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COUNSEL COMMENTARY

IP: Factors to consider when faced with multi-district patent litigation

NEW DECISIONS FROM THE FEDERAL CIRCUIT AND THE MDL PANEL MAY CHANGE HOW THESE LAWSUITS ARE HANDLED

For many years, it has been routine for a patent plaintiff, particularly a non-practicing entity (NPE), to file one infringement suit against multiple defendants, in a jurisdiction he or she felt was more favorable. These types of suits typically asserted infringement of one or more patents by a diverse group of defendants who were using different apparatuses, systems, or processes. Occasionally, some of the defendants would seek to sever the action and transfer the severed cases to other venues. These approaches met with limited success.

The Federal Circuit and Congress address multi-defendant cases

In 2008, the Federal Circuit began what seemed to be a conscious effort to curtail this practice when it issued a series of rulings on petitions for writs of mandamus and ordered transfer of venue. These rulings confirmed that the venue requirements of §1404(a) actually meant something.

Subsequently, the Federal Circuit ruled that under §1404(a) a plaintiff's choice of forum is entitled to limited deference if the forum is not the plaintiff's home forum and further concluded that the state of incorporation of the defendant is not dispositive in a §1404(a) analysis because it is not even one of the §1404 factors.

More recently, the Federal Circuit concluded that Rule 20 of the Federal Rules of Civil Procedure does not support joinder based on the mere fact that infringement of the same claims of the same patent is alleged, even if those allegations would raise common questions of claim construction or patent validity. The court determined that the transaction or occurrence test of Rule 20 is one in which the defendants share an aggregate of operative facts, for example that the alleged acts of infringement occurred during the same time period, the defendants use identically sourced components, there is an overlap of the development and manufacture of the accused products and processes, among other things.

These approaches by the Federal Circuit are even more important in light of 35 U.S.C §299, which was added to the patent statues by the enactment of the America Invents Act (AIA). That section provides that, in other than Hatch-Waxman cases, patent defendants cannot be joined in one action or have the cases consolidated for trial based solely on the allegations that they infringe the same patent.

Rather, joinder requires that the allegations asserted against the defendants arise out of the same transaction or occurrence in connection with the manufacture, use, offer for sale, sale or importation of an accused product or process and there are questions of fact common to all defendants or counterclaim defendants.

MDL patent litigation decision points

All of this provides the backdrop to the application of the multidistrict litigation (MDL) provision found in 28 U.S.C. §1407(a). The statute provides that when "civil actions involving one or more common questions of fact are pending in different districts, such actions may be transferred to any district for

coordinated or consolidated pretrial proceedings." Any such transfer is to be for the convenience of the parties and witnesses and to promote the just and efficient conduct of such actions.

Several aspects of the MDL statute are important:

- The separate actions are centralized in one court for pretrial proceedings only, and once those proceedings are concluded each pending action is sent back to the district from which it was transferred for trial
- The decision to centralize the separate actions is at the discretion of the MDL panel, based on the existence of common questions of fact
- The centralization of the actions must promote judicial efficiency.

In light of the Federal Circuit's case law, the change to the joinder requirements as a result of the AIA and the MDL statute, there are many scenarios that will present companies with decisions that need to be made in the event they are one of a number of defendants sued for infringement of the same patent.

1. Due to the new joinder requirements, it is unlikely that independent companies will be co-defendants in the same action, unless the "same transaction and occurrence" test is met.

2. In the event there are multiple separate cases filed in the same jurisdiction against independent companies, there is a likelihood that one or more of the defendants may to seek to transfer its case to another venue under §1404(a).

3. Due to the increased emphasis on proper venue considerations, it is likely that there will be cases on the same patent filed in multiple jurisdictions.

These scenarios will require companies to address, among other things:

- Whether it is better to keep the case in the jurisdiction where it was filed, or seek to have it transferred as a single case to another venue
- The benefits of joining in or opposing a centralized MDL proceeding and, if the decision is to join a centralization motion, identify a court to which the actions could be transferred
- How a proposed transferee court has conducted complex patent litigation in the past and that court's approach to deciding substantive motions, including those for summary judgment
- How joint defense activities might be affected if the cases remain separate or are centralized

Hints from the MDL panel on future patent litigation

A recent example of the application of the MDL statute to patent case is found in *In re: Bear Creek Technologies, Inc., ('722) Patent Litigation*, decided by the MDL panel on May 2. In this case, Bear Creek sought centralization of the actions in the District of Delaware. Altogether, there were 14 separate actions, pending in three districts and involving 20 separate defendants. Seven defendants were not opposed to centralization. Defendants opposed to centralization argued that 35 U.S.C. §299 placed limits on the MDL panel to centralize the litigation.

Initially, the panel clarified that although the multidistrict litigation statute, 28 U.S.C. §1407, refers to transfer for "coordinated or consolidated pretrial proceedings," the panel does not order consolidation. Rather, the transferee court has the discretion as to how it will handle the transferred matter. For this reason, the panel refers to its transfer of actions as "centralization."

As to the argument that 35 U.S.C. §299(a) precluded centralization of the case because the cases were not subject to joinder under that statute, the panel concluded that the joinder requirements of §299(a) differ from the transfer requirements of §1407. The former addresses the joinder of defendants in a civil action where there are questions of fact common to all defendants and the plaintiff's claims arise out of the same transaction, occurrence or series of transactions and occurrences. The latter only addresses pretrial proceedings where common questions of fact and transfer will be convenient for the parties and witnesses and will promote judicial efficiencies.

As the panel observed, it is only authorized to transfer cases for pretrial proceedings and is obligated to return any pending case to its originating court with those proceedings have concluded. At bottom, the panel

held that 35 U.S.C. §299(a) does not affect its authority to transfer cases pursuant to §1407.

The panel then addressed the factors underlying any transfer decision, noting that centralization of any litigation is not automatic, but will necessarily depend on the facts, parties, procedural history and other circumstances. Here, the defendants opposing centralization argued that there were different facts relating to the systems used by each defendant and that combining all defendants from the cable, internet, telephone and voice-over Internet protocol industries into one proceeding would be inefficient.

Although the panel commented that centralization of this case was "somewhat of a close call," it nonetheless concluded that transfer was warranted. The panel highlighted that the actions will share substantial questions regarding the validity and enforceability of the patent, factual issues concerning the underlying technology, the prior art and claim construction, among other things.

In addition, the panel viewed centralization as offering substantial savings of judicial economy because one judge would learn the complex technology and construe the patent claims in a consistent fashion. Finally, the panel noted that centralization would eliminate duplicative discovery, prevent inconsistent pretrial rulings, and conserve the resources of the parties. Consequently, the cases were transferred to the District of Delaware.

The *Bear Creek* MDL decision highlights how multi-defendant patent litigation may progress in the future. Given that 35 U.S.C. §299 has effectively eliminated cases with a large number of defendants and the Federal Circuit's renewed emphasis on the proper application of venue transfer factors, you can anticipate that there will be increased interest in using the MDL approach for the handling of pretrial proceedings. *Bear Creek* suggests that those proceedings may have an impact on the way each individual case unfolds. Not only will a large measure of the discovery be conducted in the MDL proceeding, but substantive issues, such as claim construction and summary judgment will also be considered.

With all of these factors to weigh, future patent cases, in which multiple defendants spread across a number of jurisdictions are charged with infringing the same patent, will present companies with many substantive decision points.

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