it served. TCMC brought this action to ensure that the process by which those assets might be disposed resulted in a fair and honest sale.

Similarly, the federal courts have explicitly recognized standing for bidders, simply as bidders and not as shareholders, to bring suits for injunctive relief against the management of target companies under the Williams Act. Mobil Corp. v. Marathon Oil Co., 669 F.2d 366, 372 (6th Cir. 1981); Humana v. American Medicorp, 445 F.Supp. 613 (S.D.N.Y. 1977); Weeks Dredging & Contracting v. American Dredging, 451 F.Supp. 468 (E.D.Pa. 1978). Thus, in Humana the court stated that

the critical factor is not whether Humana [the tender offeror] may be benefitted by the suit but whether the stockholders of the target company would be benefitted if the allegations of the complaint are proven to be true and the relief requested is granted.... This is the test by which a tender offeror's right to sue for injunctive relief must be determined; and by this test Humana does have such standing.

Humana v. American Medicorp, 445 F.Supp. 613, 616 (S.D.N.Y. 1977).

Likewise, in Crane Co. v. Harsco Corp., 511 F.Supp. 294, 300 (D.Del. 1981), the court stated that although Crane, as the

offeror, was not an intended beneficiary [of the Williams Act], Crane is the only party likely to possess timely knowledge of misrepresentations and thus the practical opportunity to enforce this facet of the scheme of the Williams Act to protect the shareholders, the intended beneficiaries. See also Torchmark Corp. v. Bixby, 708 F.Supp. 1070, 1078-9 (W.D.Mo. 1988).

b. Tennessee Christian Medical Center has standing to pursue its claims against Nashville Memorial Hospital, its affiliates and officers because Tennessee Christian Medical Center, as a competitor of Nashville Memorial Hospital, likely would suffer an injury distinct from those injuries that the general public would suffer in the absence of the equitable relief sought by Tennessee Christian Medical Center in this action.

In Airport Inn v. Metropolitan Knoxville Airport Authority, 627 S.W.2d 949 (Tenn. Ct. App. 1981), the Tennessee Court of Appeals discussed the "special injury" requirement of standing which can be met by a competitor's anticipated competitive disadvantage that would result if the challenged conduct was allowed to occur. In that case, the plaintiffs, operators of two hotels directly across from the Knoxville Airport, filed an action challenging the authority of the Metropolitan Knoxville Airport Authority to issue revenue bonds for the construction of a hotel on airport property. 627 S.W.2d at 950. The proposed hotel was to be leased to the other defendant. Id. The plaintiffs alleged that the issuance of the bonds provided the defendant's hotel with an

unlawful competitive advantage. Id. at 951. The court held that the plaintiff's allegation supported a finding of standing to sue.

TCMC, as the higher, qualified bidder for the assets of Nashville Memorial Hospital, certainly would suffer special injury if Memorial Hospital sells its assets to HealthTrust. If this Court permits HealthTrust to purchase Nashville Memorial Hospital assets at less than fair market value, HealthTrust will receive a windfall competitive advantage. HealthTrust will obtain charitable assets at a substantial discount and may use those discounted assets to a competitive advantage in its competition with Tennessee Christian. In addition, TCMC will be required to shoulder a greater portion of the charitable and indigent care in the community served by both hospitals. These special injuries suffice to permit TCMC to proceed with this action on its own behalf. Siepman Affidavit (R-V p. 607).

3. The Trial Court erred in dismissing Counts VI and VII of Tennessee Christian Medical Center's complaint because Tennessee Christian Medical Center stated claims for breach of contract and promissory estoppel upon which relief could be granted.

In resolving a motion to dismiss, the court must construe the complaint liberally in favor of the plaintiff, assuming all allegations to be true and resolving all doubts in favor of the plaintiff. Gordon v. City of Henderson, 766 S.W.2d 784, 787 (Tenn. 1989); Fuerst v. Methodist Hospital South, 566 S.W.2d 847, 848-49 (Tenn. 1978).

It is inappropriate, except in extreme cases, to grant a motion to dismiss for a contract claim. As the Sixth Circuit stated: "[a]t bottom, the question whether the parties intended a contract is a factual one, not a legal one, and, except in the clearest case, the question is for the finder of fact to resolve." Arnold Palmer Golf Co. v. Fuqua Indus., Inc., 541 F.2d 584, 587-88 (6th Cir. 1976).

- a. Tennessee Christian Medical Center properly alleged a contract with Nashville Memorial Hospital, breach of the contract by Nashville Memorial Hospital, and injury that Tennessee Christian Medical Center suffered as a result of Nashville Memorial Hospital's breach of contract.

To state a claim for breach of contract, the plaintiff must allege the formation of the contract, the terms of the contract, performance by the plaintiff, breach by the defendant, and damages. See Phan v. Sanders, 818 S.W.2d 18, 20 (Tenn. Ct. App. 1991).

Tennessee courts have held that a plaintiff is entitled to specific performance when:

If a contract has all the essentials of validity, and is certain in its terms, is based on adequate and valuable consideration, is fair and just in all its provisions, is free from any fraud, misrepresentation, illegality or mistake, is capable of being enforced without hardship to either party, and if compensation in damages for its breach is impracticable, or would be inadequate a complaint will be maintained for its specific performance.

Lane v. Associated Housing Developers, 767 S.W.2d 640, 642 (Tenn. Ct. App. 1988).

TCMC has alleged all of the elements necessary to state a claim for breach of contract. First, TCMC has alleged that a contract to negotiate in good faith was formed between Nashville Memorial Hospital and TCMC. R-I pp. 61-62. Next, TCMC has alleged that the terms of the contract were that the parties would negotiate in good faith "the terms and conditions of a merger of the two companies and on a prospect of TCMC making a bid for the sale, merger or acquisition of Nashville Memorial and its related affiliates." R-I p. 62. Third, TCMC has alleged that it has performed all of the conditions on its part under the contract by offering to negotiate with Nashville Memorial. R-I p. 62. Fourth, TCMC has alleged that Nashville Memorial has breached the contract with TCMC by refusing to negotiate in good faith. R-I p. 62. Finally, TCMC has alleged that it has lost the benefit of its bargain "by not being permitted to continue to negotiate or to have its offer considered by the board of Nashville Memorial." R-I p. 62.

Further, TCMC has alleged the elements necessary for specific performance. TCMC has alleged a valid contract, certain on its terms, and based on adequate and valuable consideration. R-I pp. 61-62. TCMC has also alleged that it has no adequate legal remedy and, therefore, is entitled to specific performance. R-I p. 62. Defendants' argument that an agreement to negotiate does not give rise to an enforceable agreement are out of step with current jurisprudence and raise factual issues concerning the parties' intent that go well beyond a motion to dismiss.

Courts have recognized "agreements to negotiate" in good faith with increasing frequency in recent years. See 1 E. Allan Farnsworth, Farnsworth on Contracts § 3.26b, at 331 (1990) (citing cases); Channel Home Centers v. Grossman, 795 F.2d 291 (3rd Cir. 1986); Itek Corp. v. Chicago Aerial, 248 A.2d 625 (Del. 1968); Arnold Palmer Golf Co. V. Fuqua Indus., Inc., 541 F.2d 584, 587-88 (6th Cir. 1976) In addition, courts have affirmatively enjoined selling corporations to negotiate in good faith with all competing bidders. See, e.g., Edelman v. Fruehauf Corp., 798 F.2d 882, 890-91 (6th Cir. 1986) (requiring selling corporation to "meet on mutually agreeable and reasonable terms with any potential bidder in good faith"). Agreements help the parties to diminish the unpredictability of contract negotiations. Once the parties recognize a desire to enter into a final purchase agreement, they agree to negotiate in good faith order to ensure some certainty that the ultimate agreement will be achieved. This is exactly what TCMC and Defendants did in their discussions on the proposed merger of the two hospitals. Defendants, however, breached this agreement by refusing to negotiate.

In this regard, the Third Circuit held that contracts to negotiate in good faith are binding and enforceable. Channel Home Centers v. Grossman, 795 F.2d 291 (3rd Cir. 1986) In that case, Channel Home and Grossman had entered into an agreement to negotiate a lease transaction. Channel Home alleged that Grossman had breached its promise to negotiate with Channel by "precipitously entering into a lease agreement with Mr. Good Buys."

Id. at 298. The court agreed and held that the agreement to negotiate was a valid and enforceable contract, that could be enforced by appropriate injunctive relief. Id. at 300.

In Arnold Palmer, the Sixth Circuit held that a "memorandum of intent" could establish an agreement to negotiate in good faith and that the jury must decide whether the memorandum represented an enforceable contract. Arnold Palmer Golf Co., 541 F.2d at 587-88. The court stated that "[t]he decision whether the parties intended to enter a contract must be based upon on evaluation of the circumstances surrounding the parties' discussions." Id. at 588. The court found that the expressed intention of the parties is determinative of whether a contract was entered into by them. Id.

Tennessee Courts have enforced agreements to negotiate in good faith. In Apco Amusement, Inc. v. Wilkins Family Restaurants of America, 673 S.W.2d 523, 527 (Tenn. Ct. App. 1984), the Tennessee Court of Appeals held that a "letter of intent" entered into by the parties during negotiations was a binding and enforceable contract. The court held that the intention of the parties is the critical factor in determining whether a contract was formed. Apco Amusement, 673 S.W.2d at 527. The court stated:

But the existence of a contract, the meeting of the minds, the intention to assume an obligation, and the understanding are to be determined in case of doubt not alone from the words used, but also the situation, acts, and the conduct of the parties, and the attendant circumstances.

Id.

TCMC clearly stated a claim for breach of contract, and it was error for the Trial Court to resolve these factual disputes



covering the formation of a contract on Defendants' motion to dismiss.

- b. Tennessee Christian Medical Center properly alleged the conduct and willfulness of Nashville Memorial Hospital and the detrimental reliance of Tennessee Christian Medical Center necessary to state a claim for promissory estoppel.

To state a claim for equitable estoppel, the plaintiff must allege: (1) words, acts, conduct, or acquiescence which cause another to believe in a certain state of things; (2) willfulness or negligence with regard to the acts, conduct or acquiescence, and (3) detrimental reliance by the other party. Skinner v. Thomas Nelson, Inc., No. 88-73-II, 1988 WL 99726 (Tenn. Ct. App. Sept. 28, 1988).

TCMC alleged the elements necessary for its equitable estoppel claim. TCMC has alleged words, acts and conduct which caused it to believe that Defendants would negotiate in good faith with TCMC. R-I p. 62. Next, TCMC has alleged willfulness and/or negligence on the part of Defendants with regard to the words, acts and conduct. R-I p. 62. Finally, TCMC alleged that if detrimentally relied on the words, acts and conduct of Nashville Memorial. R-I p. 62. It was, therefore, error for the trial court to dismiss this claim as well.

## VII. CONCLUSION

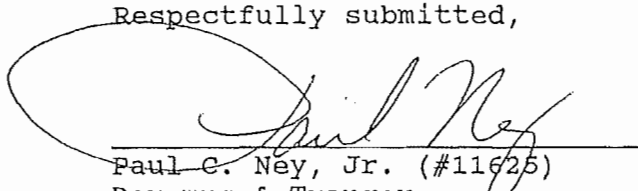
For the reasons stated above, Plaintiffs/Appellants, Adventist Health System/Sunbelt Health Care Corporation and Adventist Health System/Sunbelt, Inc. d/b/a Tennessee Christian Medical Center, individually and on relation of the state of Tennessee, respectfully request the following relief.

First, Plaintiffs/Appellants request that the Court remand this action to the Trial Court with an order that the Trial Court conduct an in limine hearing on whether Plaintiffs/Appellants are entitled to proceed as a relator under the Tennessee quo warranto statutes, T.C.A. § 29-35-101, et seq.

Second, Plaintiffs/Appellants request that this Court reverse the Trial Court's dismissal of Plaintiffs'/Appellants' Counts I through V of the First Amended Verified Complaint and remand those claims to the Trial Court for further proceedings.

Third, Plaintiffs/Appellants request that this Court reverse the Trial Court's dismissal of Plaintiffs'/Appellants' Counts VI and VII, and remand those claims to the Trial Court for further proceedings.

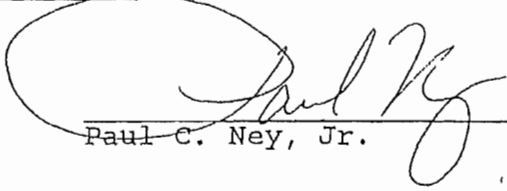
Respectfully submitted,



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Certificate of Service

I hereby certify that a true and exact copy of the foregoing has been provided to the persons or entities listed below, by depositing the same in the U.S. mail, first class, postage prepaid on this 31 day of October, 1994.

  
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