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The Impact of the America Invents Act on Litigation by Non-Practicing Entities

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More than one year after enactment of the Leahy-Smith America Invents Act (AIA), there has been no marked decrease in infringement suits brought by non-practicing entities (NPEs). This result is not surprising given how the AIA's joinder provisions have been applied. As a result of the AIA, courts now dutifully bar plaintiffs from listing unrelated defendants in the same caption of a single complaint, thereby forcing NPEs to file separate cases against each defendant. The courts, however, are now routinely consolidating the nominally separate cases for pretrial purposes. Such pretrial consolidation has transformed the AIA's joinder provisions into a procedural farce; separate pieces of paper must be filed, but the cases proceed as if the defendants were named in a single lawsuit. Meanwhile, the economic considerations that incentivized NPEs to bring broad, meritless litigation have remained essentially unchanged because NPEs are still able to sue multiple defendants at almost no incremental cost.

On September 16, 2011, President Barack Obama signed into law the Leahy-Smith America Invents Act (P.L. 112-29) (the "AIA"). The AIA passed Congress by overwhelming margins in both houses, and its enactment capped a long effort to reform the American patent system. One aim of the AIA was to reduce the number of meritless multi-defendant lawsuits filed by entities that do not practice the patents they assert – so-called non-practicing entities ("NPEs") or, more colloquially, "patent trolls." The AIA thus prohibits the joinder of multiple defendants in a single litigation based solely on the

allegation that the defendants all infringe the same patent. *See* P.L. 112-29 § 19(d), codified at 35 U.S.C.A. § 299. The apparent theory behind the joinder provision was that NPEs would be less likely to bring meritless infringement suits if they were denied the economies of scale that accompanied suing multiple defendants in a single action.

More than one year after enactment of the AIA, there has been no marked decrease in infringement suits brought by NPEs.¹ This result is not surprising given how the AIA's joinder provisions have been applied. As a result of the AIA, courts now dutifully bar plaintiffs from listing unrelated defendants in the same caption of a single complaint, thereby forcing NPEs to file separate cases against each defendant. The courts, however, are now routinely consolidating the nominally separate cases for pretrial purposes. Such pretrial consolidation has transformed the AIA's joinder provisions into a procedural farce; separate pieces of paper must be filed, but the cases proceed as if the defendants were named in a single lawsuit. Meanwhile, the economic considerations that incentivized NPEs to bring broad, meritless litigation have remained essentially unchanged because NPEs are still able to sue multiple defendants at almost no incremental cost.

Background on the AIA

The AIA reflects the most far-reaching changes to US patent law since 1952. Its major provisions received widespread media coverage when the statute was enacted last year. Starting in 2013, the AIA replaced the US's "first to invent" patent priority system with a "first to file" system, moving the United States closer to the patent priority systems used by most other developed countries. 35 U.S.C.A. § 102. The AIA also: (1) expands the definition of prior art to include sales and other activities by third parties that make the product available outside the US; (2) allows third parties to provide comments on pending patent applications; and (3) creates new procedures within the US Patent and Trademark Office to challenge the validity of a patent.

The AIA also modified the rules governing joinder of unrelated parties in a single lawsuit for patent infringement. *See* 35 U.S.C.A. § 299(a). Under § 299(a), accused infringers may only "be joined in one action as defendants ... or have their actions consolidated for trial" if (1) the claims against the defendants arise out of "the same transaction or occurrence ... relating to the making, using, importing into the United States, offering for sale, or selling of the *same accused product or process*," and (2) "questions of fact common to all defendants ... will arise in the action." 35 U.S.C.A. § 299(a) (emphasis added). Importantly, § 299(b) makes clear that, for joinder purposes, accused infringers may not be joined in one action as defendants based solely on allegations that they each have infringed the patents in suit. 35 U.S.C.A. § 299(b).

Interestingly, this provision of the AIA was barely mentioned in media reports and has relatively sparse legislative history. *See* P.L. 112-29 § 19(d), codified at 35 U.S.C.A. § 299.

Application of the AIA's Joinder Provision Since Enactment

Although the language and purpose of the AIA's joinder provision appear straight forward, its application has been anything but simple. NPEs have been unwilling to forego the efficiencies they obtain through suing multiple defendants at the same time and in the same court. Some NPEs have argued that the AIA should be construed broadly to allow joinder of multiple defendants in a single lawsuit so long as those defendants have similar products. The more common practice, however, has been for NPEs to file separate lawsuits and then request consolidation of the cases for pretrial purposes.

¹ *See, e.g.*, PriceWaterhouseCoopers 2012 Patent Litigation Study, available at <http://www.pwc.com/us/en/forensic-services/publications/2012-patent-litigation-study.jhtml>.

While the reaction of NPEs to the AIA is not unexpected, the reaction of the district courts has been more surprising. Rather than embracing the goals of the AIA and forcing NPEs to separately litigate their cases – which would, at least theoretically, have reduced meritless litigation in the long-term – courts have been receptive to NPE requests to consolidate separately filed cases. Indeed, some courts have even begun automatically consolidating serially filed cases. The courts' rationale is judicial economy – managing cases separately creates an administrative burden on the courts. By consolidating cases, a court avoids duplicating effort on, among other things, scheduling orders, protective orders, discovery disputes, and *Markman* hearings. Of course, the other practical effect of consolidation is to nullify the purpose of the AIA's joinder provisions and revert to the pre-AIA system where NPEs are incentivized to sue as many defendants as possible, regardless of the merits, to create economies of scale.

The Impact of the AIA on the *Filing* of Multi-Defendant Cases

As an initial matter, the AIA appears to have had the most dramatic impact on the *filing* of multi-defendant patent infringement cases. Because the language of § 299 allows joinder only when defendants sell the same accused product or process, NPEs now largely file separate suits against defendants accused of infringing the same patents. *See* 35 U.S.C.A. § 299(a)(1).²

On the increasingly rare occasion where a plaintiff seeks to name multiple defendants in the same infringement litigation, courts have severed the defendants unless the plaintiff can show that the allegations of infringement arise from the same transaction or occurrence and deal with the “same accused product or process.” For example, in *Golden Bridge Tech, Inc. v. Apple, Inc.*, plaintiff Golden Bridge sought to name multiple defendants on the basis that their accused products each used one of two common processors. No. 2:12-cv-4014, 2012 WL 3999854 at *2 (C.D. Cal. Sept. 11, 2012). The court held that use of an identical processor did not alone establish that joinder was proper. *Id.* at *3. Moreover, the court noted that joinder was inappropriate where the defendants' products were not identical and the defendants were themselves unrelated competitors that do not collaborate. *Id.* Similarly, the Eastern District of Texas held that multiple defendants could not be joined in a single case on the basis that they each used processors based on ARM11 architecture when the defendants' accused products were themselves very different. *Norman IP Holdings v. Lexmark Int'l, Inc.*, No. 6-11-cv-495, 2012 WL 3307942 at *6 (E.D. Tex. Aug. 10, 2012).

Though joinder in a single case has become much more difficult since enactment of the AIA, it is still possible, especially where co-defendants have a close relationship.³ For example, in *Omega Patents, LLC v. Skypatrol, LLC*,

² For example, in the Central District of California, The Tawnsaura Group filed 70 individual actions against different defendants, all alleging infringement of the same two patents. *See The Tawnsaura Group, LLC v. NBTY Inc.*, No. 8:12-cv-1655 (C.D. Cal. Oct. 5, 2012); *see also Soverain Software LLC v. Oracle Corp.*, 6-12-cv-141 (E.D. Tex. October 9, 2012) (thirteen separate actions brought against defendants for alleged infringement of the same patents); *Ameranth, Inc. v. Pizza Hut, Inc.*, 3-11-cv-1810 (S.D. Cal. Oct. 4, 2012) (separate actions brought against 31 defendants for alleged infringement of the same patents).

³ Even before enactment of § 299, the Federal Circuit had restricted joinder with *In re EMC Corp.*, which raised the standard for joinder of defendants in patent infringement cases by requiring more than similar accused products. 677 F.3d 1351, 1359 (Fed. Cir. 2012). Some courts have interpreted *In re EMC*'s joinder requirements to result in “nearly analogous results” as § 299. *Soverain Software LLC v. Oracle Corp.*, 6-12-cv-141 (E.D. Tex. October 9, 2012); *cf. Golden Bridge Tech., Inc. v. Apple, Inc.*, No. 2:12-cv-4014, 2012 WL 3999854 at *2 (C.D. Cal. Sept. 11, 2012) (finding *In re EMC* “prophesies the reasoning that the Federal Circuit would likely use in the future to address [§ 299]”); *but see*

No. 1:11-cv-24201, n.3 (S.D. Fla. June 19, 2012), the court allowed the joinder of multiple defendants where one defendant was alleged to have supplied the accused product to the other defendant. *Id.* at *3-4. The court reasoned that a defendant that “reconfigures, modifies, and rebrands the same product” may be properly joined with the party that sold the original product. *Id.* at 4. Important to the court’s analysis in *Omega Patents* was that the codefendants’ “established relationship” made their joinder in the same action more than just “chance or coincidence.” *Id.* at n.3.

In *Mednovus, Inc. v. Qinetiq Group PLC*, the court severed certain defendants while maintaining others in the same action. No. 2:12-cv-3487, 2012 WL 4513539 (C.D. Cal. Oct. 1, 2012). The court held that two buyers could not be joined in the same action merely because they purchased the accused product for resale from the same supplier. *Id.* at *3. Noting that the defendants had acted separately, the court found that they could not have engaged in the “same transaction or series of transactions.” *Id.* at 4. However, the *Mednovus* court did not sever two defendants that had a “close relationship” in which one defendant was the other’s spinoff and licensee. *Id.* at *3.

One of the few cases to examine § 299’s joinder requirements in depth, *Digitech Image Tech., LLC v. Agfaphoto Holding GMBH*, buttresses a restrictive reading of § 299’s joinder provisions. No. 8:12-cv-1153, 2012 WL 4513805 (C.D. Cal. Oct. 1, 2012). In *Digitech*, plaintiff joined 45 defendants that both manufactured and retailed various digital cameras that allegedly infringed Digitech’s patent. *Id.* at *1. The court severed all defendants, even those that had sold identical products to other defendants in the stream of commerce, reasoning that the separate sales prevented any codefendant from having taken part in the “same transaction.” *Id.* at *4, citing 35 U.S.C.A. § 299(a)(1). The court rebuffed a creative argument from Digitech that it was forced to join all possible infringers in the same action or Digitech could be precluded from later asserting the same infringement claim against non-joined defendants. *Id.* The court reasoned that because Digitech had to proceed against each defendant individually rather than in groups, there could be no claim preclusion. *Id.*

Consolidation of Pretrial Proceedings Despite the AIA

While the AIA has reduced the number of multi-defendant cases filed, courts have routinely permitted the consolidation of separately-filed cases for discovery and other pretrial purposes.

The practice of consolidating infringement cases is particularly common in the Eastern District of Texas. For example, in *Norman IP Holdings v. Lexmark Int’l, Inc.*, the court severed twenty-two separate defendants that had been misjoined in a single case, but then consolidated the newly severed cases for pretrial purposes. No. 6-11-cv-495, 2012 WL 3307942 at *6 (E.D. Tex. Aug. 10, 2012). The court explained: “Norman’s broad allegations regarding common processor or processor family designs are insufficient to establish that the allegations of infringement against each defendant relate to a common transaction or occurrence for joinder purposes.” *Id.* at 6. The court went on to explain, however, that because serially-filed cases “present[] administrative challenges for the Court” the newly-severed Norman actions would be consolidated for pretrial purposes. *Id.*; see also *US Ethernet Innov., LLC v. Ricoh Americas Corp.*, No. 6:12-cv-235 at *4 (E.D. Tex. Sept. 24, 2012) (trial courts’ “considerable discretion to consolidate matters that share a common question of law or fact” allows consolidation of ten defendants for pretrial purposes) (internal quotations omitted); *Unifi Scientific Batteries, LLC v. Research in Motion Corp.*, No. 6:12-cv-223 (E.D. Tex. Sept. 18, 2012) (*sua sponte* consolidation of two multi-defendant actions for pretrial purposes).

Omega Patents, LLC v. Skypatrol, LLC, No. 1:11-cv-24201, n.3 (S.D. Fla. June 19, 2012) (finding In re EMC applies only to cases that predate § 299).

Other district courts have also followed the model of consolidating cases for pretrial purposes. For example, in *The Tawnsaura Group, LLC v. NBTY Inc.*, the Central District of California ordered that seventy separate cases be “coordinated” for case management purposes with a single protective order and discovery order to govern all cases. No. 8:12-cv-1655 (C.D. Cal. Oct. 5, 2012) (pointing to judicial economy benefits of coordinating the cases). The *Tawnsaura* court was careful to point out that in coordinating the cases for pretrial purposes, it was not consolidating them for trial. *Id.* at *1. The Southern District of California followed the same practice in *Ameranth, Inc. v. Pizza Hut, Inc.*, consolidating 31 separate cases for pretrial matters including claim construction. 3-11-cv-1810 (S.D. Cal. Oct. 4, 2012) (finding cases brought by same plaintiff to involve “nearly identical” infringement claims).

Defendants in several cases have opposed consolidation as inconsistent with the AIA. Courts, however, have generally rejected this argument. In *C.R. Bard, Inc. v. Medical Components, Inc.*, the District of Utah found that “the America Invents Act remains silent on pretrial consolidation” and, as such, “the AIA does not affect the authority of a court to order pretrial consolidation of related patent cases.” No. 2:12-cv-32, 2012 WL 3060105 at *1 (D. Utah 2012) (granting plaintiff’s motion to consolidate three separate cases alleging infringement of same set of patents). At least one court, however, appears open to the argument that § 299 may block consolidation of pretrial matters. See *PB & J Software, LLC v. Acronis, Inc.*, No. 4:12-cv-690, 2012 WL 4815132 (E.D. Mo., Oct. 10, 2012) (reserving judgment on whether § 299 allows consolidation of pretrial matters and denying motion to consolidate on other grounds).

Use of Multidistrict Litigation Despite the AIA

When a plaintiff files infringement cases in multiple jurisdictions, the inter-district consolidation mechanisms referred to in Part II. B, above, are not available. Plaintiffs in such proceedings, however, have nonetheless been able to use the multidistrict litigation process to consolidate the separate actions in a single forum. See, e.g., *In re Bear Creek Tech Patent Litigation*, MDL No. 2344, 858 F. Supp. 2d 1375 (MDL May 2, 2012); see also *In re Maxim Integrated Prods., Inc. Patent Litigation*, 867 F.Supp.2d 1333 (MDL June 11, 2012).

Again, defendants have opposed MDL consolidation on the ground that it is inconsistent with the AIA. For example, *Bear Creek* involved fourteen separate actions filed in three district courts alleging infringement of the same patent. *Id.* at 1375. Though the cases were filed just before the AIA’s enactment, the *Bear Creek* defendants nevertheless argued that the MDL proceeding was an “end run” around the AIA. *Id.* at 1379 (defendants predicted that “centralization of this litigation would lead to a flood of MDL patent filings by non-practicing entities seeking to execute an ‘end run’ around the AIA’s new joinder requirements”). The Judicial Panel on Multi-District Litigation disagreed and centralized the actions in the Delaware district court. *Id.* at 1379. The Panel held that while the AIA prohibits consolidation for the purposes of trial, it does not prohibit pretrial centralization of separate actions. *Id.* at 1378. The Panel further explained that Congress would have amended the *pretrial* coordination statute directly if it had intended the AIA to affect multidistrict litigation. *Id.*

The MDL Panel again found that the AIA did not prevent centralization of multiple patent cases in *In re Maxim Integrated Prods., Inc. Patent Litigation*, 867 F.Supp.2d 1333 (MDL June 11, 2012). While citing *Bear Creek* for the proposition that the AIA does not alter the Panel’s authority to order pretrial centralization, the Panel noted that “the AIA’s right to separate trials should be taken into account when making the decision to centralize a given litigation.” *Id.* at *2. Nevertheless, the Panel found that the fourteen actions, each alleging infringement of five patents related to mobile commerce, shared “common questions of fact” sufficient (along with convenience and efficiency considerations) to centralize them in the Western District of Pennsylvania. *Id.* at *2-3. In one instance, the MDL Panel re-centralized suits against five defendants that had been severed and transferred to different district courts. *In re: Body Science LLC Patent Litigation*, 883 F.Supp.2d 1344, 1345 (MDL 2012). Similarly, a court facing a consolidated MDL case denied a motion by

defendants to deconsolidate cases for pretrial purposes. *Unified Messaging Solutions, LLC v. United Online, Inc., et. al.*, 1-13-cv-00343 (N.D. Ill. May 3, 2013) (“Section 299’s prohibition on joinder of unrelated defendants based on common acts of infringement does not obviate a transferee court’s discretionary ability to order pretrial consolidation in multidistrict litigation.”) However, the MDL Panel rejected centralization in *In re Select Retrieval, LLC Patent Litigation*, MDL No. 2377, 883 F.Supp.2d 1353 (MDL Aug. 8, 2012). The court found centralization of five actions improper because the litigation had not progressed to the point that the parties had determined the specific nature of the alleged infringement or the extent that infringement allegations would be common across defendants. *Id.* at *1.

Impact of the AIA on Multi-Defendant Trials

A still open question is how the AIA will impact the availability of multi-defendant trials. The AIA is explicit that many of the cases that courts have consolidated for pretrial purposes cannot be consolidated for trial itself. See 35 U.S.C. § 299. Any defendants remaining in such cases will theoretically be entitled to separate trials, regardless of concerns for judicial economy. To date, however, courts have not addressed whether there are procedural mechanisms that, like consolidation, may be used to reduce the AIA’s impact on multi-party trials.

Conclusion

The initial optimism that the AIA would herald a reduction in meritless NPE litigation is now dead. Ironically, the lethal blow was dealt by the courts and their willingness to “consolidate” serially-filed actions despite the purpose underlying the AIA’s joinder provision. The problem of meritless NPE litigation, however, has not been forgotten. The Department of Justice and the Federal Trade Commission have announced investigations into whether NPEs violate antitrust laws. Congress is also now considering a new law that would impose fee shifting in patent infringement cases brought by NPEs. The Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013 (or the “SHIELD Act”) was re-introduced as H.R. 845 on February 27, 2013. Perhaps the SHIELD Act, if enacted, will succeed where the joinder provisions of the AIA have not.

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This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

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