IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

VERTICAL COMPUTER SYSTEMS, INC., Plaintiff,	§	
	§	
v.	§	
	§	CASE NO: 2:10-CV-490
INTERWOVEN, INC., LG ELECTRONICS MOBILECOMM U.S.A., INC., LG ELECTRONICS, INC., SAMSUNG ELECTRONICS CO., LTD., SAMSUNG ELECTRONICS AMERICA, INC., Defendants.	§	

ORDER

Pending before the Court are Defendant Interwoven, Inc.'s ("Interwoven") Motion to Dismiss, Stay, or Transfer (Dkt. No. 19), and Defendants' Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, "Samsung") Motion to Dismiss, Stay, or Transfer (Dkt. No. 31). The Court has carefully considered the parties' submissions, the record, and the applicable law. For the following reasons, Interwoven's motion is GRANTED-IN-PART with respect to Defendant Interwoven and DENIED-IN-PART with respect to the remaining Defendants. Likewise, Samsung's motion is GRANTED-IN-PART with respect to Defendant Interwoven and DENIED-IN-PART as to the remaining Defendants.[1]

I. BACKGROUND

On October 14, 2010, Interwoven filed suit against Vertical Computer Systems, Inc. ("Vertical") in the Northern District of California, seeking a declaration that U.S. Patent Nos.

[1] The remaining defendants in this case are: LG Electronics MobileComm U.S.A., Inc. ("LG Mobilecomm") and LG Electronics Inc. ("LG Electronics") (collectively, "LG"); and Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (collectively, "Samsung")

6,826,744 ("the '744 patent") and 7,716,629 ("the '629 patent") (collectively, "the patents-in-suit") are invalid, unenforceable, and not infringed. *Interwoven, Inc. v. Vertical Computer Systems, Inc.*, Civil Action No. 3:10-cv-04645-RS (the "Interwoven Action"). Vertical subsequently filed the present suit in this Court on November 15, 2010, alleging that Interwoven, as well as Samsung, LG Electronics MobileComm U.S.A., Inc. ("LG Mobilecomm") and LG Electronics Inc. ("LG Electronics") (collectively, "LG"), infringe the same two patents-in-suit in the Interwoven Action. Vertical then filed a Motion to Transfer Venue to the Eastern District of Texas, or to Dismiss Interwoven's Complaint for Declaratory Judgment in the Interwoven Action on December 7, 2010. (Interwoven Action, Dkt. No. 8.) On December 8, 2010, the Interwoven Action was reassigned to the Honorable Richard Seeborg. On January 24, 2011, Judge Seeborg issued an order denying Vertical's motion to transfer venue based on the first-to-file rule and his conclusion that neither district was demonstrably more or less convenient than the other. (Interwoven Action, Dkt. No. 35.) Following that order, Vertical filed a Motion to Dismiss Interwoven's Declaratory Judgment Complaint Pursuant to FRCP 12(b)(6) and Renewed Motion to Transfer this Action to the Eastern District of Texas in the Interwoven Action on February 3, 2011. (Interwoven Action, Dkt. No. 38.) This motion is currently pending before Judge Seeborg.

On January 12, 2011, after Vertical filed the present suit, Samsung then filed suit against Vertical in the Northern District of California seeking a declaration that the same two patents-in-suit in the Interwoven Action are invalid, unenforceable, and not infringed. *Samsung Electronics Co. Ltd. Et al. v. Vertical Computer Systems, Inc.*, Civil Action No. 3:11-cv-00189-RS (the "Samsung Action"). On January 21, 2011, the Samsung Action was reassigned to Judge Seeborg. On February 4, 2011, Vertical filed a Motion to Transfer to the Eastern District of

Texas, Dismiss, or Stay Samsung's Lawsuit in the Samsung Action. (Samsung Action, Dkt. No. 16.) A case management conference is scheduled for May 12, 2011, in the Interwoven Action and the Samsung Action.

On February 25, 2011, in the action presently before this Court, Samsung filed the pending motion to dismiss, stay or transfer this case to the Northern District of California. (Dkt. No. 31.) In summary, Interwoven and Samsung move this Court to dismiss, stay, or transfer this case to the Northern District of California. Defendant LG has not answered in the present case and has not expressed any interest in joining any of the lawsuits in the Northern District of California.

II. LEGAL STANDARD

In determining the appropriate court to select the forum, the Fifth Circuit "adheres to the general rule that the court in which an action is first filed is the appropriate court to determine whether subsequently filed cases involving substantially similar issues should proceed." *Save Power Ltd. v. Syntek Fin. Corp*., 121 F.3d 947, 950 (5th Cir. 1997). Similarly, the Federal Circuit has emphasized that the "first-filed action is preferred, even if it is declaratory, 'unless considerations of judicial and litigant economy, and the just and effective disposition of disputes, require otherwise.'" *Serco Servs. Co. v. Kelley Co., Inc.*, 51 F.3d 1037, 1039 (Fed. Cir. 1995) (quoting *Genentech v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993)). Courts in this District have also directly addressed the issue, holding that "the first-to-file rule gives the first filed court the responsibility to determine which case should proceed." *Texas Instr., Inc. v. Micron Semiconductor, Inc.*, 815 F. Supp. 994, 999 (E.D. Tex. 1993).

When the first-to-file rule applies, a transfer to the first-filed court is proper to allow that court to determine how to proceed. *Save Power*, 121 F.3d at 951 (noting that "complete identity of parties is not required for dismissal or transfer of a case filed subsequently to a substantially related action."). Exceptions to this rule though "are not rare, and are made when justice or expediency requires." *Genentech*, 998 F.2d at 937. For example, a party cannot circumvent the policies underlying the first-to-file rule by merely tacking on an additional defendant in a later, duplicative action. *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 903-4 (Fed. Cir. 2008).

Once it has been proven that the two actions might substantially overlap, the court with the second-filed action transfers the case to the court where the first-filed action is pending. The court of the first-filed action then decides if the cases actually do substantially overlap and require consolidation. *Cadle Co. v. Whataburger of Alice, Inc.*, 174 F.3d 599, 605-6 (5th Cir. 1999). The underlying policies supporting the first-to-file rule are comity and the orderly administration of justice. *Superior Sav. Asso. v. Bank of Dallas*, 705 F. Supp. 326, 331 (N.D. Tex. 1989).

I. ANALYSIS

The parties do not dispute that Interwoven filed its complaint in October of 2010 in California and that Vertical subsequently filed its complaint in November of 2010 in Texas. The parties also do not dispute that there is substantial overlap between these two cases. It follows, then, that the Interwoven Action was before the present case and, absent some exception, the first-to-file rule should apply. Indeed, this was the conclusion that Judge Seeborg reached when he denied Vertical's motion to transfer. Specifically, Judge Seeborg found that there was no

persuasive evidence that Interwoven's declaratory judgment suit was driven by an understanding that legal action by Vertical would be initiated on a date certain. Accordingly, Judge Seeborg concluded that the Interwoven Action was the first-filed action and denied Vertical's motion based on the first-to-file preference. Thus, as it relates to Defendant Interwoven, the court that was initially seized of the controversy has already decided that it will try the case with respect to that specific Defendant. *Mann Manufacturing, Inc. v. Hortex, Inc*., 439 F.2d 403, 407 (5th Cir. 1971) ("[T]he court initially seized of a controversy should be the one to decide whether it will try the case."). Therefore, in the interest of comity and the orderly administration of justice, this Court GRANTS Interwoven's motion to transfer with respect to defendant Interwoven. Indeed, if the Court denied Interwoven's motion, then future litigants may attempt circumvent the policies underlying the first-to-file rule by merely tacking on an additional defendant in a later, duplicative action.

Regarding the remaining Defendants, Judge Seeborg denied the motion filed by Interwoven to enjoin Vertical from bringing infringement claims against the remaining defendants in Texas. Specifically, Judge Seeborg stated that "[i]t is not obvious this Court can exercise personal jurisdiction over all of the remaining defendants, and it would be imprudent to enjoin Vertical from bringing any of its claims outside the District." It is undisputed that the present action was filed before the Samsung Action, and thus the present case is the first-filed action as it relates to the remaining Defendants. Samsung argues that the substantial overlap between the three cases requires the Court to transfer the remaining Defendants to the Northern District of California. The Court disagrees and finds that based on the first-to-file rule and

convenience of the parties, the present action should proceed in this Court with respect to Defendants Samsung and LG.

The Court appreciates that given the same patents are asserted in all three cases, there is a potential for overlap regarding claim construction issues, infringement issues, invalidity issues, and unenforceability issues. However, given that the Court will sever Interwoven from the present case, the risk of inconsistent rulings as it relates to the specific parties is significantly decreased. Moreover, the Court finds that the plaintiffs in the second-filed cases should not be rewarded for the procedural hooks they attempted to create with their respective filings. That is, Samsung is incorrect to assume that simply because it filed its action in the same district as Interwoven, it automatically obtains Interwoven's first-filed status. As discussed, the Samsung Action was filed after the present action and is not entitled to first-filed status. Thus, in the interest of an orderly administration of justice, the Court DENIES Samsung's motion with respect to Defendants Samsung and LG.

In addition to adhering to the first-to-file rule, the Court finds that Samsung has failed to prove that the Northern District of California is clearly more convenient for the remaining Defendants in this case. First, Defendant LG has not answered in the present case and has not expressed any interest in joining any of the lawsuits in the Northern District of California. Moreover, the record before the Court is insufficient to determine whether the Northern District of California is clearly more convenient for LG.

Similarly, Samsung has failed to prove that the Northern District of California is clearly more convenient. In fact, Samsung concedes that relevant witnesses and documents are located in Texas. Specifically, Samsung Telecommunications America, LLC ("STA") is a Delaware

corporation headquartered in Richardson, Texas, that purchases the accused devices from Samsung Electronics Co., Ltd. ("SEC') in Korea. (Dkt. No. 31-1.) STA imports the accused devices into the United States and then markets and sells the devices to wireless carriers (*e.g.*, Sprint, Verizon, AT&T), which distribute them to retailers and end users. *Id*. Mr. Kwon's declaration confirms that witnesses and documents relevant to the importation, marketing and sales of the accused devices are located in Texas. Considering these facts, and finding Samsung's other arguments relating to transfer unpersuasive, the Court concludes that Samsung has not shown that the Northern District of California is clearly more convenient. Accordingly, because there is no persuasive reason to deviate from the first-to-file preference as it relates to the remaining defendants, the Court concludes that the matter should proceed in this Court with respect to Defendants LG and Samsung.

II. CONCLUSION

For the aforementioned reasons, the Court *sua sponte* severs Vertical's case against Interwoven from Vertical's case against Samsung and LG, and Interwoven's Motion to Transfer to the Northern District of California is GRANTED-IN-PART with respect to Defendant Interwoven and DENIED-IN-PART with respect to Defendants Samsung and LG. Samsung's Motion to Transfer to the Northern District of California is GRANTED-IN-PART with respect to Defendant Interwoven and DENIED-IN-PART with respect to Defendants Samsung and LG.

IT IS SO ORDERED.

SIGNED this 10th day of May, 2011.

T. JOHN WARD
UNITED STATES DISTRICT JUDGE