IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

MCKESSON AUTOMATION, INC., Plaintiff, v. SWISSLOG ITALIA S.P.A. and TRANSLOGIC CORPORATION, Defendants.	**PUBLIC VERSION** C.A. No. 06-028 (SLR-LPS) Confidential Version Filed: June 20, 2008 Public Version Filed: June 10, 2008

DECLARATION OF BRYAN N. DEMATTEO IN OPPOSITION TO MCKESSON'S MOTION FOR RECONSIDERATION

I, Bryan N. DeMatteo, declare as follows:

1. I am associated with the law firm Dickstein Shapiro LLP, counsel of record for Defendants Swisslog Italia S.p.A and Translogic Corporation (collectively "Defendants"). I make this declaration in support of Defendants' Opposition to McKesson Automation, Inc.'s Motion for Reconsideration (Re: D.I. 310).

2. Attached as Exhibit A is a true and correct copy of the Assignment of Invention dated June 29, 1990, bearing bates numbers M0143293 – M0143294.

3. Attached as Exhibit B is a true and correct copy of a letter dated June 24, 1992 to the Commissioner of Patents from Lynn J. Alstadt, enclosing an original assignment document, bearing bates numbers M0125290 – M0125294.

4. Attached as Exhibit C is a true and correct copy of a post-it note dated June 27, 1990 authored by Frank Demmler, and forwarding draft promissory notes to Sean McDonald, bearing bates numbers M0474917 – M0474919.

5. Attached as Exhibit D is a true and correct copy of a letter from David Cohen to Mark I. Baseman, dated January 3, 1991, forwarding voided Promissory Notes, bearing bates numbers M0474908 – M0474913.

6. Attached as Exhibit E is a true and correct copy of excerpts from the transcript of the deposition of Frank Demmler, taken January 17, 2008.

7. Attached as Exhibit F is a true and correct copy of excerpts from the transcript of the deposition of Marlin Stephen Heilman, taken January 17, 2008.

8. Attached as Exhibit G is a true and correct copy of excerpts from the transcript of the deposition of Sean McDonald, taken August 30, 2007.

9. Attached as Exhibit H is a true and correct copy of a bill for professional services rendered by Cohen & Grigsby, dated July 19, 1990, bearing bates numbers M0477006 – M0477013.

10. Attached as Exhibit I is a true and correct copy of a excerpts of a due diligence file which includes a Stock Purchase Agreement, Promissory Notes and an Assignment of Invention, bearing bates numbers M0143186; M0143189; M0143288 – M0143294; M0143797.

11. Attached as Exhibit J is a true and correct copy of unsigned declarations of L. Frank Demmler and M. Stephan Heilman, bearing bates numbers M0480865 – M0480867 and M0480935 – M0480937.

12. Attached as Exhibit K is a true and correct copy of the transcript of the telephone conference held before the Honorable Mary Pat Thynge on October 24, 2007.

13. Attached as Exhibit L is a true and correct copy of the transcript of the pretrial conference held before the Honorable Leonard P. Stark on May 20, 2008.

14. Attached as Exhibit M is a true and correct copy of a letter dated May 22, 2008 from opposing counsel to the Honorable Leonard P. Stark.

15. Attached as Exhibit N is a true and correct copy of cancelled Promissory Notes, bearing bates numbers M0474909 – M0474913.

I declare under penalty of perjury that the foregoing is true and correct to the best of my information and belief. This declaration is executed this 20th day of June, 2008.

____/s/ Bryan N. DeMatteo_____
Bryan N. DeMatteo

2377257

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that on July 10, 2008 I electronically filed the foregoing with the Clerk of the Court using CM/ECF which will send notification of such filing to the following:

Dale R. Dubé, Esquire
Blank Rome LLP

Additionally, I hereby certify that true and correct copies of the foregoing were caused to be served on July 10, 2008 upon the following individuals in the manner indicated

BY E-MAIL

Dale R. Dubé, Esquire
Blank Rome LLP
Chase Manhattan Centre
1201 Market Street, Suite 800
Wilmington, DE 19801

Blair M. Jacobs, Esquire
Sutherland Asbill & Brennan LLP
1275 Pennsylvania Avenue, NW
Washington, DC 20004

/s/ Julia Heaney (#3052)

Julia Heaney (#3052)
jheaney@mnat.com

EXHIBIT A

FULLY REDACTED

EXHIBIT B

40-581-D



Buchanan Ingersoll
PROFESSIONAL CORPORATION
ATTORNEYS

59th FLOOR • 600 GRANT STREET
PITTSBURGH, PA 15219
412-562-8900
TELEX 866514 (BIPC PGH)
TELECOPIER 412-562-1041

June 24, 1992

RECEIVED
92 JUL -7 AM 11:02
ASSIGNMENT BRANCH

Hon. Commissioner of Patents
and Trademarks
Washington, D. C. 20231

Re: United States patent application of
Sean C. McDonald et al. for AN AUTOMATED
SYSTEM FOR SELECTING AND DELIVERING PACKAGES
FROM A STORAGE AREA, Serial No. 871,832
Filed April 2, 1992 - Our Ref. 920015

Dear Sir:

Enclosed herewith for recording in the above-identified patent application is an original assignment document from Sean C. McDonald, Ellen J. Hertz, James A. Smith and Gregory Toto to AUTOMATED HEALTHCARE, INC., a Pennsylvania corporation.

Enclosed is a check for $40.00 to cover the cost of the recordation fee.

Upon completion of the recordation process, please return the recorded document to the address shown above.

Respectfully submitted,

Lynn J. Alstadt
Registration No. 29,362

LJA/vjs

Enclosure

REEL 6177 FRAME 0500

91830853

100 FW 07/02/92 07871832 1 581 40.00 CK

A S S I G N M E N T

WHEREAS, We, Sean C. McDonald, Ellen J. Hertz, James A. Smith and Gregory Toto, respectively residing at Pittsburgh, Allegheny County, Pennsylvania; Clemmons, Forsyth County, North Carolina; Allision Park, Allegheny County, Pennsylvania and Santa Cruz, Santa Cruz County, California, have invented certain new and useful improvements in AN AUTOMATED SYSTEM FOR SELECTING AND DELIVERING PACKAGES FROM A STORAGE AREA, a continuation-in-part of Serial No. 07/469,217, filed January 24, 1990, for which we have on April 21, 1992, filed an application for United States Letters Patent, which application bears Serial No. 07/871,832;

AND WHEREAS, Automated Healthcare, Inc. a Pennsylvania corporation having a place of business at 261 Kappa Drive, Pittsburgh, Pennsylvania 15238, hereinafter called the "assignee", is desirous of acquiring the entire right, title and interest in and to said application and the inventions and improvements therein disclosed;

NOW, THEREFORE, in consideration of One ($1.00) Dollar and other good and valuable consideration paid to us by said assignee, receipt whereof we acknowledge, we do hereby assign, sell, transfer, and set over unto said assignee the entire right, title, and interest in and to said application and the inventions and improvements therein disclosed for the United States and all

REEL 6177 FRAME 0501

generally do all other and further lawful acts, deemed necessary or expedient by said assignee or by counsel for said assignee, to assist or enable said assignee to obtain and enforce full benefits from the rights and interests herein assigned. This assignment shall be binding upon our heirs, executors, administrators, and/or assigns, and shall inure to the benefit of the successors, and/or assigns, as the case may be, of said assignee.

EXECUTED:

June 19, 1992 — Sean C. McDonald (SEAL)

June 8, 1992 — Ellen J. Hertz (SEAL)

June 17, 1992 — James A. Smith (SEAL)

June 18, 1992 — Gregory Toto (SEAL)

REEL 6177 FRAME 0503

State of [illegible] : ss:
County of [illegible]

Notarial Seal
Michael C[illegible] Notary Public
[illegible] County
My Commission Expires Oct. 3, 1992
Member, Pennsylvania Association of Notaries

Before me, a Notary Public in and for the said County and State, personally appeared SEAN C. McDONALD who acknowledged that he is one of the persons who executed the foregoing assignment and acknowledged it to be his free and voluntary act and deed.

Witness my hand and notarial seal this 19 day of June, 1992.

Notary Public

(NOTARIAL SEAL)

State of North Carolina :
: ss:
County of Forsyth :

Before me, a Notary Public in and for the said County and State, personally appeared ELLEN J. HERTZ who acknowledged that she is one of the persons who executed the foregoing assignment and acknowledged it to be her free and voluntary act and deed.

Witness my hand and notarial seal this 8 day of

[illegible], 1992.

OFFICIAL SEAL
MARILYN TEMPLES
NOTARY PUBLIC NORTH CAROLINA
COUNTY OF FORSYTH
My Commission Expires February 2, 1993

(NOTARIAL SEAL)

Marilyn C. Temples
Notary Public

REEL 6177 FRAME 0504

State of :
: ss:
County of :

Notarial Seal
Michael D. Perry, Notary Public
Blawnox Boro, Allegheny County
My Commission Expires Dec. 3, 1992
Member, Pennsylvania Association of Notaries

Before me, a Notary Public in and for the said County and State, personally appeared JAMES A. SMITH who acknowledged that he is one of the persons who executed the foregoing assignment and acknowledged it to be his free and voluntary act and deed.

Witness my hand and notarial seal this 19 day of

June, 1992.

Michael D. Perry
Notary Public

(NOTARIAL SEAL)

RECORDED
PATENT & TRADEMARK OFFICE
JUN 26 92

State of California :
: ss:
County of Santa Cruz :

Before me, a Notary Public in and for the said County and State, personally appeared GREGORY TOTO who acknowledged that he is one of the persons who executed the foregoing assignment and acknowledged it to be his free and voluntary act and deed.

Witness my hand and notarial seal this 18th day of June, 1992.

S T Pollastrini
Notary Public

(NOTARIAL SEAL)

OFFICIAL SEAL
S T POLLASTRINI
Notary Public-California
SANTA CRUZ COUNTY
My Commission Expires
May 27, 1995

REEL 6177 FRAME 0505

EXHIBIT C

FULLY REDACTED

EXHIBIT D

FULLY REDACTED

EXHIBIT E

FULLY REDACTED

EXHIBIT F

FULLY REDACTED

EXHIBIT G

FULLY REDACTED

EXHIBIT H

FULLY REDACTED

EXHIBIT I

FULLY REDACTED

EXHIBIT J

FULLY REDACTED

EXHIBIT K

IN THE UNITED STATES DISTRICT COURT

IN AND FOR THE DISTRICT OF DELAWARE

- - -

MCKESSON AUTOMATION, INC., a Pennsylvania Corporation, : CIVIL ACTION

Plaintiff, :

v :

SWISSLOG HOLDING AG, SWISSLOG MANAGEMENT AG, TRANSLOGIC CORPORATION, and SWISSLOG NORTH AMERICA, : NO. 06-28 (***)

Defendants.

- - -

Wilmington, Delaware
Wednesday, October 24, 2007 at 5:03 p.m.
TELEPHONE CONFERENCE

- - -

BEFORE: HONORABLE MARY PAT THYNGE, U.S. MAGISTRATE JUDGE

- - -

APPEARANCES:

BLANK ROME, LLP
BY: DALE R. DUBE, ESQ.

and

SUTHERLAND ASBILL & BRENNAN, LLP
BY: BLAIR M. JACOBS, ESQ., and
KATHERINE LAHNSTEIN-BERTOCCI, ESQ.
(Washington, District of Columbia)

Counsel for Plaintiff

Brian P. Gaffigan
Registered Merit Reporter

SHEET 2

APPEARANCES: (Continued)

MORRIS NICHOLS ARSHT & TUNNELL, LLP
BY: JULIA HEANEY, ESQ.

and

DICKSTEIN SHAPIRO MORIN & OSHINSKY, LLP
BY: ALFRED R. FABRICANT, ESQ.
(New York, New York)

Counsel for Defendants

- oOo -

P R O C E E D I N G S

(REPORTER'S NOTE: The following telephone conference was held in chambers, beginning at 5:03 p.m.)

THE COURT: Good afternoon, this is Judge Thynge.

MS. DUBE: Good afternoon, Your Honor. This is Dale Dube of Blank Rome for McKesson Automation. Also on the line for McKesson is lead counsel Blair Jacobs and Katherine Lahnstein-Bertocci of Sutherland Asbill's Washington, DC office.

THE COURT: I'm sorry. The last name, Bertocci?

MS. DUBE: Yes, her new name is Katherine Lahnstein-Bertocci.

THE COURT: Okay. Now I understand. I kept

looking at the list. I only have a Katherine Lahnstein. Congratulations, Katherine!

MS. LAHNSTEIN-BERTOCCI: Thank you.

MS. HEANEY: Your Honor, this is Julie Heaney for defendants; and on the line I have Fred Fabricant.

THE COURT: Good afternoon to you, too.

MR. FABRICANT: Good afternoon, Your Honor.

THE COURT: I understand that there is a bit of a dispute arising on the issue as to whether there should be an extension allowed for McKesson to take some additional discovery on the issue of the motion to dismiss. This is McKesson's motion, I believe, so I'll allow McKesson to start off and then Swisslog will be allowed to respond.

Before we do get started on this, has there been contact between the parties and Judge Stark in this case about mediation?

MR. JACOBS: There has, Your Honor. There is a currently scheduled date of November 20th.

THE COURT: All right. Thank you. Who just said that?

MR. JACOBS: That was Mr. Jacobs.

THE COURT: All right. Mr. Jacobs, then I guess you go forward.

MR. JACOBS: Yes, Your Honor. As we indicated in our paper, we are only seeking a slight additional

period of time here. We have noticed the depositions of two individuals that we believe have information that is extremely important to understand the circumstances surrounding the assignment at issue; and we noticed them, those depositions to occur on October 29th, which was the earliest we were able to notice them.

Originally, the defendants had noticed these individuals and we had relied upon the fact that they were going to proceed with the depositions of these individuals. We've then produced some documents demonstrating that the loans at issue that created the assignment essentially had been paid in full and found out shortly after that that the defendants were not going to proceed with depositions of these individuals that have knowledge of the facts surrounding the assignments.

The assignments took place 16 years ago, Your Honor, so we're trying to recreate some facts that took place a long, long time ago. Until this point, about six weeks ago when this was brought to our attention, all we knew was that everything at the Patent Office indicated that McKesson was the rightful owner of these patents. The individuals who had been involved from McKesson's end with the assignment believed that McKesson and Automation Healthcare were the appropriate and proper owners of the patents in suit. So everything that we had seen indicated

that McKesson was the lawful owner of these patents.

When the issue was brought to our attention about six weeks ago, we did start investigating. We did dig up some additional documents we have produced on the issue and now we just need a little bit of additional time to wrap up the depositions of these individuals; and we're gathering one or two declarations showing that people who were involved with the circumstances clearly understood that no formal reassignment in writing was necessary because the assignment was extinguished when the promissory note was extinguished.

One final fact, Your Honor. Mr. Heilman, one of the individuals who we're seeking to depose, was on the board of directors of the company that executed the assignment, Automated Healthcare, and he authorized assignment of the same technology and the same patents four years subsequent to the assignment at issue here in 1994 while he was still on the board of directors at Automated Healthcare. We believe that that is just a clear indication that he understood that the patents in fact were the property of Automated Healthcare. We have no way of bringing that evidence in to dispute this issue and to show the circumstances surrounding the acquisition of this property unless we have a brief opportunity to talk to Mr. Heilman, and we only need a short period of time after those depositions

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to bring our opposition to the court, just a few days. Five-six days, we can get everything together and bring it to the court.

So under the circumstances, Your Honor, we don't think that there is any evidence that we've acted in bad faith. We have moved diligently since the issue was brought to our attention.

And, secondly, on the issue of prejudice, the only thing that is brought up in the letter put forth here by the defendants is essentially that it would allow the case to carry on for a short additional period of time, assuming that their position here was correct. In contrast to that, there would be great prejudice in responding with regard to the motion if we were not allowed just a brief additional period of time to gather facts that are necessary to fully apprise the court with regard to the circumstances surrounding this transaction.

THE COURT: If the court grants your request, Mr. Jacobs, will the two depositions go forward on October 29th? And implied by that question is the following: Are the witnesses available at that time? And is opposing counsel available?

MR. JACOBS: Your Honor, I have left three messages, the last one yesterday afternoon at approximately 4:00 p.m. with an individual by the name of Mr. Cohen who is

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the intermediary. He is a lawyer who is the intermediary for both of the individuals who we seek to depose, and I asked him precisely that question. I also told him that we had availability on the 30th, on the 1st of November and the 2nd of November to accommodate their schedules. That was the third message I have left for him, one voice mail message and two written messages. I have not heard back from him. I was assuming perhaps he had heard that the defendants were looking to prevent these depositions from going forward and so he has not responded to me. It is on my list this evening to follow-up with him once again.

THE COURT: And where are these individuals?

MR. JACOBS: They're both in Pittsburgh, Your Honor, and we could do them both in one day back to back, and that is what I told Mr. Cohen.

THE COURT: Okay. Thank you.

MR. FABRICANT: Your Honor, this is Fred Fabricant for the defendants.

THE COURT: You may proceed.

MR. FABRICANT: Yes. I'd like to start with a legal premise and then address the factual scenario that has developed over the last several months since August 22. The most important matter which I think is controlling here is that this is a standing-to-sue issue under Article III and that in order to have the right to bring this action, we

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believe that the rights have to be owned by McKesson.

We also believe, just as a primary issue here, that regardless of depositions or anything else that the plaintiff has brought to the court's attention, this court doesn't have jurisdiction, respectfully, to decide who owns the rights as between McKesson, on the one hand, and the Pittsburgh rights holders, who are a group of both individuals and entities, on the other hand because ultimately it would be a denial of due process of law unless they are willing to submit themselves to this jurisdiction and be part of this action for the court to decide who owns the rights. What Mr. Jacobs ultimately will have to do here we believe is litigate this issue of rights ownership under Pennsylvania law, and we don't think that is the proper position of this court in a patent infringement suit where my client, two years ago, was sued for patent infringement where the primary consideration that plaintiff and his counsel had to make is do they have the rights and do they have the standing to sue. So we think ultimately here we're leading down to a path to dismissal regardless of what these two deponents might say.

Now, with that introduction, Your Honor, I would add some very important facts. I first personally brought the issue of rights ownerships to Mr. Blair Jacobs' attention on August 22 at the deposition of Mr. Tease, who

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is one of the founders of the company. He was not able to identify whether or not AHI, and subsequently McKesson, was the owner of the right affirmatively. We took the deposition of the 30(b)(6) witnesses who were identified as the persons with knowledge of patent title and ownership. There was no McKesson witness, including the 30(b)(6) witnesses, who were able to testify that in fact McKesson has those rights, that there ever was an assignment back.

That's two months ago, Your Honor. From the time we first put Mr. Jacobs on notice, we wrote to him at least four times and received no substantive response other than the fact that he was looking into it.

We finally came to the October 10 deadline for the noticing of depositions in this case applicable to both parties. McKesson chose not to notice depositions of any of these prospective rights holders in Pittsburgh, Pennsylvania. Remembering that these rights holders are all in Pittsburgh, Pennsylvania, we don't believe they're subject to personal jurisdiction in the District of Delaware, and it was only a week after our motion was made to dismiss that McKesson first decided that they wanted to take the depositions of these rights holders.

Now, we, on October 10, did notice the depositions of two of these or three of these rights holders and we only did it for one reason. We didn't know what the

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response to the motion to dismiss would be and we wanted to preserve our right to take their deposition if something came in, but we had no direct intention to take it and later abandoned our intention to take those depositions.

We don't believe this crucial issue that Mr. Jacobs has brought to the court's attention, whether or not the loan was repaid, is dispositive of the issue of the rights. In fact, for purposes of this discussion today, Your Honor, we could assume that the loans were repaid. We still have an assignment, an absolute assignment under Pennsylvania law. That assignment in the assignment documents states that they own 100 percent of the rights. The contract which was signed contemplated an assignment back, a written assignment back which never took place. There may be some contract disputes now between McKesson on the one hand and the rights holders on the other hand.

Now to address the real serious legal issues here. The public policy behind the standing law is that there not be a threat of multiple litigation; that defendants, including my clients, not be subjected to lawsuits from numerous parties. As a matter of fact, I've been advised by the rights holders counsel Mr. Cohen who called me that the McKesson counsel have submitted declarations to him and to his clients for them to sign and they have refused to sign them. So we have a clear

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dispute here as to ownership of these rights, we have a clear dispute as to whether or not there are multiple parties who claim to own these rights, and this is not the case nor the time to litigate those rights under Pennsylvania contract law.

I would also bring to the court's attention that there are several decisions, including a decision from the Federal Circuit which is very close, very analogous to the present situation. It's the Arachnid case from 1991. It came out of the District Court of Pennsylvania. It's a decision by the Federal Circuit. And in that case, it held specifically that a promise to assign in the future unless it takes place is merely a contract right and does not vest legal title if the assignment actually never took place. And in that case, the Federal Circuit actually reversed the District Court which had deemed the plaintiff the owner as a result of that promise and the Fed Circuit reversed.

So we believe there are legal issues here. We believe that this can't be litigated in the District of Delaware to take rights away from the Pennsylvania investors.

And now, coming down to Your Honor's role here as United States Magistrate on the discovery issues, I think the reason the depositions shouldn't go forward very simply is with all of that background, McKesson chose not

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to notice their depositions prior to the October 10 cutoff, chose not to notice them until after our motion to dismiss, Your Honor, only last week produced a box of documents from dated back in 1994, none of which are an assignment back to the rights holders in Pennsylvania, from them to McKesson. And then this box of documents, which should have been produced a year ago, mysteriously disappeared, and now what we're told are probative documents on that issue but not dispositive are now produced for the first time.

We're not happy or comfortable with the way this is going forward. Our client has spent millions of dollars to defend an action which we believe ultimately has to be dismissed, and to allow McKesson now, long after the cutoff, long after the issue was first brought to Mr. Jacobs attention in August, to now take yet additional further depositions which will take us nowhere as a matter of law is just not equitable or fair. And that's our position, Your Honor.

THE COURT: All right. Thank you.

Mr. Jacobs.

MR. JACOBS: Well, Your Honor, first of all, we're more than comfortable that Delaware courts can construe Pennsylvania law. It's a very, very simple securities issue that has been construed in the past on numerous occasions. As a matter of fact, there are several

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Pennsylvania cases that decide this issue of law with regard to extinguishment of rights, dead on the mark.

We have not come across any case, Your Honor, in the history of jurisprudence that has required a written assignment back where an assignment is extinguished as part of a security interest, so a lot of the legal argument that Mr. Fabricant is making is a legal argument that will ultimately be decided by the court with regard to the standing issue. We are more than comfortable that the Delaware court can do this in looking at the facts surrounding the motion to dismiss.

The one point that I would like to raise is that whenever we're looking at the interpretation of written documents, one of the key points of assessing the understanding of those words is the understanding of the parties who were involved in the transaction. Your Honor, we moved forward immediately after finding out that the defendants were not going to depose these individuals. We were going to just cross-depose them when they deposed them, when they served their notices on October 10th. As soon as we found out that they weren't going to move forward with their depositions, we noticed them immediately because all we want to do is to have the facts come out so the court can look at the circumstances surrounding the transaction because the law in every jurisdiction is eminently clear

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that in understanding the words in written documents and what happens as a result of those words, the circumstances surrounding it and the understanding of the parties who were involved is a key consideration. And we're only asking for a reasonable amount of time to move forward, to gather those facts.

If, in fact, the defendants want to raise this issue of whether the Delaware court can interpret the Pennsylvania law under these circumstances, they can do so in their reply brief to the motion to dismiss. I could just say quickly that's the first time I've heard of the issue but it sounds like they're trying to raise the interest of a third-party who is not involved in this litigation. Clearly, with regard to McKesson and the defendants who are involved, this court has jurisdiction to decide these issues but I have to hear more from Mr. Fabricant later with regard to where he is going on that one.

As things stand right now, this court is perfectly situated to resolve the standing issue. All we need to do is to gather a few additional facts and to bring them forward. When I look at their papers and when I hear Mr. Fabricant's argument, it just seems to me as if he is just trying, for one reason or another, to deny us the opportunity to gather facts that relate directly to the circumstances that shows what happens in this transaction

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that took place 16 years ago. That is all we want to do. And we're looking in a very focused, efficient, limited way of making that happen.

For that reason, Your Honor, we would just request that you grant us the short period of extension that we have requested. You know, we're perfectly comfortable we'll have everything and that by November 9th our papers will be in, and they can file their reply brief, and then we can sort out at that point in time who would be appropriate to hear this issue and to decide on this issue.

THE COURT: Well, I have got a couple questions. These witnesses that you want to depose are located in Pittsburgh?

MR. JACOBS: Yes, Your Honor.

THE COURT: Does this court even have jurisdiction over them to require them to be deposed?

MR. JACOBS: We have noticed their deposition based on the authority of the court in the Western District of Pennsylvania, Your Honor.

THE COURT: Okay.

MR. JACOBS: So the subpoenas have been served and issued and they understand they are bound by those subpoenas.

THE COURT: All right. So you basically filed a miscellaneous action out there?

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MR. JACOBS: Yes, Your Honor.

MR. FABRICANT: Did you file an action?

MR. JACOBS: We did not file an action, Your Honor. We served the subpoenas through that court. We could file an action but our understanding and our past practice has been to serve the subpoenas through the court. The action arises if they move to quash or if they seek a protective order.

THE COURT: That's true. That's true. That is one aspect of it. And then you can get a miscellaneous. You can go through that court out there to find out whether or not the depositions are going to go forward.

MR. JACOBS: Exactly.

MR. FABRICANT: Your Honor? I'm sorry.

MR. JACOBS: We have not heard, Your Honor, that they will not go forward. As a matter of fact, the declarations that were served to us, when we learned that those declarations were not going to be signed, we tried to take the easy route to begin with. We indicated, okay, we'll have to move forward with depositions and we'll get the facts that way. We never heard anything that, oh, no, no, we're going to oppose depositions. Our understanding is these gentlemen have a strong interest in having the truth and the facts come out here.

MR. FABRICANT: Your Honor, it's not the

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question of where they're located for deposition purposes. Obviously, anyone can serve a deposition.

THE COURT: Sure.

MR. FABRICANT: But they're not parties in this action. There is obviously a dispute here as to ownership. They're not willing to sign the declarations that McKesson proffered to them. Their counsel told me they're not willing to sign those declarations. There is a dispute now as to ownership.

THE COURT: Well, I don't know whether there is a dispute as to ownership, and that is one thing the depositions may tell us.

MR. JACOBS: Your Honor, this is Mr. Jacobs. I can tell you we've spoken with Mr. Heilman, and there is not a dispute regarding this.

THE COURT: Well, this is what I'm looking at. We know that the declarations were not signed. The request is being made to take the depositions of these two individuals. It could be, and Fred could be right on this, that in the end these two depositions may not help your case one iota because you may find out that there is a dispute. And if that is the case, and that is a point that Fred has got an argument on the reply and it's got to be addressed because they are not parties to this litigation and now you could end up having a litigation between McKesson and

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another set of individuals, investors who may be claiming that they have an interest or title or ownership of the patent. But I'm going to allow the depositions to go forward. I want to know immediately, and I do mean immediately, if there is going to be any problem with the depositions being completed around October 29th to November 2nd time frame.

MR. FABRICANT: Your Honor, can I speak to that for a second?

THE COURT: Yes.

MR. FABRICANT: I've had a business trip planned for months to Japan, which I leave on October 27th, which is Saturday, and I won't be back in the office in New York until November 12th.

THE COURT: Well, was it your intent to stop everything in this case while you are gone?

MR. FABRICANT: Well, there is not anything other than some depositions which are taking place this week here in New York. I don't believe there is anything scheduled during that period, and these depositions of these Pittsburgh individuals are very important, and I did intend to personally attend them. So I would ask if Your Honor is going to allow these two depositions to take place, that take place some time after November 12th.

MR. JACOBS: Well, Fred, we have depositions

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in Pittsburgh currently scheduled for the 7th and the 9th. Maybe you weren't going to attend those. Look, if we want to go after the 12th and if Fred wants to be there, we're not going to oppose that. We're not looking to create any problems here. We're just looking to get a brief, reasonable period of time to get these facts and to file a response.

MR. FABRICANT: And with respect to the 7th and the 9th, I intend to take those personally and I had not even seen those dates yet. I think you communicated them to --

(Unidentified Speaker): You were served the alternative dates yesterday, Fred.

MR. JACOBS: Well, Fred, you and I will follow-up separately on that issue.

THE COURT: Thank you. I don't want to get involved in that tete-a-tete right now.

MR. JACOBS: We'll follow up.

THE COURT: A couple things need to be done. I think it needs to be confirmed as to the availability of the witnesses and what date the deposition is going to be taken, and I strongly recommend it gets done in the November time frame. That is, I would hate to see these depositions go into December.

Once the depositions are taken, you will have

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a week, that is, five working days in which to file your response.

MR. JACOBS: That is acceptable, Your Honor. That's fine.

THE COURT: And defendant, or I should say Swisslog, will have the right to file its answering brief consistent with the local court rules thereafter and its reply brief.

MR. FABRICANT: Yes, Your Honor.

THE COURT: If there is going to be a problem that this is going to be delayed longer, I need to know that.

I also think that in light of this, the parties may want to reexamine the scheduling order that is in this case. The last scheduling order I believe that I'm aware of was the one that was issued -- let me get the date. There might be another one since then because it indicated to me a fourth scheduling order was issued in this case. Yes, that was October 1st.

MS. HEANEY: Your Honor, it was September 28th.

THE COURT: Yes. Well, I think I signed it October 1st, Julie. And the question I have is this obviously is going to affect potentially claim construction. I don't know if it's going to affect claim construction issue identification and whether, in light of this motion,

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the parties are looking to have claim construction and joint claim construction information exchanged along with the briefs and case dispositive motions moving forward.

MR. JACOBS: The parties will sit down and discuss that, Your Honor. We should be able to work that out.

THE COURT: And there should be another discussion, and that is whether the parties desire to have a Magistrate Judge decide the issue of, whether it's myself or Judge Stark, but to have -- I guess not Judge Stark because he is going to be doing the mediation -- to have a Magistrate Judge, which leaves me, decide whether you have that desire to have the judge decide the motion to dismiss. You can choose just to have a Magistrate Judge decide certain case dispositive motions without consenting to that Magistrate Judge's jurisdiction for trial. I can't guarantee you how soon it would be addressed.

MR. JACOBS: Your Honor, just from a procedural standpoint, under the court's local rules, would that be a recommendation or can a Magistrate Judge decide dispositive issues that are Article III issues under the court's local rules?

THE COURT: If you read 28 U.S.C., Section 636 -- and the local rules do not supersede that -- if the parties consent to a Magistrate Judge's jurisdiction for

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whatever purpose, the Magistrate Judge then stands in the position of the District Court Judge for that purpose. And 28 U.S.C., Section 626 outlines a lot of that, along with the Federal Rules of Civil Procedure under Rule 72, I believe. And I don't believe our local rules obviously would conflict with those provisions. So in short, yes, we can serve in that capacity.

MR. JACOBS: Okay.

THE COURT: We do it all the time. I think, Julie, there was a case in which your office consented to my jurisdiction on the issue of, claim construction was one particular point that came from an appeal, after appellate review, and it came back. This was after Judge McKelvie left. The parties consented to my jurisdiction to issue that claim construction on that particular claim term and decide summary judgment motion on infringement so that enabled the parties to go back up to the Fed Circuit immediately or soon thereafter to have it decided whether my claim construction on that particular term was correct.

So the parties can consent. If you give consent, wherever you give the consent to, to the extent you give the consent, that is how much you are bound and you don't go through the report and recommendations situation.

MR. JACOBS: Okay.

MR. FABRICANT: Your Honor, we do have one

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further request in connection with this ruling allowing these two depositions to go forward.

THE COURT: Yes, sir.

MR. FABRICANT: We would ask, since there has been communications with these investors, rights holders from the McKesson side, there have been declarations exchanged or proffered, there have been e-mails or communications, we believe we would be entitled to discovery in advance of their depositions to gather whatever communications have taken place because those may be documents or information that affect the testimony of those witnesses.

MR. JACOBS: We don't have any problem with that.

THE COURT: Then fine, get it exchanged. If you have no problem with it, get it exchanged as soon as possible.

MR. JACOBS: We'll do that.

MR. FABRICANT: Thank you, Your Honor.

THE COURT: Thank you, counsel. I probably will not be issuing a separate order but will rely upon the discussion we had here today. My ruling is contained in the transcript.

MR. JACOBS: One point of clarification, Your Honor. If we're going to produce information that we've exchanged with the investors, it has come to our understanding that the defendants have tried to purchase the rights that these individuals do not have and so we're going to want to take discovery with regard to that. We believe that if there has been anything in writing exchanged from counsel for the defendants with Mr. Heilman, Mr. Demmler, anybody at PSF, that we should certainly be entitled to that as well. Is that okay, Your Honor?

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THE COURT: What is your position?

MR. FABRICANT: Your Honor, we've made no type of written e-mail or other type of writing, offered to purchase anything from them.

THE COURT: But that doesn't answer the question.

MR. JACOBS: Yes. If it's oral, we want discovery into it. That's my point.

MR. FABRICANT: Well, then we'll have to take each other's depositions, I guess.

MR. JACOBS: No, no. Of the individuals, Fred. We can just ask the individuals what is said to them.

MR. FABRICANT: Yes. At a deposition, obviously we'll all be free to ask the individuals about any communications they had.

MR. JACOBS: That's fine.

THE COURT: That's fine. Well, first of all, they're not subject to privilege anyhow because as far as I

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know, neither one of you are representing those individuals.

MR. FABRICANT: That is correct.

THE COURT: In fact, you pointed out to me there is a Mr. Cohen representing them.

MR. FABRICANT: That's correct.

MR. JACOBS: That's correct.

THE COURT: That's the only place where I could see attorney-client privilege arising, and the privilege rests with the individual, but I don't think there is any work product privilege if you disclosed it to a third-party.

MR. JACOBS: Agreed, Your Honor.

THE COURT: All right. That's fine. Is there anything else before we get off the line? You might as well take your last crack.

MR. JACOBS: That's all, Your Honor.

THE COURT: Okay. Thank you, counsel.

MR. FABRICANT: Thank you, Your Honor.

THE COURT: Good-bye now.

(The attorneys respond, "Thank you, Your Honor.")

(Telephone conference ends at 5:33 p.m.)

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EXHIBIT L

IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE DISTRICT OF DELAWARE

- - -

MCKESSON AUTOMATION, INC., :
:
Plaintiff, :
: C.A. No. 06-028 (SLR/LPS)
v :
:
SWISSLOG ITALIA S.P.A. and :
TRANSLOGIC CORPORATION :
:
:
Defendants. :

- - -

Wilmington, Delaware
Tuesday, May 20, 2008 at 11 a.m.

PRETRIAL CONFERENCE

- - -

BEFORE: LEONARD P. STARK, MAGISTRATE

- - -

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- oOo -

P R O C E E D I N G S

(REPORTER'S NOTE: The following Pretrial Conference was held in open court, beginning at 11:00 a.m.)

THE COURT: Good morning.

MR. JACOBS: Good morning, Your Honor.

MR. FABRICANT: Good morning, Your Honor.

THE COURT: Welcome to you all. This is the time, as you all know, that we have set for oral argument on, I believe, it's four separate motions. If I am right, Swisslog is the movement on three and McKesson on the other. But I think it will be easiest for me if I just give you each time to address whatever issues it is that you want to address.

And since the primary motion is the motion to dismiss for lack of standing, I want to hear first from Swisslog. Okay.

MR. FABRICANT: Good morning, Your Honor.

THE COURT: Good morning.

MR. FABRICANT: Your Honor, I am Fred Fabricant from the law firm of Dickstein Shapiro, representing the defendants in the case. Our instructor, Brian DeMatteo, also with the law firm of Dickstein Shapiro, and Julie Heaney is our local counsel.

Your Honor, the motion to dismiss for lack of standing started as a motion for lack of standing on its own. And it started out that way because during the course of reviewing the documents produced by the plaintiff in the spring and summer of 2007, we discovered a file, which was a due diligence file, of the McKesson attorneys that had been used in connection with their acquisition of the AHI Company, which was the original owner of the patents in suit.

And what we found when we reviewed that file was that there had in fact been an assignment, an actual outright assignment, with an assignment document to two separate parties. And, Your Honor, if I may, because there are some documents I would like to go through today, all of them are exhibits to the papers before the Court, but just for reference sake, to show the Court several of these as we go through.

THE COURT: That's fine.

MR. FABRICANT: And this is the assignment document, which is in DeMatteo Moving Declaration Exhibit B. This is the document which was executed by Sean McDonald, the president and founder of AHI, so there is no question he was a person of authority. And this document conveys to two parties, 100 percent of the interest in the then pending patent application and all subsequent rights that might develop as a result of that patent application, including patents that would issue continuations and the like.

THE COURT: This copy, though, it's only signed by Mr. McDonald, I believe. Is that typical for an assignment agreement that only the assignor is signing, and have you seen a copy that would be signed by both sides?

MR. FABRICANT: I don't think it's typical that an assignee signs an assignment document, Your Honor.

THE COURT: And is that a relevant consideration, since I understood your position to be, at least in part, look at the face of this assignment agreement on its own and separate and independent from the notes and the term sheets and the stock purchase agreement, since this recites consideration and it seems clear and unambiguous, but it is in fact only signed by one side to the transaction. So I'm not sure that I could consider it in the abstract and not with all the

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other documents.

MR. FABRICANT: I understand. I do believe that it is common practice for the assignor to sign an assignment document and for the assignee not to be present as a signatory on an assignment document. That is common in the practice of patent assignments. This document states consideration on its face, having been received and in addition to other stated consideration. It clearly conveys 100 percent -- not unlike if I transferred my automobile to Mr. Drucker, and I signed the title to Mr. Drucker and I conveyed 100 percent of my interest. Mr. Drucker doesn't sign the form that I convey my interest to him. It's not even a place for it on the title assignment.

THE COURT: Let me ask you this: Would AHI as the assignor have an enforceable right to the one dollar consideration, absent any signature from the assignee?

MR. FABRICANT: Well, the consideration is stated as having been received, I believe, so I guess they wouldn't. And I realize this is typical lawyer boilerplate consideration having been received of one dollar, but that's why it's stated as consideration received.

THE COURT: So just to put the fine point on it. Is it your view that this assignment agreement is legally enforceable in and of itself as a separate stand-alone document.

MR. FABRICANT: Yes, it is. Now, I don't ask the Court obviously to ignore the other documents which have been presented to the Court, but I do believe that we start with the premises that this is a legally enforceable assignment document, and that if other things had not happened here -- some of which are still in dispute, Your Honor. It is not undisputed whether this loan arrangement that these gentlemen made at the same time as the assignment, whether those loans were ever repaid. That's an open question.

So putting aside those questions, we believe that this is an assignment that stands by itself. It conveyed 100 percent of the rights to this patent application and technology.

When we discovered this, Your Honor, we immediately asked the McKesson counsel for any evidence of an assignment back or any proof that, in fact, McKesson is in fact the title holder of the patent. This started in about July of 2007, promises to provide us with the information; and ultimately, by October of 2007,

despite our repeated e-mail requests and letters and comments at depositions, nothing was forthcoming. So we made a motion to dismiss the case for lack of standing, which is a matter of subject matter jurisdiction. A party to a patent lawsuit does not have ownership rights or sufficient ownership rights, there is a lack of subject matter jurisdiction. So we believe, as a matter of right, that motion was made and timeliness is not even a factor with respect to that aspect of the motion.

Ultimately the counsel for McKesson asked Magistrate Judge Thyne for permission to take the depositions of the two parties represented by these assigness, Mr. Demmler, who was the manager of the Pittsburgh seed fund, and Dr. Heilman, who was a separate individual assignee. They split it up at 71.4 percent to the fund and 28.6 percent to Dr. Heilman. And at the time McKesson's counsel urged Magistrate Judge Thyne that it was essential, that they had to take these depositions in order to respond. The time for such depositions had passed. We argued that point before Magistrate Judge Thyne, and she allowed them to take those two depositions.

What I think is crucial to this motion is that at the depositions they didn't have any of the

questions which this court, I'm sure, would like to have heard the answer to, like: Do you have an ownership interest in the patent? Do you continue to have an ownership interest in the patent? They didn't ask those questions, Your Honor. They didn't ask those questions, Your Honor, because in the gap of time between the time he made the motion and the time of those depositions, a gap of several months, the counsel for McKesson prepared draft affidavits for both of those witnesses, Dr. Heilman and Mr. Demmler.

And in those draft affidavits, which are part of the record, and I would like to emphasize some points for the Court, they asked these individuals to disavow, in effect, any ownership rights, any continuing claims they might have. They asked these witnesses to confirm that the loans were repaid. And the reason why they did this, Your Honor, was because in this district when one reviews the cases which ultimately were submitted to the Court, it can be readily seen that Judge Robinson herself, in 2006, in the Matthews case and other decisions of both the District of Delaware and other courts, that the crucial factor that often comes into play in these standing motions is whether or not this other nonparty disavows any rights, says I will never

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pursue these rights, and in the 2006 case here in the District of Delaware, that's exactly what was the basis for Judge Robinson's decision. We then find these draft affidavits, which we discovered when we spoke to these witnesses and found out that McKesson's counsel had been in contact and had provided them with draft affidavits. Magistrate Judge Thyne ordered that they produce, and we exchange with each other any communications we have had with these individuals.

THE COURT: And a suggestion, you proposed draft affidavits as well and the inventors refused to sign yours too; is that correct?

MR. FABRICANT: Their characterization is false. We did propose to Mr. Demmler only, not Dr. Heilman, to Mr. Demmler, an affidavit, a proposed affidavit which said only the following -- and I will be happy to submit a copy of it to Your Honor. It is not part of the papers. All it said was, which is what this witness told us on the telephone, "I don't remember whether I assigned that. I don't remember whether the loan was repaid." That's what it said. It did not propose any business relationship. It did not do anything more than that.

However, the affidavits, as I mentioned

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from McKesson's counsel, first Mr. Demmler's proposed after, Exhibit L to Mr. DeMatteo's apply declaration. Here is his draft after; it purports to be on firsthand knowledge of the facts.

On the second page, in paragraph 13 -- and this is important, Your Honor -- they used words about how this individual should characterize this transaction. And they say to secure the repayment of the funds loaned to Automated pursuant to the promissory notes, both the bridge loan and the November loan. The collateral or security for repayment provided by Automated was an assignment of the technology rights associated with the patent application of January 24, 1990."

I focused on that for a moment because that's not the language of the assignment. The assignment and the original promissory note, which is actually executed by Mr. Demmler, is an assignment of the patent application itself, not an assignment of the technology rights. Now I will make this point. When I finish with these affidavits I would like to show Your Honor very important evidence that was produced after this motion was pending. A box was supposedly found of documents never previously were produced which had

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additional information. And in that box were draft promissory notes --

THE COURT: Let me just caution you at this point. I understand you use the word supposedly and you have made certain suggestions that seem to be suggestions of bad faith on the part of your friend on the other side, and unless you really have strong support for that, I rather you stick to the evidence and don't go to "supposedlies."

MR. FABRICANT: Your Honor, I only meant to say documents were produced after the motion was made which were never previously produced.

THE COURT: That's fair.

MR. FABRICANT: Not getting into the reasons why. I don't know the reasons why.

In that box of documents were draft promissory notes for this transaction. And the draft promissory notes did not refer to an assignment of a patent. They referred to an assignment of technology -- not even an assignment. They referred to security interests in technology rights.

And the language being proposed here, when I show Your Honor those draft notes, is really the language of the draft notes, which were rejected, and not

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the language of the notes which were actually executed by the parties. That evidence will go if the Court looks at the substance, the merits of the case at all, and McKesson has made a point of the intent of the parties. The intent of the parties clearly here, as the witnesses testified at the deposition, was to grant an assignment. They felt secure with an assignment of the outright patent as opposed to --

THE COURT: Why after, really after June of '90, why is there no evidence of anyone ever acting as if there was an assignment? That is, in November of '90, you know, they execute the other note and pledge -- I don't know if it's pledge, but they reference assigning those rights again.

But on your view of the case, AHI didn't have any rights to assign for the November note. And then you go forward to 1994, in the Partek transaction, and '96, all the representations made to McKesson. And 17 years or whatever pass and the inventors never actively have any interest. So explain to me, if I am agree with you up until the moment of June 29th of 1990, why is it not the case that everything that happened after that is totally contradictory to your view of the case?

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MR. FABRICANT: Well, point by point, first of all, the subsequent McKesson transaction, the subsequent security transaction in 1994, I believe it was, the subsequent representations to McKesson at the time of the transaction, as those witnesses testified at the deposition, when they were handed a 100-page transaction document from McKesson, which in the first sentence said, you know, you agree that everything stated within this document is accurate and correct, and supposedly had schedules attached. First of all the copies produced didn't have the schedule. We don't know if they ever saw the schedule. They testified they don't know if they ever saw the schedule. Even if they had see the schedule, it didn't refer to the patent application that they had an assignment in; it referred to a patent number that had ultimately issued.

So it's pretty clear they would not have known, even if they had read the document that this covered this particular aspect. With respect to all of the other things, I will put it this way as a result of this lawsuit and as a result of McKesson looking for the assignment back, they stirred up this issue of whether or not there in fact was a proper chain of title and transfer of title. We can't undo that. The result of

this, the result of this is -- even if these individuals from the time of the assignment in 1990 until the fall of 2007 were not awakened to the fact that they have legal title to this, to these patents in suit. As a result of what has happened here they were contacted by McKesson's counsel. They were asked whether they had the assignment backed up. They were given a lot of information about this. They retained counsel. Their counsel actually contacted our law firm and wanted to know whether there was a business transaction that could be resolved here. I don't know. Perhaps they made the same kind of advances toward McKesson. I don't know.

But what's happened here is if there is a party that has legal title, a claim to legal title based upon the transactions, even if they didn't follow it up, over the last however many years, it creates a situation where we now have two parties, two separate groups, a fund with many limited partners, and an individual who is a very sophisticated individual, who may have claims to patents in suit, which they deem as being very valuable. That wasn't as a result of our doing or our making, that's as a result of --

THE COURT: Go back to 1990.

MR. FABRICANT: Yes, Your Honor.

THE COURT: Because I guess I want to hear what do you say about the November 1990 transaction between AHI and the inventors? I think there was another $50,000 loan.

MR. FABRICANT: I don't believe that's at all inconsistent with the prior two assignment documents, the prior two notes entered into in June of that year. And the reason I don't believe it was inconsistent, because that was an additional promissory note which used the same language as the prior notes. If, for example, they wanted to make sure that they still had the assignment, which they already had in their hand, could the words have been different, yes; but if, let's suppose the prior notes had been repaid, but that later note had not been repaid, they wanted to make sure they still had a valid assignment of the patent. It's possible that only one of three would be paid. That two of three would be paid. And I believe it was just, using the same language to make sure it was understood, there was an outright assignment. The assignment was dated June. Now they were borrowing another $50,000. This would have been protected them in the event of default of some but not all of the notes.

I don't believe it's inconsistent that

the mere fact they took another $50,000 from these parties undid the nature of the assignment which had been granted several months earlier.

THE COURT: So the idea that McKesson raises, which is I need to reject your view of the case because otherwise the November '90 transaction is one in which AHI is purporting to sign something that it had no right to sign. You say that's not the way to read that November '90 document?

MR. FABRICANT: I think it's clear they had already received the assignment and therefore the words in the 23406 promissory note which said it shall be secured by an assignment. The assignment had already taken place. There was nothing else they had to do.

THE COURT: Well, it's a nullity what AHI had represented with respect to the assignment.

MR. FABRICANT: I don't believe it's a nullity. I believe it was additional words which gave them security in the situation where the first two loans were repaid and they still --

THE COURT: How can they give that security on your view of the case, AHI didn't have any interest whatsoever in the patent, in the things that they assigned on June 29th of 1990.

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MR. FABRICANT: I agree that AHI did not have a patent to assign in November of 1990. It had already been assigned. I agree with that. That is our position.

THE COURT: So how can AHI say, well, if those first two notes are paid off, you can still use the assignment as security in November '90? I mean, AHI had no ability to control what happened to the assignment, to the patent --

MR. FABRICANT: There might be an assignment back prior to the date. There are a number of things that might have happened and I agree that once you assign something it's not the best use of language to not make that a stated point in the third note. But I don't think it undermines the fact that there was an outright assignment, that they had not been repaid as of the date of November. There is no question about that. So that whatever assignment was made, without any dispute, had clearly not been extinguished or undone. They clearly had made that assignment, there had been no repayment.

THE COURT: I guess the common sense question, going back to it, is you want to take me through and have me focus on the drafts and everything leading up to the moment on June 29th, 1990, when they

executed the assignment agreement as well as those notes, to make it clear, in your view, that the intent of the parties was an absolute assignment and not just a security interest. And yet everything, at least beginning with November 1990, is inconsistent with the parties having such an intent. And so why doesn't that mean that your argument about what the intent was is actually not persuasive?

MR. FABRICANT: Well, it starts with the premise, Your Honor, that this court should even be inquiring into the specific intent of the parties, parties not before this court. It starts with the premise that for this court to look at what was meant by the fact that the two notes which didn't assign the patent and only granted the security interest were rejected days before. It asks this court to construe that intent. Then it asks this court to look at what were the reasons for the November language in the note. And then it asks this court to look at whether the loan was repaid, because if the loan wasn't fully repaid, and I mean all three notes repaid, then even the security interests theory wouldn't fly. Then it asks this court to evaluate the ramifications of the recent Federal Circuit decision, from January 2008, which we cited to

Your Honor, which that court addresses automatic assignments in that case in the context of an employment agreement but no less applicable in the situation of an automatic assignment back as the McKesson people argued, in which case the Federal Circuit in 2008 stated that you would not gain legal title as a result of a promise to assign in the future an automatic assignment back.

The court also went further and said that when it comes to patent assignments, you don't look to state contract law, you look to federal law, which looks to the language of the contract.

So when Your Honor starts taking into consideration all of the factors that McKesson has urged in its opposition, what was the intent of the party, form over substance, were the loans repaid, what's the applicant of a self-extinguishing assignment under Pennsylvania state law, in light of the Federal Circuit decision, and keep in mind the No. 1 thing to point out today, which is once all of this became known and the additional documents produced and the draft affidavits were reviewed and the depositions taken, we could see that the seed fund and Dr. Heilman became necessary and indispensable parties in order for the court to resolve this dispute. How can the court resolve this dispute

without the parties present.

And that's why in reply to all of the factors raised by McKesson -- and all we asked in the initial motion under 12(b)(1) was that they establish they have standing. They raised in opposition all of this, look at the intent, look at the form, all of these issues, which go to the heart of this court having to make a decision without necessary and indispensable parties present. So it became a motion to dismiss as well as 12(b)(1) for lack of standing for, under 12(b)(7), for lack of necessary and indispensable parties.

THE COURT: Could I simply say, though, without reaching the ownership issue fully stopped, that had they met their burden of proof or production at this procedural moment in the case and, you know, the final determination, if necessary, as to ownership will be at a later point in this case.

MR. FABRICANT: Well, that I think gets to the issue of, if Your Honor were to conclude that, as to whether these parties are necessary and indispensable parties. How are we going to decide at a later date or at any date prior to trial, or even at trial, the ownership issues without the parties present that have

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the facts, that have the evidence, that have the potential claim, without them present, whatever result this court adjudicates ultimately would then run face on into the risks of Rule 19. Not only with respect to Swisslog's interests, because obviously we have counterclaims for invalidity of the patent; we have counterclaims for non- infringement of the patent; we have a proposed counterclaims, which we will address with Your Honor, on enforceability of the patent.

If there were be an adjudication, it would not be a final adjudication with respect to the patent. We would have to do it, perhaps, all over again. When it comes to the rights of these individuals in this fund, their rights would be affected. We've cited to Your Honor decisions that, even though the results of this litigation are not res judicata or in collateral estoppel against those entities or those parties, as a practical matter, as the Gonzales case has said in other courts, their rights have been affected. It will be a Markman decision that they will not have been participated in. There may be a practical impact if they have rights to pursue though rights in the future.

So we run smack into the fact that they are a necessary party; they are not, we don't believe,

joinder as feasible, although I don't know plaintiff has tried to join them; that they don't reside in the state of Delaware and they have not done any business here, to our knowledge, so they may not be able to get personal jurisdiction over them, in which this case I think clearly they would be an indispensable party.

THE COURT: Well, with the Federal Circuit decisions in the Applied Companies, which is a case involving a government contract and looking at whether that was an assignment there or a security interest. It's cited by McKesson, but I didn't see where you had a response to it.

MR. FABRICANT: I am trying to recall that case, Your Honor.

THE COURT: Sure. There are a lot of cases.

MR. FABRICANT: A lot of cases.

THE COURT: It's 144 F.3d 1470 (Fed. Cir. 1998), a decision of the Federal Circuit in the Applied Companies vs. United States.

MR. FABRICANT: I don't recall it offhand, Your Honor.

THE COURT: Maybe we will have you back up on rebuttal, if you have anything to say about that.

MR. FABRICANT: What I would like to point out, with respect to the law, is that when Your Honor looks at -- and I thought we had addressed all of the cases cited in their brief.

THE COURT: You didn't address that one.

MR. FABRICANT: You may be right, Your Honor.

But basically, when we went through the cases, case by case, I did not find any case that, where the nonparty, who was the subject of this Rule 19 issue, was a prospective assignee of a patent who might have ultimate ownership rights to the patent and where a court refused to join that -- or where a court allowed a case to go forward without the presence as a necessary indispensable party of a patent owner by assignment. Case by case, as I went through the decisions cited by McKesson, there was the Kahn vs. General Motors case, which was a case where --

THE COURT: You don't need to run through those.

MR. FABRICANT: Right. But I went through them and I will address the case, if I can, which Your Honor has raised. But I didn't find a case where there was an outright assignment where there wasn't some

other issue of either reacquiring the rights or disavowing the rights or disclaiming the rights or some other factor not applicable to the present case but an outright assignment to a nonparty not subject to joinder in the case. I didn't see that in the case law.

THE COURT: What about Section 261 relating to the recording of assignments?

MR. FABRICANT: Yes, Your Honor.

THE COURT: Explain to me your position on that and why that doesn't win the day for McKesson.

MR. FABRICANT: Our position is that very simple, which is Section 261 has one big requirement, and that is that you don't have actual notice of the prior assignment.

THE COURT: And what is the proof here that they had notice of the assignment, specifically the two-page document that you put up earlier?

MR. FABRICANT: Yes, Your Honor. This was produced by McKesson out of McKesson's due diligence files involving their acquisition of AHI in 1956.

THE COURT: So those two pages you put up the assignment of invention that were produced from that folder by McKesson?

MR. FABRICANT: Yes. Along with the

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executed promissory notes, along with some of the other documents relevant to this transaction. It was in a folder marked "McKesson Due Diligence." So we know that, as a matter of fact, I don't see any way to dispute the fact by McKesson, that they had actual notice of the transaction.

And so we believe once you have actual notice, the provisions of 261 do not apply.

THE COURT: And go back to an issue you alluded to of these recent Federal Circuit decisions, I think a couple of them from this year. Help me out on what is at stake, in your view, as to whether I apply federal or Pennsylvania law? Is that an issue I need to reach, and if so, why?

MR. FABRICANT: Well, the DDB Tech case, from January of 2008, was the case that previously I was referring to about the Federal Circuit. I think the ramifications of that case is that this entire theory on the merits that McKesson has raised in opposition, that even if there was no assignment back, the assignment back was in effect self-extinguishing because of the security interest under Pennsylvania state law. I think what the Federal Circuit said in the DDB Tech case was, if you look to federal contract interpretation law, which

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doesn't necessarily take into account the Uniform Commercial Code, and there the court described, looking at the language of the contract, and then they went through that process in that decision where they ultimately remanded to the district court for jurisdictional discovery, which the district judge had not allowed in dismissing the case. So there was no ultimate resolution, as far as I know as of today, but there was a motion to dismiss based on lack of standing; that was a case dealing with an purported automatic assignment. The court not only said, we look to the explicit expressed language of the contract, not to state law in patent cases, but also that made an express statement that the promise to assign in the future or the automatic-assignment scenario would not allow legal title to pass. Even if, even if there was a promise or even if there was to be an automatic assignment, that legal title would not pass. And that was the import, I think, of that decision to this case.

So I would argue, and I think we have stated this in our briefs, that the Pennsylvania provision of the Uniform Commercial Code, as to whether or not this was a security interest rather than an assignment, if it was a security interest, whether it

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would be self-extinguishing not be applicable.

THE COURT: And what about the Akazawa case, which I think is an even more recent Federal Circuit case, in March of this year, which seemed to talk about state law governing patent ownership over federal? I'm not entirely clear, but I'm looking for help on that.

MR. FABRICANT: If I could handle that on rebuttal, Your Honor.

THE COURT: Okay.

MR. FABRICANT: I am just unprepared, Your Honor.

THE COURT: Okay. Why don't -- two things I want to make sure you cover before you sit down. One is are there some new documents that I haven't seen that you wanted to allude to, some recently discovered evidence or something, and also whatever it is you want to tell me about the other motions that we haven't discussed yet.

MR. FABRICANT: Oh, sure. I don't believe there are any new documents that are not attached as exhibits to either McKesson's briefs or declarations or ours, no additional documents.

THE COURT: Okay.

MR. FABRICANT: I do, as I said, I would

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ask the court to look at -- I won't go through them all, but ask the court to look at, if we got into the issue of deciding the merits of this ownership question at all here without these parties present, the draft notes that were rejected, which have very different language which clearly create a security interest and not an assignment of a patent. And the ramification of that on the evaluation of the intent of the parties.

Also, I would point to the fact, and I think this is crucial to Your Honor's decision if you get past the indispensable party issue and actually looked at the merits of the arguments that McKesson has raised, the documents that were produced after the motion was made that were located by McKesson and produced to us, the witnesses were unable to identify or remember or recollect any of the handwriting on these exhibits. They were asked that. They were unable to do that. There is no evidence before the court as to who placed the handwriting destinations on these documents, so we don't know.

One of the issues Your Honor would have to decide, we believe, if it was to be an evidentiary determination of this issue of ownership, is were the loans ever even repaid in full, because without that even

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a security interest theory doesn't cut it. So just for a moment, Your Honor, I would show -- and this causes us some concern -- here is the promissory note that was produced after the motion was filed as to the $42,000 loan, and you can see that there has been placed on the document the word "void." And down at the bottom left it says paid 12/27/90, down here.

THE COURT: Is that for Heilman or for PSF?

MR. FABRICANT: The notes apply to both of them, I believe. This is, I believe, it's both of them. Oh, no, this is Steven Heilman. This is Steven Heilman, Your Honor.

THE COURT: Okay. Just for the record, will you read the Bates number into the record, please.

MR. FABRICANT: Yes. This is Bates No. M0474909. And I believe it was DeMatteo Reply Declaration Exhibit M.

And then there was another document provided at the same time, after the motion was filed, which was DeMatteo Reply Declaration Exhibit M, but at a different page, M0474912 to 13, and this is the $107,000 note. And this was says "Cancelled, paid in full." It looks like the same handwriting, but no one has

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identified whose handwriting this is or who made these notations. And, again, we have what we believe is a disputed issue as to whether there ever was a full repayment of these loans.

And I believe on the lack of standing issue and the indispensable party issue that's all I have for the court at this time.

THE COURT: Okay. And on the other motions?

MR. FABRICANT: Yes, Your Honor.

THE COURT: Was there anything you wanted to say with respect to them?

MR. FABRICANT: Yes. Your Honor, I'm going to address, with the Court's permission, the motion to amend the answers, the answer and counterclaims, and Mr. Drucker will address the other motions.

THE COURT: That's fine.

MR. FABRICANT: Your Honor, on the answer, the amendment, the proposed amendment to the answer and counterclaims, the scheduling order had provided a date for motions to amend cut-off of December 20, 2006. As a matter of fact, no documents were produced before that date, no depositions were taken before that date. The documents were produced from

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McKesson to Swisslog in sort of rolling fashion that began sometime in the spring of 2007, after their deadline had already passed. The document production continued until -- in fact, one of the largest productions, if not the largest of 250,000 pages, occurred in the fall of 2007, long after this deadline had passed. And therefore as a result of the timing of the document productions, depositions in this case, by Swisslog of the McKesson witnesses, the 30(b)(6) depositions didn't start until late May of 2007, long after this deadline had passed. We went into the summer of '07.

And the crucial depositions actually, in large part, were taken during the summer of 2007, culminating in the deposition of Sean McDonald, the founder, inventor, a person with duty of candor, the person who founded the company, on August 30, 2007. So approximately seven days after the deposition of Sean McDonald, we wrote McKesson's counsel and advised them that we would like to make a motion to amend our answer and counterclaims, asking their permission to do so, consent to do so, and they refused to grant that.

So we have, obviously, three major factors on a motion to amend, such as this one, undue

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delay, whether the amendment would be futile, and the prejudice to the parties as a result of any amendment.

THE COURT: Before we get to those, let me just ask you, if I were to grant your motion to dismiss for lack of standing, would your motion then to amend, basically just the counterclaims at that point, would that still be an issue in front of me or would that be mooted?

MR. FABRICANT: I think the counterclaims, Your Honor, would still be an issue. Although if Your Honor dismissed without prejudice, as Your Honor might be inclined to do, and not knowing who the true owner of the rights might ultimately be found to be, we might not pursue those counterclaims because we might pursue them against the wrong party.

So, as a practical matter, I believe if the case were dismissed without prejudice, probably all of the case would go away until such time as the proper parties stepped forward.

THE COURT: On the assumption I am not doing that, tell me what I need to know about this motion.

MR. FABRICANT: Yes. Undue delay, Your Honor, not only is the window of time relatively short,

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particularly in light of the fact the document production just started in the spring of '07 and depositions throughout, until the end of August of '07, but what the evidence collected during that period related directly to the amendments which we now seek to make at this time.

With respect to inequitable conduct for failure to disclose material information to the patent office, in our original answer and counterclaim we reserved the right to add additional affirmative offenses with respect to patent defenses. We did not, at that time, and I don't think it would have been appropriate to allege inequitable conduct, because inequitable conduct requires a pleading of the nature of a fraud pleading under Rule 9, and therefore we did not have the ability at that time to plead with particularity.

We did receive some documents, in the spring and summer of 2007, which suggested that there had been some demonstrations or tests or public displays, but we didn't know who was at them, who attended them, who knew about them, what actually happened at those demonstrations. We took the deposition in the summer of two people in 2007, the two people who were knowledgeable about what actually happened, Mr. Keyes, who was a cofounder; we took his deposition in the summer of '07,

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and Sean McDonald, whose deposition occurred on August 30. I know we pointed out in our papers, Your Honor, that we've attempted to take Sean McDonald's deposition since early spring. We wanted him to be early in the process. I think our first request for him was in March. And for a number of reasons the deposition was postponed and postponed again by the plaintiffs until ultimately we had to subpoena his attendance at a deposition at the end of August. So it was not through any lack of our desire or intent to take Mr. McDonald's deposition at an earlier date, but it didn't happen.

At that deposition on August 30, just seven days before we raised this issue with McKesson and just a month or so before we made the motion to amend, we discovered all of the particular details and facts as we set forth in our proposed amendment on inequitable conduct, which we believe supports without question an inequitable conduct claim, certainly beyond any question of futility of the event. We discovered that he had personally performed and put on presentations of a device which we believe teaches each and every element of the claims of the patent more than a year prior to the filing date, which would constitute an on sale bar, which we had already alleged invalidity.

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But what we also discovered because of his duty of candor as an inventor and his knowledge of what had transpired, that comparing what he testified to with the file history, that there had been no disclosure of material facts and events of material prior art. Remember the difference, Your Honor, between inequitable conduct and invalidity is for invalidity based on an on sale bar, you need to be able to establish what was on sale meets each and every element of each and every claim.

But for an inequitable conduct claim, you only need to be able to demonstrate that a person with a duty of candor withheld material information to patentability. It can be something far less than on sale bar if it was material to patentability. Of course, you have to also establish this was done purposefully, with an intent to deceive the examiner. And that's why parties don't allege at the early stages of cases, wisely, inequitable conduct until they gather the facts and the evidence.

Once we gathered that and concluded that process on August 30, 2007, we immediately notified the other side of our intent to go forward and we made our motion to amend in October.

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With respect to the antitrust claims, Your Honor, the original answer and counterclaims raised a claim for antitrust violations under the Sherman Act, Section 2, as a result of sham litigation, because at that time all we were able to discern from the complaint and from the lawsuit was that we believed that there was objectively baseless grounds for bringing the action in light of the claim language, the way in which we believe the claim language reads or does not read on the invention, and we didn't believe there was an objective basis for bringing the lawsuit. So we alleged that kind of sham litigation under Sherman 2, but we did not have the ability to allege any other type of antitrust violations at that time. We had no documents; we had no fact depositions.

As our papers explain, beginning with the deposition in late May of Mr. Zwolinski, continuing through the summer of '07, and again culminating with Mr. McDonald on August 30th, we discovered that there had been a course of conduct of predatory pricing, of sole-source agreements to protect large segments of the marketplace, of false statements being made about the plaintiff's product, of false and misleading statements being made about, not only the defendant's product but

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the defendant's company and its financial wherewithal, and all of those facts, I believe, are set forth in great detail in our proposed amendment.

And so therefore, based on the facts and evidence collected from May of 2007, which is the earliest possible date we could have discovered any of this, through the summer of 2007, we put together all of the factual allegations which, we believe, without question, supports the Sherman 2 claim based not on sham litigation but on monopolization or attempt to monopolize and the Sherman 1 and Clayton 3 claim, as well as the Delaware state claim which tracks the federal antitrust laws.

So we don't believe the amendments are by any means futile; we don't believe they are subject to a motion to dismiss. If the Court allowed the amendment to be made, for the reasons I described, and I think the pleadings speak for themselves because they are very detailed in the proposed amendment. This is not something we could have discovered at an earlier date. And in light of the law with respect to allowing the amendment of pleadings, the liberal track on that, as well as the fact that there is really no prejudice to the parties, which is the third prong, and I will explain

why.

Prejudice to the parties -- obviously, there would be a significant prejudice to defendants if they are not allowed to urge inequitable conduct and the antitrust claims in light of the evidence which has been collected, but really nothing has been added to the lawsuit which will delay the case, delay the trial, cause any real need for anyone to have discovery in this case. These issues were all on the table in the original pleadings, although in a slightly different manner. On sale bar, as part of invalidity, was already alleged. So the only thing that changed was Mr. McDonald and Mr. Keyes' knowledge and familiarity with what happened as persons of duty of candor, which we needed to meet the final prong of intent to deceive.

With respect to the antitrust claims, we needed to gather the evidence and take the depositions of these individuals. Nothing has changed. We had an antitrust claim. They knew we had an antitrust claim. We were already into that whole body of law and the only thing now is that there is some additional factual allegations which underlie the antitrust claim.

Your Honor, we did nothing during this process to hold back the case. And, in fact, we had our

-- we presumed, for purposes of discovery and expert reports, that Your Honor would ultimately or this court would ultimately allow us to amend and, therefore, we conducted the discovery which we felt was necessary anticipating that possibility. We had our expert even include that in his expert report.

THE COURT: I have got all of that. Just very briefly, if you want to add the affirmative defense of lack of standing, if the motion to dismiss for lack of standing is denied, what impact would it have on the case if we allow you to add that as an affirmative defense going forward in the case?

MR. FABRICANT: Your Honor, we did ask for that relief, I believe, as a matter of law. Because it involves subject matter jurisdictions, we are entitled as a matter of law to challenge standing if it affects subject matter jurisdiction. So I would submit that we are entitled to that, notwithstanding the need to amend. I believe it would remain an issue in the case, unless this court is prepared to grant, in effect, what would be summary judgment on the standing issue at this point on this record, in which case there would be adjudication. If the court is not prepared to do that, then we would ask that this amendment be permitted so that we could

pursue that through trial.

THE COURT: All right. Let me hear from Mr. Drucker briefly on the remaining motion.

MR. FABRICANT: Yes, sir.

MR. DRUCKER: Good morning, Your Honor.

THE COURT: Good morning.

MR. FABRICANT: The issue on the motion to dismiss the willfulness claim really arises out of the change of law after Seagate.

Just to recap the sequence of events here. McKesson filed its original complaint in January 2006. They amended in July 2006 -- that was a substitution of parties. The allegation of willfulness remained the same. It was just a bare-bones allegation that defendants sold the accused products with full knowledge of McKesson's patent rights.

THE COURT: Prior to Seagate, would that have been enough to establish willfulness?

MR. FABRICANT: Well, it would have been enough to allege willfulness in the complaint, but the issue is really slightly different. We think it still won't have been enough because it doesn't satisfy the duty of good faith. That existed before Seagate. That's a simple matter of law, Ledmen in Rule 8. They have an

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obligation to show that, at least that they have some basis for saying that we have that knowledge. Discovery proceeded. In February 2007, we decided to elect to rely on the advice of counsel defense, that was a date that had been set by the Court in the scheduling order.

Beginning the following week, we produced the remaining documents supporting those opinions. And, I think, by May of 2007, everything had been produced relating to the opinions of counsel.

In August 2007, the Federal Circuit decided Seagate. And shortly after we contacted McKesson's counsel and we said, what's the basis for the allegation of willfulness? It seems the bar has been raised. Now it's an objective standard. You have to have acts of objective recklessness in light of knowledge of the patents. Where is the proof?

And we were getting toward the end of discovery at that point also. We still had no basis from McKesson as to what the claim of willfulness was based on.

Finally, after exchanging correspondence for the following months on that question, we moved to dismiss.

And the question is really coming down

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to, did they have equitable faith basis? What was it?

The response to the motion, McKesson said, well, we can't answer until we have taken the depositions of the Italian attorneys who rendered opinions in this case. And just to recap what happened with respect to those opinions, in 2002, when Swisslog was designing its system, they contacted an Italian law firm, Provissionato & Company. They received an opinion that would help guide them, help guide them around possible infringement. The opinion consisted of a survey of what the relevant patents were in the field and gave them, just highlighted the major issues that they needed to focus on to avoid infringement when they were finishing up the design of their product.

In November 2002, they asked for a final opinion and the Italian attorneys provided that. They gave them a final opinion confirming their earlier one that the patents weren't infringed if they followed certain steps, and that was before they even entered the U.S. market.

In 2003, Swisslog entered the U.S. market and started to make sales here.

In 2002, it's covered in the briefing so I will raise it with Your Honor, the parties actually had

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negotiations, there had been several meetings. There was discussion about whether Swisslog would act as a sales agent, and whether McKesson would enter into an agreement to market the Matoped (sic) product.

As part of that, there were meetings between executives of the two companies. McKesson was given access to technical information. The senior engineers at McKesson, Mr. Wangoo (sic) and Mr. Spano, the software developer, were told about the Swisslog product. And apparently no mention was ever made of patents. And the reason this is relevant to this motion is because in response to our motion, it seems that the only information McKesson is able to come forward with to show that they had a good-faith basis at the outset of the suit is based on the disclosures that were made well after the suit was filed.

THE COURT: But I have to, in a motion to dismiss, take their allegations as true.

MR. DRUCKER: That's fine, you can do that. It changes nothing with respect to what they knew at the time they filed suit, and that's expressly what Seagate requires.

THE COURT: Well, if Seagate goes to proof, it doesn't go to pleadings, and you have

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acknowledged that, I believe, in your filings.

MR. DRUCKER: Correct. This is not a matter of what's pled.

THE COURT: So the problem I am having is what the procedural basis for me to look behind the pleadings to figure out what they knew and then make a decision, I guess, as to whether it was reasonable based on what they knew at the time of the suit. How is any of that relevant to a motion to dismiss analysis?

MR. DRUCKER: Well, we believe it comes down to the good-faith basis of filing the suit in the first place. It comes down to Rule 11, it comes down to --

THE COURT: Then you are just bringing just an exception motion?

MR. DRUCKER: Well, it's actually a motion to dismiss, because -- well, Seagate says when a compliant is filed the patentee must have a good-faith basis for alleging willful infringement. It says so a willfulness claim asserted in the original complaint --

THE COURT: Seagate doesn't say if the defendant thinks the plaintiff doesn't have that, file a motion to dismiss.

MR. DRUCKER: No, it doesn't say that

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expressly. In fact, we are not aware of any cases either way on this point. Seagate is a relatively new decision, as the Court knows. I don't believe the issue has been addressed before, not in any reported decision, but it seems at some point McKesson has to show the basis. And what they have done -- and this ties into the motion to amend. They have come forward now with a proposed second amended complaint, and the entire basis for the allegations of willfulness are information that they've obtained in the course of discovery from us relating to those opinions of counsel. If we had never chosen, if defendants had never chosen to rely on the advice of counsel defense, McKesson right now would have absolutely no basis for their allegation of willful infringement.

THE COURT: Okay.

MR. DRUCKER: So it's being used against us, to our prejudice.

THE COURT: Okay. I understand. I have heard enough on those two motions and we will give Mr. Fabricant a chance for brief rebuttal but not until after we give McKesson a chance to tell me whatever they want to tell me on all four motions.

MR. JACOBS: Good morning, Your Honor. Blair Jacobs on behalf of McKesson; Christina Ondrick is

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with me; Christine Azar from Blank Rome here in Wilmington; and Jill Dessalines, from McKesson, is also present.

Your Honor, what I would like to do is I would like to direct some comments to some questions that the Court asked Mr. Fabricant during his presentation, then I have some additional points that I want to bring up and demonstrate that weren't raised during that discussion. And then I would like to conclude by demonstrating and showing how the loans were fully repaid and the evidence that's in the record that demonstrates that.

THE COURT: It's also likely I will have some other questions for you, but go ahead.

MR. JACOBS: And respond to all of your questions as well.

THE COURT: That was implied.

MR. JACOBS: Let me start out by, if I could, by dealing with the state of the law. And I would ask the Court to take it in this progression.

In 1996, the Federal Circuit, in a case called Minco, Inc. vs. Combustion Engineering, stated that "construction of assignment agreements are a matter of state law." It's a quote from the case, that

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statement has stood. It has not been overturned to this date.

THE COURT: Federal Circuit?

MR. JACOBS: Federal Circuit case.

In February, we have the DDB Technologies case. Now, that was a question of whether the creation of an automatic assignment or an obligation to assign in the future. So the court was looking at a specific assignment; was it assignment in the future or was it an automatic assignment vesting as of right now? And so that is something that is entwined with patent law, because it relates at some level to interpretation of patent rights. And Judge Newman sat on that case, if you look at the opinion; she also filed a dissent disagreeing with certain aspects of that case.

Then Akazawa, a month later, comes forth and it says that state law, not federal law, governs patent ownership. And as part of that, and we believe the part that is really important to the resolution of this case, the Federal Circuit says a change in ownership can occur by operation of state law. So if there was an assignment, and if the assignment could be extinguished because it was in effect a security interest, that would be something that would be governed by Hill (sic).

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That's why we have focused so much on intent. Actually, UCC, Provision 9 of the UCC, which is adopted in Pennsylvania, there is a U.S. provision that's very, very similar with regard to security interests. We haven't found a lot of case law where it's been interpreted via federal law. Pennsylvania has a lot more guidance with regard to why intent is important with regard to that issue.

THE COURT: So, in your view, though, do I need to resolve whether it's federal or state law OR do I analyze the issues the same way either way?

MR. JACOBS: I think either way you analyze the issues based on the intent of the parties, what the parties intended. Did they intend absolute assignment, divestiture of all of their rights -- that's the simple test for was an assignment required -- or did they intend something that was to serve as short-term security?

Now, one thing that's interesting, Your Honor, is that we have had three papers that have been filed by the defendants since this motion was originally filed, and we filed our opposition. And with our opposition we filed a declaration of Sean McDonald. Sean McDonald was the founder of AHI. He sat in on the

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transactions. He has recollection of what actually occurred and why it occurred. And he states in paragraphs 22 and 23 of that declaration, Your Honor, that he understood that the notes and the assignment, which he signed on behalf of AHI, were to simply provide collateral in the case the loans were not paid off. He also states in paragraph 23 that, of course, start-up company, his intent was to obtain funding. His intent was to use the patent application as collateral. It was not to provide -- this goes to was it intent. An intent to assign has to be a complete divestiture of rights. He says my intent was not to do that, it would have made no sense to provide permanent assignment of rights to the property. And if you think about the context of how this arose, it's a start-up company. That's all they had at this point in time.

THE COURT: That maybe what makes sense, but when he signed, the one thing he signed was the assignment of invention document which on its face makes no reference to notes, no reference to collateral, no reference to security interests. It is, on its face, it seems to me, a clear and unambiguous assignment. So how does that fit into your argument?

MR. JACOBS: Sure, Your Honor. This is

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the language in the promissory note that creates the obligation to provide the assignment, the document that you are referring to. Okay? And it says, in this document, "this note will be secured by an assignment of application for patent for the technology rights." So it does not say, Your Honor, we are assigning the rights, as part of this transaction, to this patent application to the investors; it says this note will be secured by an assignment.

THE COURT: But what about the two-page assignment of invention document? Let's start there.

MR. JACOBS: That was part of the totality of the circumstance, all of the documents --

THE COURT: Do you have any argument that if I find that I can look at it or you can look at it separately, the assignment of invention document, just those two pages, do you have any argument that there is any ambiguity in those two pages that what was created here was an absolute assignment?

MR. JACOBS: Well, other than the fact that it was not signed by the assignee, and it is typical when you have an assignment that it would be signed by an assignor and an assignee. Other than that, looking at the language of the document, it looks like a standard

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assignment. There is no question. It looks like a standard assignment of rights. But that's not what the law calls for. The law calls for construing all of the documents together in determining what the intent of the parties actually was.

And when you do that, Your Honor, you see that the very document that created the need for that assignment, the promissory notes, were cancelled, marked "null and void," 'paid in full,' as soon as the loans were paid up. When that happens, pursuant to case law, we are done. There is no right that exists any longer. And that goes, Your Honor, to the case that you raised earlier, that Mr. Fabricant will have a chance to address on rebuttal, the Applied Companies case. In that case the Federal Circuit looked at similar situations when the payment of a debt released the assignment and essentially held that it mooted the intended terms -- there was a set-off provision that was being disputed in that case.

So this is not something that is novel. It is very consistent when you apply the laws of logic to these issues that if you have an interest, a security that's being secured by something, if that's paid off completely, you don't need the collateral anymore. The collateral goes back to whoever the original owner was.

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THE COURT: If that was so clear the intent, then why does the assignment of invention not make any reference to security to collateral to debt to notes?

MR. JACOBS: The assignment document -- unfortunately, nobody remembers that, Your Honor. It was 17 years ago. Nobody recalls why -- you know, these individuals were being represented by counsel. We have talked to the individuals who were involved. They say it was a long time ago. We don't recall exactly why things were done by the lawyers the way they were done. All we have is the documents as they exist together.

But when you look at the dates of them, it's very likely that what happened was you have that assignment provision in the promissory note, and so the lawyer is representing the investor, the lawyer probably said get me an assignment. I need the assignment. We negotiated for an assignment of this patent application. Get me the assignment that's called for by the promissory note. But the two have to be construed together because you have to look at what the parties intended here. That's what controls the ultimate outcome.

Now, there was some discussion about the investors -- and in the deposition of the investors we

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didn't ask them: Do you have ownership rights? and things of that nature because they were really, really clear. We asked them whether they thought they had an interest, things of that nature. They said, Our lawyers would construe all these documents; our lawyers would tell us what we had here. We don't know what we had. We are not going to get into issues of law. And question after question after question that was the position they took. So we were not going to ask them legal questions, that made no sense whatsoever.

There is a lot of discussion today with regard to disavow. And that really goes to this new Rule 19(a) issue that has come up subsequent to the original 12(b)(1) motion that was brought. And, Your Honor, just really quick with regard to 19(a), that requires a two-prong test. And it strikes us that the first prong of that test is that if the court were to determine that an absent party is absolutely necessary for adjudication of the issues in a case.

Now, there's a two-prong test that comes along with determining whether a party is absolutely necessary. The first one is complete relief cannot be accorded among the parties. The second is the absent party claims an interest in the subject matter and their

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absence will be prejudiced in some way by not being present. Here the absence of the investors does not affect or impact the Court's ability to afford relief between McKesson and defendants unless there is some type of determination that the investors have some type of ownership interest. At this point in time, they are not necessary parties. At this point in time, they have no interest whatsoever. If the Court is to find that they have an interest, that the assignment grants them some type of right, at that point in time, we may need to deal with, Does McKesson have any rights; does McKesson not have rights; is there a joinder issue here; do they want to intervene?

They have not sought to intervene to this point in time. Yet they have been aware of this. Your Honor, they had said in their deposition we don't know one way or another whether we have any interest in this. We are waiting for the court to tell us that basically. It's a legal issue. They don't have any understanding one way or another whether they have interest.

THE COURT: As things stand now, aren't the defendants potentially subject to an infringement lawsuit from the investors? And presumably if their

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lawyer wakes up tomorrow and says, why don't you go ahead and file suit for infringement, the defendants --

MR. JACOBS: They are not, Your Honor -- first of all, I would like to point out that the Third Circuit has held that the risk of multiple litigation is irrelevant in a Rule 19(a) analysis, and that's the Field vs. --

THE COURT: But in the patent law context, isn't that really one of the main principals underlying the whole issue of patent standards --

MR. JACOBS: It would have to be determined in some way that they had an interest before there could be a risk of duplicative litigation or multiple litigation. If the Court, as I believe the Court should, if the Court looks at what is before the Court, the standing motion, and if the Court decides and determines the ownership issue -- and it's the ownership issue that underlies the standing issue. At that point in time either the investors will have an interest or they will not have an interest.

It's our opinion, looking at all of these documents, looking at the fact that the loans were completely paid off, as was intended, looking at the fact that the parties have all operated for 17 years --

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THE COURT: It's your position they don't have any interest. I understand what to do if I find that. If I find that they do have an interest, then I have to dismiss this case for lack of standing and let you work it out as whether you can come back. Isn't that right?

MR. JACOBS: I would say that's correct, Your Honor. If you find that they have any interest, absolutely, there would be a lack of standing at least until the issues were worked out. There is no question about that.

THE COURT: What about the middle ground? What if I just really can't tell? At that point, don't I have to rely on the fact that the burden is on you and dismiss without prejudice saying they failed to meet their burden of showing they are the sole and exclusive owner of these patent rights?

MR. JACOBS: That's another interesting question, because with regard to the 12(b)(1) motion, the burden is on McKesson. And so certainly with regard to standing and ownership, the burden is on McKesson to come forward, as we believe we have with the documents and the declaration of Mr. McDonald, demonstrating what the intent of the parties actually was here.

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However, it seems that the defendants are now arguing a Rule 19(a) argument more than a 12(b)(1), and if that's the case, Your Honor, then they have the burden. They have the burden to come forth and to demonstrate that the party is necessary and that the parties are indispensable. And indispensable, Your Honor, gives you some additional flexibility because, No. 1, one of the questions that comes up all the time is are the interests of the parties that are missing adequately represented? This is the second prong of the test. And beyond that, if they are, the Court can still determine in equity and in good conscience that the action could proceed without the parties.

So there is a number of steps that have to be gone through with regard to this Rule 19(a) motion. And the Rule 19 motion, the burden falls on the defendant to demonstrate that we have a necessary party, that they are indispensable, that there are no reasons, from an equitable standpoint, after we have gone through more than two years of discovery and we are ready for trial in March and these parties have been aware for a long time of the fact that they could intervene, if they wanted to intervene. Yet they have taken no overt step. They have indicated in no way that they he believe they have an

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interest.

So our view with regard to the disavow argument, Your Honor, is that they have nothing to disavow. They don't know whether they have an interest or not. So, of course, they can't disavow anything. You can only disavow an interest that they are aware of having.

I want to address, if I can, Your Honor, one of your arguments that was made with regard to -- and this ought to be quick -- with regard to some factual disputes with regard to whether the notes were paid in full. We believe that -- there is no evidence that the documents were tampered with, that somebody wrote "void" or "cancelled." But there is also a letter, and for the record, the Bates number on this is M0474908. And this is a January 3rd, 1991 letter, and you will see it's from David Cohen. He represented the investors. He was the investors' attorney. You will see it's to a Mark Baseman. He was representing AHI and Sean McDonald at the time. And as you will see, in the second paragraph of this letter, Your Honor, it indicates, "the notes were satisfied at the closing of the financing held last Thursday, and you are authorized to mark the notes cancelled and paid in full."

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And, Your Honor, I would note for the record that documents --

THE COURT: Hold on. Let me. I'm sorry. That seemed to be referencing, at least the typed portion, only the two notes relate to PSF. I see the handwriting at the bottom stated David Cohen gave PSF/Heilman's attorney, forwarding all three promissory notes. Explain that to me. I may be misreading the text but it looks like that's what it says.

MR. JACOBS: I was going to point out to the Court, Your Honor, that the documents that were attached to that letter which bears Bates numbers we submitted to the Court M0474909 to M0474913 showed that they, in fact, were the three notes, all of the notes that are involved here, and that they are all marked void; they are all marked cancelled.

So it seems that since these documents were maintained and kept together and that they are referenced within that the ones that are marked "void, cancelled, paid in full" are, in fact, the notes that are described in this record.

THE COURT: Is there anything in the record and I suppose in depositions about the handwriting on the bottom of that page?

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MR. JACOBS: That's our law firm's internal note. That's about what it has to do with, Your Honor.

THE COURT: Got you. Okay.

MR. JACOBS: Just a couple of other points.

The Court inquired about the November 1990 assignment, and we believe that is a very relevant factor to consider beyond the other issues that have been considered with regard to the intent of the parties. It makes perfect sense that the Court could not have used the same patent application as an absolute assignment in November of 1990 if the patent application had in fact absolutely been assigned in June of 1990 because those rights would already be fully possessed by the investors at that point in time. So it would have made absolutely no sense to do it.

What this shows instead, Your Honor, is that basically there is language in these documents to create some type of short-term protective interests for the parties who were involved. This was a bridge loan. It was known to be a short-term loan. It was done for a start-up company in order to obtain some short-term financing. They knew more financing was coming down the

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road. And the intent of everybody involved was for the patent rights to vest back to the start-up company after the loans were repaid. The two investors, Your Honor, served on the board of directors of AHI until it was acquired in 1996 by McKesson. It was in their interests, as serving on the board, for the patents to be part of AHI's property portfolio. AHI was going out and starting to sell products. They were making representations. You know, they had to have this protection of their product to compete in the marketplace.

THE COURT: Going back to November 1990, why should I not then conclude that AHI made a mistake? That is, if they didn't have any legal ability to assign the rights again in November of '90 because they had already done it in June of '90, but either nobody cared or nobody noticed or everybody made a mistake. But people do make mistakes. So what do you have that rules out the possibility or makes it less likely that the document that is under agreement meant what it meant in November of 1990 and people acted in a mistaken way thereafter?

MR. JACOBS: Absolutely. The totality of the circumstances, starting with the fact that we do have the declaration of Sean McDonald telling us exactly

what was intended by all of these documents and what was going on during this time period. There is nothing in the record that points in any way to this being an absolute assignment of rights. There is a lot of circumstantial evidence; the conduct of the parties, all of the documents when you read them all together; the declaration of McDonald; the fact that this same interest was used in 1994, again, as a security interest in the Partek transaction. The totality of the circumstance, Your Honor, is very, very consistent with the conclusion that, sure, they were just granting a security interest in June of 1990. They knew it was going to be paid off and terminated very, very shortly. So they just did the same exact thing in November. It made sense. They used the same clause. They just went ahead and granted another security interest in the patent application, because the understanding was, Your Honor, that all of these notes would be paid off when a subsequent round of funding was provided, which is what happened, basically. They were paid off with stock and cash in the late December time period, which led to that letter in January that we have now showed the Court.

So, Your Honor, the intent of the parties is a fundamental import here. It cannot be

ignored. In order to accept the argument that the defendants are making, the intent of the party has to be ignored, and that is just inconsistent with the law.

THE COURT: Help me out. Because if I agree that it all makes sense and everyone acted in the way consistent with your interpretation, why isn't that nullifying this two-page assignment of invention which even you can see only its face is clear and unambiguous. What is it that allows me to do anything here other than just look at the two pages signed by Sean McDonald. Maybe he didn't understand what he was doing, maybe he didn't intend to do it, but seems a clear, unambiguous assignment, doesn't reference anything else, you can see there is no evidence of physical delivery. It's a reassignment. So why would that not be the be all and end all of this case and everything else is irrelevant?

MR. JACOBS: Your Honor, the reason that it is not the be all and end all is that Pennsylvania law, federal law, all law that we are aware of that relates to the interpretation of provisions in contracts or in agreements require that the provision be considered within the context of the four corners of the documents, all of the documents that relate to the transaction. That document is part, within the four corners of all of

the documents.

THE COURT: I don't know that until I look to the other documents. I mean, if I just found the assignment of invention laying on the security, I would then get a clear and unambiguous assignment. So what is it? I think the law is -- you don't get to intent until you find there is some reason to do that.

MR. JACOBS: Right.

THE COURT: If what you are looking at is clear and unambiguous, why would you even want to do that?

MR. JACOBS: The other documents tell us that the assignment was created only because of the -- it's a security interest. It was to secure something. So it's not like this wasn't referenced anywhere else. It's not like this comes in a vacuum.

THE COURT: I understand it's elsewhere. Tell me, if you can, what case or what provision of Pennsylvania or federal saw that says I need to look to those other documents, I can't just --

MR. JACOBS: The Sanford case, which is 198 Fed 3rd 421, is the primary case that we cited that when documents reference each other that reading them together is required.

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THE COURT: That all the documents relied on reference to one another or is it analogous to here where I have the assignment that doesn't reference anything, and granted I do have other documents --

MR. JACOBS: It's analogous to here where not every document references each other, but certainly all of the documents are referenced at one point in time to a document that ties them together somehow. And when that is the case, then we have to look at all of the documents and we have to construe all of the documents through the lens of what was the intent of the parties. Did the parties intend a security or did the parties intend an absolute assignment? If that's the test, if that's where we end up, Your Honor, the evidence is overwhelmingly compelling in the corner of the parties intended this to be a security.

Now, with regard to Rule 19, really quickly, in order to get to that, to the necessary party aspect of that argument, the Court is going to have to construe the documents. The Court is going to have to make the determination as to whether there is any type of interest. If the Court makes the determination that they have an interest, as we've mentioned, that removes the need to move further into the Rule 19(a), the Court can

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dismiss based on standing. If the Court, however, concludes, no, they don't have -- because of the intent of the parties, they do not have an interest, the interest vested back to AHI, then they are not a necessary party. So Rule 19 really is not, we don't need to go down the Rule 19 path. Because either way, whichever decision, with regard to necessary party, that the Court arrives at, we don't need to proceed further.

THE COURT: And in that third middle ground -- we didn't really finish that conversation -- if I just can't tell because it's 17 years later, one document, as you can see is clear and unambiguous, but the other documents, let's say I agree with you and say they are ambiguous, so I just can't tell. With the burden on you in that context, do you agree that means I have to dismiss?

MR. JACOBS: No, I do not, Your Honor. And that is because 12(b)(1), if that's what we are going to interpret this under, establishes an intentionally low threshold with regard to satisfying a burden. And if we are going to apply 12(b)(1), the Court has said time and time again that it's a relatively light standard and dismissal should only be granted, and is only appropriate where a claim is so insubstantial, implausible foreclosed

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by prior decisions of this court or otherwise completely devoid of merit as to not involve a federal controversy.

Under the middle ground scenario that you are describing, there would still be a lot of evidence -- if you look at the declaration of McDonald and the totality of the circumstances surrounding these transactions -- but the parties intended this to be a security interest.

THE COURT: If I look at it that way, what happens next? I dismiss the -- I deny the motion, but I say I don't know who owns this. Procedurally, what happens to this case?

MR. JACOBS: It would then be a question for the jury, Your Honor. There would be factual disputes; there would be factual issues.

THE COURT: So the whole assignment of the security interest question would then go to the jury?

MR. JACOBS: If the facts are so tied to the issue that the Court cannot decide the facts based on everything that the Court has in front of it and assuming that the burden has not been met with regard to 12(b)(1), that defendants have not satisfied that, then it would be a question that would be appropriate for the jury.

You know, Your Honor, we have put forth

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as much as exists in a 17-year-old record to demonstrate what the intent of the parties actually was here. We did go out and find those documents showing that they were paid in full. We have done everything that we could possibly do to put this together to show that this was intended to be a short-term security interest and, in fact, that the parties operated that way 17 years after the close of the loans in January. Under those circumstances, there is nothing indicating that this was anything other than a short-term interest.

Looking at that document by itself, in a vacuum, is inappropriate, because it's referenced by other documents. It has no meaning outside of the promissory notes that created it. It's a security interest in the assignment.

If you look at the term sheet which came before that, there was a change. It said, We want a security interest in technology rights. That was then changed to security interests in the assignment of the patent application. So there are a number of documents, Your Honor, that tie all of these things together.

And for that reason, we would ask the Court to look at the intent of the parties, to look at all of the documents, to construe the documents to

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determine that this was intended to be a short-term security interest and to therefore deny the 12(b)(1) motion, and as a result of denying the 12(b)(1) motion based on ownership to deny the Rule 19 motion for lack of necessary party.

Subject to any further questions that the Court has...

THE COURT: No. We explored that area, but address the other three motions that are in front of me if there is anything you want to add to the briefing.

MR. JACOBS: I will address, with the Court's permission, the amendment issue and then I will allow Ms. Ondrick to address the Seagate issues.

THE COURT: Fine.

MR. JACOBS: Thank you, Your Honor.

Very quickly, Your Honor, with regard to the amendment, we would focus on prejudice to the opposing party in our discussion of that amendment. Discovery is closed, Your Honor. We are dealing with proposed new claims or causes of action. These new claims and causes of action will significantly increase the discovery, and there will be further delay that will be required. I have a list here of some additional discovery that will be necessary.

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THE COURT: You don't have to --

MR. JACOBS: With regard to the new antitrust allegations, there are Section 2 and Section 3 Sherman Act allegations. Looking at the proposed amended complaint, it appears that there would be some necessary discovery with regard to Swisslog's management of what they believe the relevant market to be, industry practices, their own sales conduct, because they are alleging inappropriate sales conduct. If they are engaging in the same exact sales activity, there is going to be an argument here, of course, that these are standard business practices; that is something that we would have to look at.

There are third-party pricing policies that we would have to look at. They do some work for a predecessor machine, a Homaris machine. You know, how was the pricing established with regard to that? What kind of discounts did you give, under what circumstances? We haven't done any of that discovery yet.

The impact. There is a $10 million claim attached to these new Sherman Act allegations. They allege, in the complaint, one lost sale. Well, we know that one lost sale is nowhere near $10 million, so what else are we talking about with regard to -- are we

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talking about damage in the marketing place; are we talking about pricing issues; is it on a per unit? But we have to go through and ask their folks all of these questions.

They talk about exclusion of third parties from the marketplace. We are going to have to go and check and see if third parties have, in fact, been excluded by this behavior. On the other hand, they make the allegation that this is a very, very limited market, so we need to get to the bottom of what do they mean by exclusion of other parties in the marketplace. There are some allegations, Your Honor, about an interface; the interface is not provided by the plaintiff in this case, McKesson Automation. It is provided by another McKesson entity. And there are claims that this has caused problems with third parties. So we will need to talk to those third parties and see whether, in fact, this has caused the problems that are being alleged now.

They allege in paragraph 49 of their proposed amended complaint that customers have repeatedly requested this interface capability. We are not aware of that. We are going to have to go out and take discovery on whether, in fact, this has occurred. There are questions about the financial viability of the

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defendants. They allege that false statements were made. Well, were, in fact, they having financial problems? We need to get to the bottom of all of that to see whether these were, in fact, misrepresentations or not. There will be more deposition discovery necessary on their product, Your Honor, because they say that McKesson, in sales presentations, has misrepresented the mechanical complexity of, and reliability, of their product. In the first run-through discovery, because they are not alleged to -- we didn't get into those types of issues, mechanical, complexity, that didn't go to the claims. We didn't get into reliability. Those are issues that we would have to take up again -- maintenance requirements.

And then finally, Your Honor, with regard to this first set, which I generally describe as the antitrust allegations, the series of claims that relate, I think, to those charges, there are these general purchasing organizations that are out there where you will go and you will say, I want to work with your general purchasing organization, and if you get that contract, you get preferred pricing and you provide it to multiple hospitals. They have alleged, in this new set of allegations, that that has been done to exclude them from competing and other third-party competitors from

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competing in the marketplace. It's not our understanding of these GPO contracts, but certainly we would need to go and talk to the folks who provided the GPO contracts to get a feeling for whether this is truly a sole-source commitment or can you still sell to other parties despite the fact that you are giving preferred pricing? Those are the types of things we haven't provided discovery on.

THE COURT: What if I granted leave to amend to add the antitrust claims and then stayed those claims, are you prejudiced by that?

MR. JACOBS: No. Under the circumstances, given where we are, how far along we are in the discovery of this case, that would not be prejudicial, because the other antitrust claims will ultimately be resolved at one point in time, either during pretrial proceedings or later, and we could take this up separately. It would be like dismissing and saying you could file this in a separate jurisdiction if you want to; it would have the same exact impact. That would balance the prejudices, in my mind, a little bit more, Your Honor, because versus all of this discovery and delaying trial dates and things of that nature, they would still have all of their rights. Their rights would still be preserved.

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THE COURT: What about the inequitable conduct?

MR. JACOBS: Inequitable conduct, just very, have shortly on that, Your Honor.

There is some additional discovery that would be required with regard to that. There are four inventors here. The defendants noticed the deposition of all four inventors, and they withdrew three of those notices after they had filed the four notices. So we have three inventors who signed declarations to the patent office as well. They have not been deposed. And then, Your Honor, there were a number of companies that were purportedly involved in the demonstrations. These prior demonstrations that we obviously will contend were basically just showing them preliminary things, weren't in fact offers for sale. And they will probably contend they were offers for sale. They had noticed depositions of a number of those companies during the process of discovery as well, and they withdrew them.

And so, you know, when they notice depositions and withdraw them, it's our understanding that we are not going to obtain evidence from those parties. And then to come after that and to try to amend the complaint to add these charges, where now we need to

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talk to these prior companies that were talked to, we may need to go and find out what the other inventors know. Again, it's prejudicial in that it delays, it causes problems. If the Court were to allow some additional time for discovery, it may be something that we could get done and still allow the amendments to take place, but there is additional work that needs to be done and it would be prejudicial.

THE COURT: Okay. Thank you.

MR. JACOBS: Thank you, Your Honor.

Real quick, Your Honor, with regard to Section 261, if the Court does find that there is something ambiguous in the assignment agreement, then McKesson, when they had this in their due diligence file, would have had no actual notice; it would have been ambiguous. They won't have known the meaning of what it was they were looking at if it was an ambiguous document.

So the actual notice issue can be handled two ways, as we argued it in our brief, if you look in a due diligence file in 1996 and you see -- okay, there is an assignment here, but you also have related documents that you pulled together and you say, oh, that was extinguished when they repaid this loan back in 1990, does that put you on actual notice that there is an issue

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of this nature? We don't think so. We think it's a reasonable conclusion.

THE COURT: It goes back to the question I asked you about mistake. I mean, if your client made a mistake in '96, you know, why should anybody else bear the burden of that? They had the documents. They made a decision, either consciously or without adequately investigating that it was extinguished. If I find that it wasn't extinguished, I don't see how you are helped.

MR. JACOBS: If the documents were ambiguous, however, perhaps there wouldn't be actual notice because they wouldn't be able to interpret the meaning one way or another.

THE COURT: Well, they were on notice of the documents. Their legal impact nobody knew, for sure. But I appreciate your bringing up 261, because I do have one other question about that.

261 doesn't in any way give AHI more ability to assign something that it didn't have. The point is, if I find that they assigned it away in June '90 and you never got it back, 261 can't help you.

MR. JACOBS: It doesn't revive a right in any way. It goes more to notice and whether you were on notice at the time that the future transaction took

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place.
THE COURT: All right. I appreciate that. Thank you.
MR. JACOBS: Thank you, Your Honor.
MS. ONDRICK: Good afternoon, Your Honor.
THE COURT: Good afternoon.
MS. ONDRICK: I'm going to briefly address the two Seagate-related motions. I am going to start with defendants here today have admitted that Rule 8 still applies to willful infringement allegations. They have also now, as I understand it, they've admitted that our initial pleadings, back in January of 2006, met the Rule 8 pleading requirement under Underwater Devices at the time. They don't contest that. The case law is very consistent that McKesson's allegation was sufficient.
When the law changed, after Seagate, the pleading requirement didn't change. Seagate didn't talk about pleading requirements. It didn't talk about notice of pleading. It didn't talk about Rule 11. The law did change, though; and McKesson's allegation is still sufficient under Seagate. Seagate talked about proof and evidentiary burdens.

McKesson very specifically alleged that defendants had knowledge of the patent, and that their acts were deliberate. That is enough under the old standard or the new standard, even if there is one. I contend there is no difference in standards, but if you were to look at McKesson's pleadings and apply it to Seagate, which has the two-part test that would be, first prong would be this objectively -- the objective inquiry. And so under an objective inquiry, it would be objectively reckless for a business to have knowledge of a patent, to have knowledge of what their device does and to have deliberately infringed that patent. That is sufficient.
Then also, under the subjective column, we alleged they specifically had knowledge. Therefore, we have also met the subjective prong under Seagate.
Our pleading stands under both requirements. There has been one case, since Seagate, to specifically decide this issue, the F5 Networks case. The F5 Networks case specifically held Rule 8 still applies. Notice pleading is all that's required, and an allegation that alleges notice of the patent is sufficient and is proper for a willful infringement allegation.

THE COURT: Let's say I agree with you. Do you have a preference as to whether I deny their motion to dismiss the willfulness allegations or grant your motion to leave so that the expanded allegations of willfulness become the complaint?
MS. ONDRICK: It would be our preference to deny the motion. We only filed the amendment as a precautionary motion in light of all the issues they had raised.
THE COURT: And what practical difference would it make which way I went on that if I agreed with you?
MS. ONDRICK: I don't think it effectively makes any practical difference. Our allegation is still there, it still survives, and it's still before the court. The real issue of their motion goes to summary judgment, which is going to be decided down the road, and that's where all of the arguments that they are raising are proper. And all their arguments on Rule 11 have nothing to do with what is in the pleadings.
Their argument is we can't figure out what plaintiff knew to make this allegation. There is privileged information there. There is information where they have never served a discovery request. They never

served an interrogatory to find out what facts we had at the time. They have never kind of handled this issue. So what they are talking about in Rule 11, they are just speculating because they don't know what we knew.
There are lots of things that courts look at when determining if there is a good-faith basis for bringing a claim. There are numerous, numerous factors. One that is frequently looked at is the similarity between the patent claims and the accused device. That often is one factor that is enough. There are many other factors that are involved in looking at it. Those factors include how long this patent has been around. This patent was issued in the mid 1990s. It's not like this patent was issued the day before this lawsuit was filed. The patents have been touted, the product is well-known. All those things get factored into this inquiry.
THE COURT: All right. Thank you very much.
Mr. Fabricant, it won't be a full hour, but a few minutes to address a few points.
MR. FABRICANT: Thank you, Your Honor.
Your Honor, I think many of the things that Mr. Jacobs said to Your Honor, to the Court, both in

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the briefs and on oral argument, really support and emphasize the reason why it's inappropriate for this court, on either a standing motion or even a motion with respect to indispensable parties, to adjudicate, to reach a decision as to whether or not this was an assignment, an outright assignment or security interest which somehow was self-extinguished. When the Court looks at the cases where this has come up, either in the standing context or in the indispensable party context, you don't find the courts deciding the issue and then after they decide that McKesson has the rights, not the investors, I now find that the investors were indispensable parties; what the courts do is they reach the conclusion that there is a general issue as to whether or not this party that's not present before the court has an interest, not adjudicate that fact, but reach the conclusion that there is a genuine possible claim out there.

The words of Rule 19(a) themselves talk about a party not joined that has a claim, and that's been construed to mean either they have asserted it or they may have it. So Rule 19 is directly related to just the question of whether this Court should proceed to adjudicate without the presence of those parties who have knowledge of the facts and would be necessary for the

jury or the Court to ultimately reach that conclusion.

THE COURT: So if I analyze it under Rule 19 and say with that particular issue therefore they are indispensable parties, what do I do then? Do I dismiss or do I give them a chance to see if they could join those parties?

MR. JACOBS: Well, I will answer. I think the standing issue falls for the same reason. They do have a burden of proving that they have substantial, all of the substantial rights of this patent. I think on the standing issue it's subject matter jurisdiction, the Court, if it agrees with our position, has to dismiss.

On the indispensable party issue, yes, I think the Court could allow them an opportunity to join what is a necessary and indispensable party, but if joinder is not feasible and if this Court can't get personal jurisdiction over those parties, then at that point I think the Court would be left with no choice but to dismiss.

Now, dismissal without prejudice, as egregious as that might sound in the context of a two-year old battle, Your Honor, I think the Court has to weigh the ultimate prejudice to plaintiff, on the one hand that brought this lawsuit with this open issue, and

the prejudice to the defendants, on the other hand, if the case proceeds to trial, millions of dollars more expended, possible risk of injunctive relief. We have an ongoing business that our client has that's at jeopardy here. The risk of the defendant, if the defendant litigates this and ultimately cannot have a final resolution of patent invalidity, cannot have a final resolution of noninfringement, cannot have a final resolution of unenforceability, has spent all of its time and effort and money only to have some parties in Pennsylvania, who were not of our making, mistake or otherwise, sitting with an outright assignment document, which they could now use with lawyers to pursue our client. So those are the relevant issues of prejudice which this Court has to take into consideration, both under the standing motion as well as under the indispensable party motion.

And I thought one of the most compelling pieces of evidence that Mr. Jacobs put up on the screen, Your Honor, was that letter that Your Honor paid attention to with respect to the notes being repaid. And what I think is crucial with respect to that letter, as Your Honor pointed out, it refers to only two of the three notes. First of all, the letter hasn't been

authenticated. They never chose to take the deposition of Mr. Cohen. The letter only refers to two of the notes, not the third. The letter which purports -- although it says no enclosures; right on the face of the letter it says no enclosures. The letter purports to refer to two of the three notes. And then Mr. Jacobs testified, well, there are notes attached to the letter and they are marked cancelled and void, but the letter itself purports to state to the reader you are authorized to mark them cancelled. So how are notes already marked cancelled or void attached to a letter that says you are authorized to mark them cancelled.

Issues are being raised. And the reason I focus on that, there is no evidence about the third note. Let assume that's an authentic letter; let's assume two of the three notes were repaid; let's assume there is a genuine dispute as to the third note. Under the assignment document, which is before the Court, not only would Mr. Heilman but the seed fund would also, the seed fund whose two notes were supposedly repaid, they would still have their interests under the assignment document because they have an outright assignment, and there is nothing in that assignment document, as this Court has noted, which cross-references anything. There

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is nothing in the assignment document that says if a note which AHI has given to Dr. Heilman has been repaid but the other notes haven't been repaid, then Dr. Heilman has to reassign but the seed fund doesn't. There is nothing in that assignment document which considers the possibility of repayment of the notes, reassignment under any circumstances. We have to take that document on its face, and on its face those individuals own 100 percent of the rights to this patent and are free today to pursue my client's for patent infringement.

And I think the mere fact that there is a genuine, legitimate dispute as to this that needs to be adjudicated by a court as to clear title, quiet title, before my client is subjected to the financial and other economic burden of having to defend a patent infringement lawsuit that could ruin it's business against a party who doesn't even and may not even be ultimately determined to be defensible.

THE COURT: What do you say about the burden on a motion to dismiss on standing that Mr. Jacobs referenced?

MR. FABRICANT: I read that case. The case says that. It's still the burden. I don't know how you get beyond the burden of proof being more likely than

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not. I mean, they have got to have the burden of persuading this Court that in likelihood, it's more likely that they own these claims than not. And that only gets us then to, if Your Honor is satisfied that they have met that burden. And I think there are some very serious issues raised by the documents which have been located and presented to this court. But if Your Honor gets by that burden, then I think we do have the very serious consideration how we proceed to litigate that issue if in this court without those parties.

And when Mr. Jacobs read from Rule 19, he left out several of the provisions. It's certainly a prong of 19(a), whether complete relief can be afforded the parties before this court. It cannot be under 19(a)(1), because we can't litigate completely our claims of invalidity and noninfringement, enforceability even without looking to the absent parties. And then as far as on indispensable party, the law is clear, by all of the courts that I have read, where you have a party who may have a claim of ownership, they are an indispensable party in a patent infringement lawsuit, because substantial, all the rights have to be before the Court.

THE COURT: How about anything on the Applied Case from the Federal Circuit?

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MR. FABRICANT: I did not see a reference to it in our brief, and I apologize for that. My recollection of reading that case, and what the plaintiff's comment on that case was in their brief, is that, first, it would not even apply to a situation where there was an issue as to whether there was an outstanding payment because it addressed an issue where the terms of the document were rendered moot as a result of the payment. It wouldn't apply to that.

Then second, I remember, I could not tell in my recollection of reading that case that we were dealing with the same kind of instruments here: an independent assignment, standing on its own, without cross-references to set-off agreements and other conditions which might, under certain circumstances as was applicable in that case, render that document moot, not the same contractual situation as is present before this court, even if payment was resolved, which we don't believe it has been.

THE COURT: And how about the Akazawa case, in March of 2008, the opinion on state law versus federal law, the Federal Circuit, I just want to give you a chance if you have anything.

MR. FABRICANT: I think Mr. Jacobs

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correctly stated the law, as I understand it, that the Federal Circuit has really not been inconsistent in these rulings, that the February decision in DDT, I think it was, dealt with a self-executing assignment or a promise to assign in the future as opposed to other assignment questions that might come about. And I think that's the slight difference between the two cases, that we have got a self-executing assignment, as was the case in the DDT case. You wouldn't necessarily look to state law to construe it; in fact, they said you wouldn't look to state law. And in other assignment situations, and I think Mr. Jacobs correctly stated the law, you can and should look to state law.

THE COURT: Two quick questions with respect to the other motion; I don't know if you want to address them, either you or Mr. Drucker. Basically, do you agree that some, at least, of the discovery that he outlined would be necessary if we allowed the amendment? That's for you.

And then what is your view on if I give you leave to amend with respect to the antitrust claims but I stay those claims, what is your position on that?

MR. FABRICANT: Your Honor, obviously, when any attorney defends a motion to amend a pleading,

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one of our obligations is to build the prejudice side and urge additional discovery being necessary. I don't believe in this case it seriously is necessary. And the reason I believe that's so is after we made our motion to this court, on the motion to amend, they took additional depositions of our business people on the antitrust issues; Mr. Patrician's deposition on the market share, on the marketing activities, on all of the things that Mr. Jacobs went through. They took Mr. Ellis' deposition, Mr. Patrician's deposition; they asked the president of the company, marketing and antitrust questions. They had an ample opportunity to ask those questions, and they did. So I don't really believe that they are going to redepose those people and ask additional questions on the same subject.

Next I would urge that at the time we first advised them of our intent to make the motion and we made the motion, discovery was opened in this case, fact discovery, until January 31, 2008, Your Honor. They never raised with the Court, other than to reserve their rights on the various scheduling orders, which they did. They never raised with the Court, you know, we need to take this discovery within the cut-off period.

Your Honor, again prejudice to the

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parties. Swisslog and Translogic should not be prejudiced by the unfortunate situation in this district that we did not have a district judge for well over a year, and this issue sat -- and I'm not blaming anyone because I realize this court has been overburdened as a result of the lack of a district court judge. We are dealing with a very short period of time from the time we got the documents and the depositions and the request to amend.

THE COURT: And what about staying the antitrust, would that prejudice you?

MR. FABRICANT: That's a result which is not particularly attractive to the defendants. This is a very long and expensive experience and burden for the defendants. We will be trying the antitrust claim under Sherman 2, which we raised in the original answer and counterclaim. We have all of these patent issues. To require a separate trial on a later date on related antitrust issues, which cover much of the same ground, much of the same relevant market.

THE COURT: But they aren't all antitrust issues.

MR. FABRICANT: Then I think it's prejudicial to the defendants to not be able to at the

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same time trial to be able to tell the complete story to this jury. I think it's prejudicial. It's better, obviously, than not having those claims at all because we believe they are viable claims; we believe the evidence is serious. We would prefer, and we think it's prejudicial not to allow the jury to consider those factors with the others.

THE COURT: Mr. Drucker, may have a note for you, and then you will be done.

MR. DRUCKER: Just quickly to address Ms. Ondrick's arguments. Basically, they are looking at the pleading requirement just to say if you say that the other side had knowledge of the patents, that's all you need to do. Those are the magic words. You utter those words, and you are fine.

We say there is an additional obligation as to Rule 11 that still is not being addressed here. There has to be some basis of saying that there was knowledge of patents at the time the complaint was filed. If they are only looking at conduct that came afterward, if they are only look at things they learned about during the course of discovery, they are admitting that they had no knowledge at the time that the complaint was filed or when it was amended for the first time that our client

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had any knowledge of the patents. You would expect to see something. There was no mention in the course of dealings in 2002 when the parties were negotiating, when they were exchanging information, there was no mention of the patents then. Their papers in opposition to the motion are silent about that.

So if you allow them to just utter the magic words, the defendants had knowledge of the patent in suit and was selling the accused products, and that satisfies their burden then it eviscerates Rule 11, if they can just get around it by saying that and there is nothing further to support it.

THE COURT: Thank you for that.

MR. FABRICANT: Your Honor, I don't know what other questions you may have. There is one other issue unrelated to today's motion that at the appropriate time we would like to bring to your attention.

THE COURT: I don't have any other questions on the motions we talked about.

MR. JACOBS: Your Honor, if I could, I just have 20 seconds. I promise.

THE COURT: With respect to these motions?

MR. JACOBS: With respect to these

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issues.
THE COURT: Okay.
MR. JACOBS: I just wanted to bring to the Court's attention, this is paragraph 21 of the McDonald declaration, and he says there: "In addition, to signing two of the promissory notes and the term sheet on June 29th, I signed an assignment as part of the loan transaction."
So McDonald ties together into the loan transaction all of the documents, including the assignment. So I just wanted to -- I was stretching my memory to figure out where we had that, and that's where it was.
THE COURT: Thank you.
MR. FABRICANT: If I could comment on that, Your Honor.
THE COURT: I don't need any comment on that. I understand where that fits in, but your other issue.
MR. FABRICANT: Yes. The other issue is, and I don't know whether this is an issue which we should properly bring to Your Honor's attention or if Judge Robinson should resolve this.
Recently within the last week or ten

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days, after the time for identifying the asserted claims passed, after the time for identifying the disputed claim terms passed, and after the time when our initial expert reports were exchanged, including our expert report on invalidity, which identifies prior art, addressing the claims being asserted, the plaintiff chose to assert additional claims of the patents, not previously asserted after this schedule went forward new claims, for which we did not agree, or proposed disputed claim language nor claims for which our expert was able to address or did address prior art, because those were not claims being asserted.
So we are now confronted with, in the middle of our expert schedule, new claims being asserted, our expert not having addressed it in his initial report, creating a ramification of, perhaps, a schedule delay because we now need -- if they are allowed to do this, we need to go out there and search for prior art, have our expert address the prior art, have them address the noninfringement position, which we haven't previously addressed. And it is a serious change, at this late date, on the patent side of the case, to change the asserted claims at this state without asking us to do so, without the Court's permission.

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THE COURT: If I am not mistaken, I think the reference to me carves out claim construction and Judge Robinson has claim construction -- help me out.
MR. JACOBS: That's correct.
MR. FABRICANT: That's correct. But it doesn't exactly deal -- I guess it begins being a procedural issue because, putting aside the fact if they are allowed to add the claim, obviously we have to propose claim construction and we will get to the point of the expert. But it does involve procedure, because does our expert now have to consider these claims? Does our expert now have to proffer prior art? Should we consider in our expert report, which is due in another week on noninfringement.
So we are left really objecting to but not knowing exactly what to do.
THE COURT: Let me hear what Mr. Jacob's view on how I should handle that, if in fact, I should handle it.
MR. JACOBS: Your Honor, if the Court is inclined to handle it, we have agreed to grant additional time to the extent additional time is necessary. This came about as a result of some information that was provided in one of their initial expert reports. So

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until we had that information, we were not prepared to assert these additional claims. They are dependent claims. So they depend upon independent claims that were already asserted. To the extent that it does require additional time or an amendment of expert reports, we are certainly willing to work with the defendants, as we have done all along, to make sure that everybody can get done what they need to get done in an appropriate time period here.
And at the same time, they have supplemented one of their expert reports and added some additional claims after their initial first round of expert reports came in and we agreed to allow them to do that, even though it obligated us to do some additional stuff with our expert as well. My view, is this something that, given the time period we have, we can work out and we certainly can bring it in. It's three dependent claims, certainly something that shouldn't take a lot of time, but we will work with them to the extent it causes any undue problems for them.
THE COURT: Here is what we are going to do. I am going to tentatively view this as a discovery-type issue that would be referred to me and would be governed by my standard procedure is that we

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would schedule a telephone conference. And a couple of days before I would get a three-page letter from the party that is complaining, and the next day a three-page letter from the other side. And so I can set a schedule now for letters, but let me just, before I buy that litigation for myself, did I understand from Mr. Jacobs that maybe if I had left you all on your own for a few more days maybe you could work this out without me having to get involved? Do you think you have an issue and are at an impasse that's just not going to get resolved without some judicial involvement?

MR. FABRICANT: Your Honor, I would prefer if Your Honor set the schedule. It is a relevant change. Although it involves only three new claims, it's a significant addition at this point.

I would also ask for some direction on, I don't know whether Your Honor would have an opportunity to resolve this, but the only immediate impact that is that both sides have expert rebuttal reports due on, I believe, the 28th of May, and it would be very difficult, in light of this latest development, for our expert to address those three additional claims in the report due in a short time.

THE COURT: Scheduling, I'm almost

certain, is in front of Judge Robinson. I think you folks met with her.

MR. JACOBS: We will work with her.

THE COURT: This is what we will do. That I will look for a three-page letter from Swisslog by the end of day tomorrow on this issue, a three-page letter from McKesson by the end of the day Thursday on this matter. And we will, I will go back and look at my calendar, but sometime Friday we will try to put this on for a call. However, be on notice that if after reviewing your letters I determine or Judge Robinson determines it's not an issue for me, then we will let the parties know that you are not having a call with me on Friday, and there will be some other mechanism for resolving the issue.

MR. JACOBS: And in the meantime, Your Honor, we will try to reach out and negotiate and maybe we can obviate the need for the letters.

THE COURT: If you can resolve it, that's great. Don't leave the courtroom; I will send my deputy back in with a tentative time for a Friday telephone conference. But if I don't get letters tomorrow and Thursday, there won't be a teleconference and even if I get letters and it's not my issue, we will

let you know.

MR. FABRICANT: Your Honor, if it is your issue, I would just let you know that we have a conflict from about noon until three o'clock on Friday.

THE COURT: We will go and take a look at it whether we have time in the morning. Okay.

Anything further?

MR. JACOBS: No, Your Honor.

MR. FABRICANT: No, Your Honor.

(The hearing adjourned at 1:10 p.m.)

C E R T I F I C A T E

STATE OF DELAWARE:
NEW CASTLE COUNTY:

I, Ellen Corbett Hannum, a Notary Public within and for the County and State aforesaid, do hereby certify that the foregoing oral argument was taken before me, pursuant to notice, at the time and place indicated; that the statements of participants was correctly recorded in machine shorthand by me and thereafter transcribed under my supervision with computer-aided transcription; that the transcript is a true record of the statements given by the participants; and that I am neither of counsel nor kin to any party in said action, nor interested in the outcome thereof.

WITNESS my hand and official seal this 27th day of May A.D. 2008.

_____

Ellen Corbett Hannum, RMR, CMRS
Notary Public - Reporter
Delaware Certified Shorthand Reporter
Certification No. 118-RPR, Expires 1/31/11

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The original certified E-Transcript
file was electronically signed
using LiveNote technology.

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EXHIBIT M

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May 22, 2008

VIA ELECTRONIC FILING & HAND DELIVERY

The Honorable Leonard P. Stark
United States Magistrate Judge
United States District Court
844 King Street
Wilmington, DE 19801

Re: ***McKesson Automation, Inc. v. Swisslog Italia S.p.A,. et al., C.A. No. 06-28 (SLR/LPS)***

Dear Judge Stark:

Plaintiff respectfully requests that the Court accept this letter in order to briefly clarify an issue raised at the hearing two days ago. During the hearing on the standing issue, Your Honor asked how one could look beyond the four corners of the Assignment document if that document, standing alone, was deemed unambiguous. Under Pennsylvania black letter law, "where several instruments are made as part of one transaction they will be read together, and each will be construed with reference to the other; and this is so although the instruments may have been executed at different times and do not in terms refer to each other." *Huegel v. Mifflin Construction Company, Inc.*, 796 A.2d 350, 354-355 (Pa. Super. Ct. 2002). The four corners of all writings constituting the transaction must be read as a whole to determine the true intent of the parties. *Von Lange v. Morrison-Knudsen Co.*, 460 F. Supp. 643, 647-48 (M.D. Pa. 1978).

Here, the Assignment and Promissory Notes were executed the same day and concern a single transaction. They must thus be read together. The four corners of these documents collectively demonstrate that the parties intended a security interest, because the Notes indicate that they ***will be secured*** by an assignment of the patent application. Furthermore, to the extent reading these documents together results in any ambiguity because, for example, one requires a written reassignment and the other does not, extrinsic evidence should be considered to determine the intent of the parties. *Ney v. Open Solutions, Inc.*, Civ. No. 06-CV-4354, 2007 WL

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3377239, *7 – 8 (E.D. Pa. November 8, 2007). As discussed at the hearing, the parol evidence available further confirms that the parties here intended a security interest.

Respectfully submitted,

Christine S. Azar
I.D. No. 4170

cc: Dale R. Dubé, Esq.
Alfred R. Fabricant, Esq.
Richard LaCava, Esq.
Larry Drucker, Esq.
Brian DeMatteo, Esq.
Blair Jacobs, Esq.
Christina Ondrick, Esq.
Christopher May, Esq.
Kate Lahnstein-Bertocci, Esq.

EXHIBIT N

FULLY REDACTED