

AIA's Impact On Multidefendant Patent Litigation: Part 2

Law360, New York (October 26, 2012, 12:34 PM ET) -- In the [first part of this article](#), available here, we reviewed the background concerning the filing of multidefendant patent litigations and provided an overview of the judicial and legislative approaches to addressing this issue, with a focus on new 35 U.S.C. § 299, also known as the “disjoinder” provision of the America Invents Act.

Below, we continue our analysis of this issue, and assess the impact of Section 299 of the AIA on the filing and management of patent infringement litigations, both at the pretrial and trial phases.

IV. Assessing The Initial Impact of the AIA on Multidefendant Patent Litigation

A. Joinder of Multiple Defendants

The initial impact of the enactment of the AIA immediately was felt in a flood of multidefendant lawsuits filed in the days prior to the AIA’s enactment date. In the days before the bill was signed into law, at least three nonpracticing entities brought 12 cases against 222 companies. In the two weeks before the bill was signed, 85 cases were filed against over 800 defendants. This is a significant spike in filings compared to the average of about 160 companies sued in a “normal” week for infringement. (See TechDirt Blog, *Day Before Patent Reform Was Signed, Mad Dash By Trolls To Sue: 51 Cases Against 680 Defendants*, <http://bit.ly/qlU0kA>, last visited Jan. 2, 2012.) Presumably, these entities rushed to file their multidefendant patent infringement suits, thus reducing their transactions costs, before the practice was precluded with the enactment of the AIA.

Some of the defendants in this wave of cases have challenged these lawsuits on the basis that they were improper. In addressing these challenges, some courts have found no problem with this practice. For example, in *Variant Holdings LLC v. Hilton Hotels Holdings*, No. 2:11-cv-00427 (E.D. Tex. filed Sept. 15, 2011), the defendants accused Variant of filing a “threadbare” complaint naming 53 parties on the eve of the effective date of the new joinder provision, and then filling in the details later by way of an amended complaint.

The defendants argued that the last-minute filing amounted to an end run around the AIA. Judge Rodney Gilstrap of the Eastern District of Texas was unmoved, noting that since the original complaint was filed prior to the effective date, “the act simply does not apply or control in this case.” *Id.* at ECF No. 132. The Federal Circuit in *EMC* confirmed that the joinder provision of the AIA does not impact cases filed prior to its enactment. *In re EMC Corp.*, 677 F.3d at 1356.

Nonetheless, other courts applying pre-AIA law under Federal Rule 20 have ordered that certain of these cases be severed. See, e.g., *Mortgage Grader Inc. v. Arcstone Financial Inc., et al.*, No. 11-02640 (C.D. Ca. filed March 29, 2011) (dismissing all but the first-named defendant for misjoinder where defendants lacked any relationship to one another, the accused websites did not use identically sourced components and there was no overlap in the development of the accused websites); *Brandywine Comm. Tech. v. Apple Inc., et al.*, 2012 U.S. Dist. LEXIS 20581 (M.D.

Fl. Feb. 17, 2012) (in action filed prior to the AIA, severing case where joinder based on parties being accused of infringing the same patent); *Norman IP Holdings LLC v. Lexmark Int'l Inc.*, No. 6:11-cv-00495 (E.D. Tex. filed Sept. 15, 2011) (holding that under either the AIA or Rule 20, joinder based on use of a common processor architecture was insufficient because the claims did not relate to the same transaction or occurrence).

In *Norman IP Holdings LLC v. Lexmark Int'l Inc.*, No. 6:11-cv-00495 (E.D. Tex. filed Sept. 15, 2011), which filed one day prior to the AIA, the plaintiff later sought to join additional defendants after the effective date of the AIA, raising the question of whether the AIA could apply to some of the defendants, but not others. Judge Leonard Davis held that the AIA applied to these new defendants and severed the newly added parties from the case. (Judge Davis then went on to consolidate these severed parties with the main action for all purposes until a claim construction hearing is held.)

Immediately after the AIA was enacted, many NPEs began to conform their practices: Instead of instituting one massive multidefendant infringement action, they would institute a multitude of separate but nearly identical patent infringement complaints against unrelated entities in the same court.

For example, on Oct. 11, 2011, *Beacon Navigation GmbH* brought 19 pairs of patent infringement suits asserting the same two sets of patents in the District of Delaware. *Beacon Navigation GmbH v. Audi AG et al.*, No. 1-11-cv-00929 (D. Del. filed Oct. 11, 2011); see also *Optimum Power Solutions LLC v. Asus Computer International*, No. 8-11-cv-01461 (C.D. Cal. filed Sept. 21, 2011); *Brandywine Communications Technologies LLC v. 3CX Inc.*, 6-11-cv-01857 (M.D. Fl. filed Nov. 21, 2011).

Others attempted to work within the confines of the statute, such as by suing related entities in the same supply chain. See, e.g., *Omega Patents LLC v. Skypatrol LLC*, No. 1:11-cv-24201, 2012 U.S. Dist. LEXIS 100833 (S. D. Fla. June 19, 2012) (finding 35 U.S.C. § 299 to be satisfied because one defendant modified the product manufactured by another defendant).

Still other NPEs took a more creative approach, arguing for joinder based on novel theories. For example, in *Digitech Image Tech. v. Agfaphoto Holding GmbH, et al.*, No. *:12-cv-1153 (C.D. Ca. filed July 16, 2012), the plaintiff attempted to join 45 digital camera manufacturers and retailers in a single action based on the theory that: (1) certain retailers should be joined to certain manufacturers because that manufacturer sold the accused digital cameras to the retailer; (2) additional manufacturers should be joined because the already joined retailers sell other digital cameras from these manufacturers; and (3) yet additional retailers should be joined because they sold the same digital cameras as the already-joined retailers.

The court held that the “same accused product” prong of § 299 required identical products, not the hundreds of different accused products with “similarities,” as described by the plaintiff. *Id.* at ECF No. 190. As to the “same transaction” prong, the court found that a sale from the manufacturer to one retailer is a separate transaction from the sale from that manufacturer to a second retailer, and the sale from the retailer to a customer is a still further separate transaction. Noting the plaintiff’s “transparent motivations,” the court found no merit in the plaintiff’s joinder

theory and severed and dismissed all parties except the first named defendant. *Id.*

Other NPEs have argued that it is proper to join multiple defendants where the infringement assertion is based on the fact that each practice a common technical standard or share a particular operating system. While commentators had wondered whether a commonality of defendants based on the practice of a common standard would be sufficient to join disparate companies in a single patent case, this argument in favor of joinder has not been successful to date and indeed has been rejected in several instances both in cases brought before and after the passage of the AIA. See e.g., *Motorola Mobility Inc. v. Apple Inc.*, Nos. 1:12-cv-20271 and 1:10-cv-23580, 2012 U.S. Dist. LEXIS 106398 (S. D. Fla. July 31, 2012) (finding joinder to be inappropriate where the only commonality between defendants' products was use of the Android operating system); *Body Sci. LLC v. Boston Sci. Corp.*, 846 F. Supp. 2d 980, 989 (N. D. Ill. 2012) (finding that "[s]imply being a member of an industry association" and practicing a common standard was insufficient to justify joinder with other defendants in the same association); cf. *Medsquire LLC v. Spring Medical Systems Inc., et al.*, 2-11-cv-04504 (C.D. Cal. Dec. 1, 2011) (in a pre-AIA case, dismissing all but the first named defendant over plaintiff's argument "that each Defendant makes and sells software that complies with a federal standard, and that compliance with that standard necessarily entails infringement of the [patent]").

B. The Court's Management of Serial Lawsuits

In all events, one impact of the AIA is that it has increased the absolute number of patent infringement suits brought concerning to a given patent. Rather than having one suit against 10 alleged infringers, courts must now deal with 10 separate suits. Courts now are beginning to determine how to manage this new reality. So far, for the most part, the courts are proceeding in a fairly predictable manner.

1. Impact of AIA on Pretrial Case Management

For example, Judge Gilstrap has developed a virtually standard order consolidating serially filed actions asserting the same patent for all purposes leading to trial. See *Rpost Holdings Inc. v. Canada Post Corporation*, No. 2:11-cv-6 (E.D. Tex. filed Jan. 10, 2011), ECF No. 59; *Rotatable Tech. LLC v. Nokia Inc.*, No. 2:12-cv-265 (E.D. Tex. filed May 1, 2012), ECF No. 60. In *Rpost* and *Rotatable* the court noted the "significant increase" in serially filed litigation following the AIA, and found that these cases by their nature, involve common issues of law or fact.

Accordingly, the court concluded that these actions were ripe for consolidation under Rule 42 for all pretrial issues except venue. The court went on to note that it would issue only one docket control order, one protective order, and one discovery order, giving these post-AIA cases an appearance nearly identical to the multidefendant litigations of the pre-AIA world.

Similarly, in a post-AIA series of cases initiated by TQP Development LLC in the Eastern District of Texas, the court scheduled a common case management conference and ordered the parties to be prepared to discuss the viability of consolidation, including how individual trials should be structured. See, e.g., *TQP Development LLC v. Priceline.com*, No. 2:12-cv-54 (E.D. Tex. filed Feb. 8, 2012), ECF No. 20; see also *Roy-G-Biv Corp. v. Abb Ltd.*, No. 6:11-cv-00622

(E.D. Tex filed Nov. 15, 2011), ECF No. 51 (consolidating three serially-filed cases for pretrial issues; ordering the submission of a single docket control order, discovery plan, and protective order). In one recent case involving defendants joined both before and after the enactment of the AIA, the court, acting sua sponte, consolidated 31 “related” cases for all pretrial issues up to and including claim construction. See *Ameranth Inc. v. Pizza Hut Inc., et al.*, No. 3-11-cv-01810 (S.D. Ca. filed Aug. 15, 2011), ECF No. 279.

Judge Michael Schneider of the Eastern District of Texas also recently took the dramatic step of severing 54 defendants for misjoinder, without further consolidation. See *GeoTag Inc. v. Circle K Stores Inc.*, No. 2:11-cv-405 (E.D. Tex. filed Sept. 13, 2011), ECF No. 426. The court’s plan for managing these cases has now begun to take shape. While no formal consolidation order is in place, the court has issued a single scheduling and discovery order, and outlined plans for a claim construction hearing involving a single lead defendant, to be nominated by the parties. See *GeoTag Inc. v. Abercrombie & Fitch Co.*, No. 2:12-cv-437 (E.D. Tex. filed Sept. 13, 2011), ECF No. 14; see also *Ameranth*, No. 3-11-cv-01810 (S.D. Ca. filed Aug. 15, 2011), ECF No. 279.

Other courts may view these types of serial cases differently. For example, in *C.R. Bard Inc. v. Medical Components Inc.*, No. 2:12-cv-00032 (D. Utah filed Jan. 11, 2012), ECF No. 71, three separate defendants were each accused of infringing the same two Bard patents. The court found that while overlapping questions of law and fact might exist, such concerns were merely speculative. Given that the defendants were separate entities who were market competitors making different products, the court refused consolidation for pretrial proceedings or otherwise.

The chapter on how courts will manage these cases throughout the pretrial period remains unwritten. As many parallel actions are only in their infancy, it remains to be seen how courts as a whole will manage their dockets. Nonetheless, this early run of pretrial consolidations suggests that pretrial life under the AIA for purposes of joinder may closely resemble the pretrial state of affairs before the AIA. While it is possible a court could allow multiple parallel actions to proceed before different judges with different schedules, this seems unlikely, because it is inefficient and could lead to potentially contradictory results.

2. Impact of AIA on Trial

Prior to the AIA, it was not uncommon for multidefendant cases to proceed jointly, all the way through trial. See, e.g., *Alcatel-Lucent USA Inc. v. Amazon.com Inc., et al.* (E.D. Tex. filed Sept. 25, 2009) (in a single multidefendant case, holding joint trial among multiple unrelated defendants accused of infringing the same patents); *Warner Chilcott Laboratories Ireland Ltd. v. Impax Laboratories Inc., et al.*, No. 2:08-cv-06304 (D.N.J. filed Dec. 23, 2008) (consolidating three separate cases and holding a joint bench for the remaining defendants accused of infringing a single pharmaceutical patent).

Significantly, however, Section 299 does not permit consolidation for trial in the absence of a common transaction or occurrence (or consent of the parties). Accordingly, at trial, Section 299 could provide a strategic advantage for defendants who could collectively get “multiple bites at the apple.”

To date, none of the serially filed cases filed after the AIA have reached the trial stage. Thus, whether courts will simply try the first named defendant first, take volunteers, or adopt some other case-management approach remains to be seen.

How much of an advantage conducting separate serial trials on the same patent will provide to defendants, if any, will depend on many factors. While this potentially will provide multiple opportunities for different defendants to raise defenses, this potential theoretical advantage could be undercut in practice. For example, while a later defendant may not formally estopped from making their own arguments, it still may be saddled with having to overcome earlier claim construction rulings and rulings on invalidity defenses. In other words, if prior defendants did an ineffective job on these issues, this could have an adverse impact on later defendants, perhaps even limiting their available defenses.

V. Conclusion

Time will tell whether and to what extent Section 299 will change the way that patent litigations will be managed and tried. For now, we are likely to see the number of absolute patent litigations grow significantly, even if the number of entities being sued will remain substantially the same. Many (and perhaps most) of these cases will be consolidated for pretrial purposes (including claim construction) with the main difference under the new regime being felt at the trial stage.

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