

Intellectual PROPERTY

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Joining The Fight

By challenging the rules on joinder, cloud computing giant EMC has produced precedents that will benefit the entire tech industry. BY SHARON McCLOSKEY

THE NFL BATTLES AN AMATEUR ARTIST ■ WHEN CAN AN ABSTRACT IDEA BE PATENTED?

IT'S NOT JUST ABOUT US IT'S NOT JUST ABOUT US

After Paul Dacier became EMC Corporation's first in-house attorney in 1990, he soon realized that the data storage company would need more than patents and lawyers to protect its intellectual property. It would have to become an aggressive litigant. Dacier was promoted to general counsel in 1993,

EMC has made repeated trips to the Federal Circuit to transfer a case brought against the company in the Eastern District of Texas. In the process it's won rulings that could benefit other defendants.

BY SHARON MCCLOSKEY

the same year that Storage Technology Corporation sued Hopkinton, Massachusetts-based EMC. International Business Machines Corporation also had a pending suit against EMC.

"I thought, wait a minute, these guys are trying to eat our lunch," Dacier says. "And I realized that if we were going to survive, we'd need to be strategic and very aggressive on

the legal side." EMC filed a countersuit for defamation against IBM, which dropped its case. Dacier's company also took StorageTek to trial, and won. That's the moxie that EMC most recently unleashed against Oasis Research LLC, the patent troll that sued EMC and 17 other defendants almost three years ago in the Eastern District of Texas. One by one, the defendants have settled, with only EMC and Boston-based Carbonite Inc. holding out. (The settlement amounts are protected by confidentiality agreements.)

But EMC isn't backing down. On the contrary, twice now it's gone to the U.S. Court of Appeals for the Federal Circuit to challenge decisions issued

**Photography
by Shawn G. Henry**

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"More companies should litigate these things," says EMC general counsel Paul Dacier. "That's why the courts are there."

by U.S. Magistrate Judge Amos Mazzant, who is presiding over the suit. In the process, the company has won appellate rulings that clarify how judges in the Eastern District of Texas must handle infringement suits filed against multiple out-of-district defendants. And these precedents matter, because more patent suits are filed in the Eastern District than in any other district [see “An Unlikely IP Venue Regains Its Lead,” page 26].

Hewlett-Packard Company, Cisco Systems Inc., and Microsoft Corporation are among the tech giants that have filed amicus briefs in support of EMC in its Federal Circuit appeals. According to Gibson, Dunn & Crutcher partner Matthew McGill, who filed those briefs, “You can only make good law if you’re willing to fight for the principle in which you believe, at least through the Federal Circuit and perhaps through the U.S. Supreme Court.”

McGill continues, “That’s a process that’s fraught with risk, particularly for large companies. So I think that EMC should be applauded for that. A lot of companies get to free-ride on the hard work that they are doing and the risks they are bearing—which is why so many companies filed amicus briefs in support of EMC.”

Dacier says that his company—which now focuses on offering cloud computing services—is intent on seeing the Oa-

episode of National Public Radio’s *This American Life* series.

Though the defendants knew little about Oasis when the case began, they soon learned that the small private company had ties to Intellectual Ventures Management LLC. Based in Bellevue, Washington, IV is one of the original non-practicing entities (NPEs), as patent trolls are also known. Oasis acquired the patents from IV (which retained an interest in the outcome of the suit) just a month before filing the Eastern District case. John Desmarais and Alan Kellman of New York-based Desmarais LLP, who represent Oasis, declined to comment for this story.

AT&T Inc., with headquarters in Dallas, was the only one of the deep-pocket defendants in Oasis’s suit to be located close to the Eastern District. All of the other big defendants, including EMC, were based elsewhere, but Oasis was able to file in the district because it sued some smaller local companies to anchor the case. It alleged that all of the defendants offered products or services that infringed the same Oasis patents.

According to EMC deputy general counsel Krish Gupta, Oasis’s tactic was a familiar one: lump together several competing companies and force them to defend a case in a forum far from their respective locales. “The model works because, as patent trolls hope, most of the

information, everybody has different ways of looking at the case,” Dacier says. “It’s logistically more challenging for everybody to get together and figure out a defense, and it’s a way for the plaintiff to have an unfair advantage.”

EMC decided that the best way to fight Oasis was to focus on the issue of joinder—which parties can be properly joined as defendants in a single suit. The Eastern District of Texas has allowed patent holders to join multiple unrelated companies as defendants, so long as the same patents were involved, and even if the defendants sold different products or services. Under the America Invents Act, which became law in September 2011, joinder is now allowed only if all of the defendants offer the same product or process.

But defendants who were sued in the Eastern District of Texas before the AIA took effect must contend with the district’s old rules. EMC had to come up with another way of addressing the joinder question. In November 2010 the company and several of its codefendants asked Judge Mazzant to sever claims against the companies and transfer them to more appropriate venues. EMC argued that even before the AIA, most of the U.S. district courts in the country permitted joinder only when the same product or process was involved.

For its counterargument, Oasis fell back on precedents in the Eastern District of Texas that allowed the company to sue multiple defendants as long as the same patents were implicated. Oasis further claimed that bringing all possible infringers into the same suit was the most efficient way of resolving its claims. Its lawyers at Desmarais wrote in the company’s brief, “Defendants seek to have at least five district court judges construe the same claims of the same patents, consider the same invalidity arguments, and determine that similar services infringe the same claims of the same patents.” Mazzant agreed with Oasis, and denied the defendants’ motions in July 2011.

Two months later, EMC asked the Federal Circuit to overturn Mazzant’s decision, repeating the argument that it had made unsuccessfully before the magistrate—that joining multiple defendants was proper only when the same products or services were involved. In May 2012 a three-judge panel unanimously sided

“A lot of companies get to free-ride on the hard work that [EMC is] doing,” says Gibson Dunn’s Matthew McGill.

sis suit through to the end. “Our philosophy is this: If you file a lawsuit against us, you’ve made a decision that you want to take us to trial,” he explains. “We will litigate. And if we lose, we’ll appeal. We’ll protect and defend EMC’s intellectual property rights and the livelihood of our employees as part of the strategic goals and overall objectives of the company.”

WHEN OASIS FILED ITS SUIT IN AUGUST 2010, it only had a superficial presence in the Eastern District—just a name on a door in Marshall, Texas, which was later exposed as an empty office in a July 2011

defendants are going to want to quickly settle the case rather than have to spend hundreds of thousands of dollars to defend the action,” says Gupta, whom Dacier credits with implementing the company’s IP litigation strategy. “If you have a quick trial schedule and many defendants, it creates more pressure to settle.” Dragging companies into a venue perceived as plaintiff-friendly just adds to that pressure, he says.

So too does the prospect of having to coordinate your defense with your competitors. “Everybody has confidential information, everybody has trade secret



EMC deputy general counsel Krish Gupta says that most defendants in a big case are going to want to settle rather than fight.

with EMC, ruling that in multiple defendant patent cases, joinder was not proper if different products or processes by the defendants were implicated. The panel then sent the case back to Mazzant and ordered him to reconsider the defendants’ motions to sever.

News of the decision reverberated through patent defense circles. On the same day that the Federal Circuit ruling was announced, some of the more than 300 defendants sued by Geotag Inc. for patent infringement in the Eastern District of Texas offered up the panel’s ruling as dispositive on their own motions to sever there.

THE OASIS CASE HAD ALREADY BEEN pending for two years when Mazzant reconsidered the motions to sever and transfer the claims against EMC and its codefendants. In August 2012 the judge agreed to sever the cases. But instead of

transferring them to other districts, he consolidated them in the Eastern District for pretrial purposes, saying that it made no sense to send the cases elsewhere, given the length of time that they’d been pending before him.

Once again EMC appealed Mazzant’s order to the Federal Circuit. The company claimed that it was the judge’s erroneous decision on joinder and his delay on the transfer motions that kept the Oasis case in the Eastern District for so long. EMC also maintained that the court shouldn’t be able to use that time lapse as a basis to prevent the defendants from litigating their cases in more convenient forums.

But Oasis argued that, regardless of any delay issue, the Eastern District remained the most convenient forum to hear the case, given that the company would be relying on witnesses and proofs that were located in the district. Oasis further added that EMC had not estab-

lished that its forum of choice—Utah—was more convenient.

This time around, the same Federal Circuit panel agreed unanimously with Oasis in a January 2013 ruling. According to the panel, EMC was correct that courts should not delay in deciding transfer motions, which should be resolved very early on in a case. But in deciding those motions, courts should consider factors related to transfer, such as the location of witnesses and sources of proof as they existed at the time that a case was filed. Here, because Oasis had witnesses and other proofs in the district and no other district was more convenient, the Federal Circuit panel ruled that the company’s case should remain in the Eastern District of Texas.

EMC’s commitment has brought needed clarity to the standards for transfer in patent cases, according to Brian LaCorte, a Ballard Spahr partner who represented former defendant Go Daddy

Group Inc. “What EMC did was help make it clear that venue issues have to be dealt with very early on in these patent cases,” he says. “And establishing that the courts have to look at venue considerations that exist at the time the case was filed is an absolute that comes out of this case. That certainly wasn’t the case in other cases following EMC’s first petition, but will be now.”

With \$20 billion in revenue, EMC had the wherewithal to take on Oasis, an option not available to some of its smaller codefendants, such as Rackspace Hosting, an open cloud company based in San Antonio with \$1 billion in revenue in 2011. Rackspace associate general counsel Mary Stich spoke about her company’s litigation costs at a December 2012 workshop that the Federal Trade Commission held on the businesses that it referred to as “patent assertion entities.” Stich said that Rackspace had been sued eight times by patent trolls in the past three years, and that 90 percent of its litigation expense in 2012 went to suits brought by trolls. Posing a rhetorical question, she asked, “Is a small business going to go to trial at a cost of over \$2 million, or settle for, say, \$100,000?” Indeed, Rackspace settled with Oasis in June 2011 for an undisclosed amount.

Even the larger companies in the Oasis case settled—GoDaddy did so after the first Federal Circuit decision and while its motion to transfer its case to Arizona was pending before Judge Mazzant. “Parties settle for a variety of reasons,” says LaCorte, who could not comment on his client’s settlement because of confidentiality provisions. But he adds that he and his client “just commend EMC for staying with this fight. It would have been easy and less expensive for them to have accepted the hand they were dealt by the trial court, but they persevered.”

EMC, WHICH HAD JUST ONE PATENT when Dacier joined, now has 2,700 patents, and more than 3,000 pending. “We’ve been in every court in every major country in the world, and in many instances at the highest level of those courts,” Dacier says. “And our executives, and our board, subscribe to the philosophy that we’re going to protect our rights to the end.”

The company is particularly intent on defending its position in patent troll litigation, which is premised on a “fundamentally fraudulent” business model, according to Dacier. “When the founding fathers set up the Constitution, the legal

system was designed to seek justice, not economics,” he says. “Patent troll litigation has nothing to do with justice. It’s an economic recovery.”

But executives at nonpracticing entities maintain that economic recovery is exactly what validates their business model, which Nathan Myhrvold and Peter Detkin, the founders of Intellectual Ventures, prefer to call “invention capitalism.” In a 2010 *Harvard Business Review* article, Myhrvold said, “What we’re really trying to do is create a capital market for inventions akin to the venture capital market that supports start-ups and the private equity market that revitalizes inefficient companies.”

At the recent FTC workshop on patent assertion entities, Detkin said, “We are pumping billions of dollars into the invention economy. We are buying from inventors big and small, and we haven’t heard complaints from inventors that feel like we’ve unfairly capitalized upon their inventions.”

EMC wasn’t the first company to complain that it had been improperly sued by nonpracticing entities in the Eastern District of Texas. James Pistorino, a Perkins Coie IP partner who’s followed patent filings in the district over the past few years, says that the Federal Circuit is-

sued eight writs of mandamus ordering Eastern District judges to transfer cases elsewhere between 2008 and 2010. The Federal Circuit issued an additional three orders of transfer in 2011. (Perkins Coie does not represent EMC.)

Patent plaintiffs are attracted to the Eastern District for a number of reasons, according to lawyers who regularly practice in the venue. It has just six judges, three of whom handle the lion’s share of the patent cases. Their views are not wildly variable, according to Pistorino. He adds that the district’s method of case assignment gives plaintiffs lawyers some predictability about who will handle their cases.

Matt McGill, the Gibson, Dunn & Crutcher partner who filed the amicus briefs in EMC’s battle against Oasis, says that the Eastern District of Texas is also a venue where judges are known to favor trial over summary judgment, and where juries have handed down some eye-popping verdicts. Michael Smith of Marshall, Texas-based Siebman Burg Phillips & Smith further adds that the Eastern District is a venue where judges seem intent on holding on to their cases until told otherwise. (Smith, who regularly blogs about the district, represented defendant ADrive LLC in the Oasis case.) “Judges

in the Eastern District are highly resistant to dumping work on somebody else,” he says. “If it hits their docket, they will work the case until the law tells them to send it somewhere else.”

What does set EMC apart is how hard it has fought to get out of the Eastern District. McGill says that EMC’s decision to file two appeals in the Oasis case is rare—and risky. “It’s not an easy thing to file a mandamus petition, which is essentially directed toward your district

for August on the issue of infringement.

Dacier says that while EMC is disappointed in the most recent Federal Circuit ruling, it respects the court’s decision and is prepared to move ahead on the merits. The company’s appeals were not for naught, he adds: “The Federal Circuit has established very good case law that will benefit EMC and other litigants going forward.”

And if EMC’s fight to have its case heard in the proper venue has also ben-

EMC’s appeals have produced clarity about transfer standards in patent cases, says Ballard Spahr’s Brian LaCorte.

judge, and it’s quite rare to do it twice,” he says. “But it reflects EMC’s strongly held view that they should not be compelled to litigate this case in the Eastern District of Texas.”

After the Federal Circuit’s latest decision in January, EMC had to go back to the Eastern District to fight Oasis. EMC has pending motions for summary judgment, and trial dates have been set for March on the issue of inventorship and

efited its competitors by shaping the standards on patent suits, then so be it, says Dacier. “We’re doing what we feel is right for us,” he says. “We’re here to defend the company.”

But, Dacier continues, “you read in the paper every day about companies seeking to maximize their patents, whether wrongfully or rightfully. More companies should litigate these things. That’s why the courts are there.” ■

An Unlikely IP Venue Regains Its Lead

More patent suits were filed last year in the Eastern District of Texas than in any other district.

The Eastern District of Texas, which in 2011 appeared to be losing its luster as the preferred U.S. district court venue for patent suits, regained its prominence in 2012, usurping the District of Delaware for the number one spot, according to a recent analysis by Perkins Coie partner James Pistorino.

The Lone Star State’s Eastern District saw 1,266 new patent cases filed in 2012—more than triple the 418 suits it saw in 2011. At least some of this tremendous rise is attributable to changes brought about by the America Invents Act, the patent reform legislation that took effect in September 2011. The number of patent lawsuits filed in the

District of Delaware also rose significantly, as did the total number of patent cases filed in all U.S. district courts in 2012, Pistorino’s research shows. A partner in Perkins Coie’s patent litigation practice, he has tracked patent cases for the past few years.

The Eastern District of Texas’s resurgence to the number one spot is notable because some patent attorneys had wondered whether it was falling out of favor. The district, which includes federal courts in the cities of Beaumont, Marshall, and Tyler, has been a favored venue for several years in part because of its reputation as a “rocket docket,” and also because it is perceived as a place where

juries favor plaintiffs. In addition, Pistorino says, plaintiffs attorneys liked being able to predict with some accuracy which judges would get a case, because only a few of the district’s judges are assigned to patent suits.

But the Eastern District dropped to second place in 2011. According to Pistorino, this may have been a blip, attributable in part to the retirement of Judge T. John Ward, who is credited with getting cases in the Eastern District to move quickly. Ward retired in October 2011 after 12 years on the bench. His seat was filled in December 2011 by Judge James Rodney Gilstrap.

The resurgence of the Eastern District

may have occurred at least in part because some of the uncertainties that arose with the implementation of the America Invents Act have been assuaged. New joinder rules were a cause for concern among plaintiffs attorneys, for example, because they require that a plaintiff who asserts a patent against multiple defendants must now file separate suits against each defendant. Oasis, for instance, would not have been able to bring its current suit against EMC and 17 other defendants after the AIA went into effect.

Eastern District judges have been innovative in their responses to the joinder rules, according to lawyers familiar with the district. They’ve allowed cases brought by a single plaintiff against multiple defendants to be consolidated for claim construction and discovery purposes, even though the defendants will have to be tried separately, says Douglas

Cawley, a partner at McKool Smith in Dallas. “Generally speaking, some of the judges in the Eastern District of Texas have shown a willingness to craft pretrial procedures to efficiently manage multiple cases involving the same patent,” he says.

The increase wasn’t just limited to Delaware and Texas—a total of 5,574 patent cases were filed in district courts nationwide in 2012, more than one-and-a-half times the 3,660 filed in 2011, according to Pistorino’s research. (This does not include false marking cases, which concern alleged use of expired patent numbers.) New filings in the Northern District of California rose from 225 to 258 during this time period, and in the Central District of California from 324 to 514. The District of New Jersey was one of the few venues to see a drop, from 180 to 157.

The higher numbers are again at-

tributable to the new joinder rules in the America Invents Act, according to Pistorino. Nonpracticing entities (NPEs, also known as patent trolls) had been asserting patents with abandon against multiple defendants. But the new law forces them to bring multiple cases even when asserting the same patent. “The number of cases therefore goes up,” Pistorino says.

The statistics show one unexpected drop. The total number of defendants in all new suits in all districts nationwide actually declined 15.4 percent, from 14,201 in 2011 to 12,013 in 2012. This may be because NPEs are choosing not to sue marginal defendants because of the greater cost associated with the new joinder rules, Pistorino says. “It’s hard to say conclusively why the number of defendants declined,” he adds. “But it could be that the AIA may be accomplishing some of what it set out to do.” —Lisa Shuchman