

AIA's Impact On Multidefendant Patent Litigation: Part 1

Law360, New York (October 19, 2012, 12:48 PM ET) -- This article reviews the impact of the America Invents Act's "disjoinder" provision on multidefendant patent litigation in the year since its enactment.

The article is divided into two parts.

This first part provides background regarding the issue of multidefendant patent litigation as well as an overview of the judicial and legislative approaches to addressing this issue, with a focus on new 35 U.S.C. § 299, which was enacted as part of the AIA on Sept. 16, 2011.

The second part, which will be published next week, assesses the impact of Section 299 of the AIA on the filing and management of patent infringement litigations, both at the pretrial and trial phases.

Introduction

It now has been just over a year since the adoption of the Leahy-Smith America Invents Act, P.L. 112-29, the first significant act of patent reform in almost 60 years. One of the many issues that the AIA addresses is that of multidefendant litigation, in which a plaintiff patent-holder sues multiple unrelated entities in a single patent infringement action.

In this article, we discuss new 35 U.S.C. § 299, the provision of the AIA directed at alleviating multidefendant litigations, and assess its impact in the year since its enactment.

As a practical matter, the change has not been dramatic, at least at this early stage. Courts, exercising the authority to efficiently manage their own dockets, are consolidating the many serially filed cases for pretrial purposes. Defendants across cases still rally together in joint defense arrangements, sharing the workload for common issues. This results in a landscape quite similar to the pre-AIA state of affairs through all pretrial proceedings. How courts will manage these cases at the trial stage — where, under the AIA, unrelated defendants may not be consolidated for trial — could demonstrate a more dramatic shift. But this remains to be seen.

The Concerns Associated with Multidefendant Patent Litigations

While nonpracticing entities have been asserting and licensing patents for many years, early NPEs at best had a modest impact on patent litigation as a whole. In recent years, however, the size, sophistication and capitalization of these NPEs has grown. Along with concerns over perceived "bad patents," the so-called "patent troll" issue has risen to the public eye, raising — in particular among those corporations that have become serial defendants. Congress (as a result of related lobbying efforts) also took notice. With an increase in multidefendant cases of unwieldy size on their dockets, so did the judiciary.

Since 1985, 380 distinct NPEs have been involved in litigation with over 9,000 different companies in over 6,700 actions. (See <https://www.patentfreedom.com/research.html>, last visited Sept. 24, 2012.) Frequent targets include consumer electronics giants, such as [Apple Inc.](#),

[Samsung Electronics Co. Ltd.](#), [Panasonic Corp.](#) and [Sony Corp.](#), computer hardware and software companies, such as [Microsoft Corp.](#) and [Dell Inc.](#), and Internet companies, such as [Amazon.com Inc.](#), [Google Inc.](#) and [Facebook Inc.](#) Id.

One favored NPE tactic has been to sue multiple parties in a single action where the only characteristic common between the defendants is that they all make or sell products that are being accused of infringing the same patent.

The practice of joining numerous unrelated defendants in large-scale, industry-wide patent infringement cases dates back to the earliest large-scale patent infringement actions brought by NPEs in the Eastern District of Texas. For example, in 2001, Parental Guide of Texas Inc. brought an infringement action naming scores of defendants in a single action. See *Parental Guide of Texas Inc. v. Funai Corp. Inc., et al.*, No. 2:00-cv-00262 (E.D. Tex. filed Dec. 18, 2000). This practice continued apace in the following decade, in the Eastern District of Texas as well as in other districts. See, e.g., *St. Clair Intellectual Property Consultants Inc. v. Canon Inc., et al.*, No. 1-03-cv-00241 (D. Del. filed Feb. 28, 2003); *Compression Labs Inc., v. Adobe Systems Inc.*, et al., No. 2-04-cv-00158 (E.D. Tex. filed April 22, 2004); *Golden Bridge Tech. Inc. v. T-Mobile USA Inc.*, C.A. No. 11-165 (D. Del. filed Feb. 24, 2011).

The multidefendant arrangement streamlines the litigation process for the plaintiff. The plaintiff patentee pays a single filing fee and, more significantly, does not have to bear the cost and burden of managing multiple concurrent or phased lawsuits, in perhaps different jurisdictions or before different judges, facing potentially inconsistent results.

There are certain benefits for defendants as well. For example, defendants often form joint defense groups to pool resources and take advantage of the ability to divide workload on common tasks, such as invalidity defenses. If done effectively, this can reduce costs and result in the presentation of a better defense.

However, on the downside, defendants in these cases are forced to bear the transaction costs of coordinated action and make strategic decisions in the litigation as a group, even though — by virtue of each defendant making different products — all members are not necessarily identically situated with respect to the issue of infringement.

For example, the use of court appointed “lead counsel” has become a common practice in such consolidated proceedings. See, e.g., *GeoTag Inc. v. Circle K Stores Inc.*, 2-11-cv-00405 (E.D. Tex. Aug. 14, 2012, Order) (Schneider, J.) (appointment of “lead defendant” to “brief and argue” claim construction on behalf of all consolidated defendants in case does not violate due process); *In re Katz Interactive Call Processing Patent Litigation*, MDL No. 1816-C, ECF Nos. 768, 2552 (appointing liaison counsel to coordinate files and discovery and communicate events and filings among the litigants).

Another of the problems noted by serial defendants in multidefendant litigations is that certain judges have been reluctant to sever and transfer individual defendants that have only a tangential relationship to the forum. The transfer issue caught the attention of the U.S. Court of Appeals for the Federal Circuit, the appellate court with exclusive jurisdiction over all patent infringement actions, which began issuing writs of mandamus to district courts ordering transfer. See, e.g., *In*

re [Link_A_Media Devices Corp.](#), Misc. Dkt. No. 990 (Fed. Cir. Dec. 2, 2011); In re [Microsoft Corp.](#), No. 944 (Fed. Cir. Nov. 8, 2010); In re [Nintendo Co.](#), 589 F.3d 1194 (Fed. Cir. 2009); In re [Hoffmann-La Roche Inc.](#), 587 F.3d 1333 (Fed. Cir. 2009); see also In re [Volkswagen](#) of Am. Inc., 545 F.3d 304, 319 (5th Cir. Tex. 2008) (issuing writ of mandamus directing district court to transfer case where it was undisputed that no plaintiff, party or nonparty witness, source of proof on facts giving rise to the suit occurred in the district).

As to the larger issue of whether multidefendant cases should be severed based on improper joinder, this issue was also taken up by the district courts as well as the Federal Circuit prior to the enactment of the AIA. Most recently, in In re [EMC Corp.](#), 677 F.3d 1351, 1356 (Fed. Cir. 2012), a post-AIA case applying pre-AIA law, several common defendants filed a mandamus petition seeking severance and transfer. The defendants argued that they shared nothing in common other than being accused of infringing the same patents. The defendants argued that joinder under these circumstances violated Federal Rule of Civil Procedure Rule 20, which provides that parties may be joined in a single action if: (1) the claimed right to relief arises out of the same transaction or occurrence and (2) any question of law or fact common to all defendants will arise in the action.

The lower court denied defendants' motions. On mandamus, however, the Federal Circuit vacated the lower court's decision, and directed the lower court to apply the correct test for joinder under Federal Rule of Civil Procedure Rule 20. *Id.* at 1360. Significantly, the Federal Circuit concluded that "independently developed products using differently sourced parts are not part of the same transaction, even if they are otherwise coincidentally identical." *Id.* at 1359. Thus, EMC appears to have heralded the end of the traditional multidefendant patent infringement cases against unrelated entities, even before the enactment of the AIA.

The Legislative Solution in the AIA — The "Disjoinder" Provision

For some, intervention by the Federal Circuit was too little too late. In order to address what were perceived as improperly joined patent infringement actions, the AIA added new 35 U.S.C. § 299 to statutorily limit multidefendant litigation among unrelated defendants and to define the narrow circumstances for when unrelated defendants can be joined in one action.

New Section 299, which became effective on Sept. 16, 2011, limits the circumstances under which accused infringers may be joined for trial in one action as defendants. Specifically, new Section 299 permits joinder only where the right to relief arises out of "the same transaction, occurrence, or series of transactions, or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process." 35 U.S.C. § 299(a).

The legislative history of Section 299 indicates that the leading rationale for this change was the inconsistent application of Federal Rule of Civil Procedure Rule 20. 112 Cong. Rec. S5429 (statement of Sen. Jon Kyl, R-Ariz.) (commenting that joinder provision "effectively codifies current law as it has been applied everywhere outside of the Eastern District of Texas."). While some district courts had interpreted Rule 20 as requiring severance of these multidefendant cases, others took a different approach.

As discussed further below, new Section 299 was intended to codify existing law as it was then applied nearly everywhere except the Eastern District of Texas, perhaps reflecting the concerns of the business community that the busiest patent docket in the country was playing by a different set of rules, and that change was not happening quickly enough. See 112 Cong. Rec. S5429 (statement of Sen. Kyl); see also 112 Cong. Rec. H4426 (statement of Rep. Bob Goodlatte, R-Va.) (describing the bill as ending “the abusive practice of treating as codefendants parties who make completely different products and have no relation to each other.”).

Section 299 is essentially a codification of the majority interpretation of Federal Rule 20 under pre-existing law. See *EMC*, 677 F.3d at 1359 (holding that “independently developed products using differently sourced parts are not part of the same transaction, even if they are otherwise coincidentally identical.”). Under Federal Rule 20, defendants may be joined in an action if the claim arises “out of the same transaction, occurrence, or series of transactions or occurrences” and a question of law or fact common to all defendants will arise in the action. Fed. R. Civ. P. 20(a)(2).

Most courts read this rule as requiring that defendants in a patent infringement action must have engaged in related activities or acted in concert. See, e.g., *WIAV Networks LLC v. 3COM Corp.*, 2010 U.S. Dist. LEXIS 110957 (N.D. Cal. Oct. 1, 2010) (dismissing sua sponte all but the first named defendant where the basis for joinder was that the alleged infringement was based on the practice of a common standard; commenting that each defendant was “simply []thrown into a mass pit with others to suit plaintiff’s convenience.”).

Other courts, however, mainly the Eastern District of Texas, saw no problem with mass multidefendant cases. See, e.g., *MyMail Ltd. v. America Online Inc.*, 223 F.R.D. 455, 457 (E.D. Tex. 2004) (refusing to sever and transfer and rejecting per se rule that infringement by different defendants does not satisfy Rule 20’s same transaction requirement). New Section 299 tracks the *WIAV* line of cases and rejects the reasoning of *MyMail*. See H.R. Rep. No 112-98 at 55, n. 61 (2011) (noting that the intent of the joinder provision was to “legislatively abrogate[]” the holding of *MyMail*).

Under Section 299, “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.” 35 U.S.C. § 299(b) (emphasis added). Many expected that this provision would sound the death knell for multidefendant patent litigation, though the extent of this remains to be seen.

Notably, under Section 299, NPEs can continue to join as co-defendants in the same action entities which are accused of infringing the same patent if the cause of actions arises out of same transaction, occurrence, or series of transactions or occurrences relating to same accused product or process and there are questions of fact common to all defendants or counterclaim defendants will arise in the action. 35 U.S.C. § 299(a)(2).

For example, it would presumably be appropriate to sue in a single action a manufacturer of a product and a party that modifies or repairs that same product, since there would be common

questions as to whether the products at issue infringe the patents in question. See, e.g., *Omega Patents LLC v. Skypatrol LLC*, No. 1:11-cv-24201, 2012 U.S. Dist. LEXIS 100833 (S. D. Fla. Jun. 19, 2012) (finding 35 U.S.C. § 299 to be satisfied because one defendant modified the product manufactured by another defendant).

However, the significant difference under the AIA is that plaintiffs may not join defendants based solely on allegations that the various defendants have infringed same patent. Different manufacturers whose products are accused of infringing the same patent can no longer be sued in the same infringement action, merely because the same patent was asserted.

Under Section 299(c), defendants may voluntarily waive these nonjoinder provisions. 35 U.S.C. § 299(c). Therefore, in situations where there may be a strategic advantage to have disparate manufacturers joined and consolidated for trial, a group of defendants may choose to proceed in that fashion.

The AIA leaves open whether and how new Section 299 will impact consolidated proceedings before the Judicial Panel on Multidistrict Litigation. (See 28 U.S.C. § 1407, permitting the panel to consolidate for pretrial proceedings actions “involving one or more common questions of fact are pending in different districts”). Consolidation before the MDL panel has been a mechanism used in some multidefendant cases to move the case to a forum that is perceived to be more favorable. See, e.g., *In re Webvention LLC Patent Litigation*, MDL No. 2294 (consolidating five pending actions in the District of Maryland, including two multidefendant cases pending in the Eastern District of Texas, and three Delaware-based declaratory judgment actions).

The AIA did not remove MDL consolidation as an option, provided that the disparate proceedings are pending in different districts (including declaratory judgment actions). See, e.g., *In re Bear Creek Technologies Inc., ('722) Patent Litigation*, MDL No. 2344 (holding that the America Invents Act does not alter the panel’s authority to order pretrial centralization of patent litigation); *In re TR Labs Patent Litigation*, MDL No. 2396 (consolidating one case pending in the D. Co. and three pending in the D.N.J. before the D.N.J. Court).

In the second part of this article, which will be published next week, 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.

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