UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
TYLER DIVISION

PARALLEL NETWORKS, LLC,

Plaintiff,

v.

ADIDAS AMERICA, INC., et al.,

Defendants.

Civil Action No. 6:10-cv-00491-LED

DEFENDANTS EASTMAN KODAK COMPANY'S AND KODAK IMAGING NETWORK LLC'S OPPOSITION TO PARALLEL NETWORK'S MOTION TO BIFURCATE DAMAGES ISSUES

Defendants Eastman Kodak Company and Kodak Imaging Network LLC (collectively "Kodak") respectfully submit this Opposition to Plaintiff Parallel Networks LLC's ("Parallel") Motion to Bifurcate Damages Issues, (Dkt. No. 454).

Noting that it has now asserted its patent against 124 defendants engaged in a wide variety of different business activities, Parallel argues that the only way to conduct this case efficiently is to bifurcate damages and liability. (Dkt. No. 454 at 2.) Bifurcating damages will not achieve this goal.

First, bifurcating damages will lead to duplicative and inefficient proceedings. There is significant overlap between the damages and liability issues in this case. Determination of infringement, for instance, will require a comparison of the claimed invention to the defendants' accused systems. Under the Federal Circuit's decision in *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336-39 (Fed. Cir. 2009), the calculation of any damages will also require a comparison of the claimed invention to the accused systems to determine the importance of the

specific accused feature to the accused system as a whole. Having two trials, one covering infringement and validity and another covering damages, would therefore force the parties to present the same evidence—likely from the same witnesses—twice. There are far better ways to streamline this case. The parties could, for example, agree on early claim construction and summary judgment deadlines. This would allow the Court to resolve potentially dispositive issues early in the case and prevent unnecessary discovery.

Second, bifurcating damages would prevent—not promote—early resolution of this action. Settlement discussions typically involve considerations of both liability ***and*** potential damages. Delaying the damages portion of this case would inhibit the parties' ability to understand the potential damages at issue and thereby limit the parties' ability to have meaningful settlement discussions.

Third, contrary to Parallel's blanket assertion, bifurcating damages would prejudice Kodak (and likely other defendants) by both needlessly extending this litigation and by blocking the defendants from conducting the full range of discovery needed now to fully defend themselves.

As a result, Kodak respectfully requests that the Court deny Parallel's Motion to Bifurcate Damages Issues.

I. FACTUAL BACKGROUND

Parallel asserts U.S. Patent No. 6,446,111 (the "'111 patent") in this case. The '111 patent was filed in June 1999 and relates to one particular feature of a server. Specifically, the patent describes a system that "dynamically generates" an application program called an "applet" in response to a user's request. The patent claims that these "substantially self-sufficient" applets can then be sent to and used more efficiently by devices with limited memory and bandwidth (like the early Palm Pilot). (*See e.g.*, Dkt. No. 1-1, '111 patent, at cols. 1:50-53; 2:19-24; 3:57-

61; 4:1-6; 5:57-60; 13:23-26.) Parallel has not explained how the claimed invention is relevant to modern day computers and mobile devices which have vastly greater memory and processing power than the early devices such as the Palm Pilot.

The '111 patent issued on September 3, 2002. But Parallel waited until September 23, 2010, more than eight years later, to file this case. Parallel now alleges that 124 defendants with businesses ranging from digital camera technology to automobiles infringe the patent through the use of modern day servers.

On January 25, 2010, Parallel requested that the Court bifurcate damages from infringement and validity issues. Parallel argues that the only way to move this case efficiently is to bifurcate damages and that every defendant—even those that oppose bifurcation—should be forced to have a separate damages trial after liability is resolved.

II. ARGUMENT

Bifurcation is "not to be routinely ordered." *See* Fed. R. Civ. P 42(b) (Advisory Committee Notes to the 1966 Amendment). The typical practice is to allow defendants to present all of their defenses—on issues of liability and damages—at once. *See Comp. Assocs. Int'l, Inc. v. Simple.com, Inc.*, 247 F.R.D. 63, 67 (E.D.N.Y. 2007) ("In all cases, including patent cases, ***bifurcation is the exception***, not the rule.") (emphasis added). Bifurcation of damages issues is appropriate only where separate trials would avoid delay, avoid prejudice, and promote judicial efficiency. *See Hewlett-Packard Co. v. Genrad Inc.*, 882 F.Supp. 1141, 1158 (D. Mass. 1995) (declining to bifurcate liability from damages in a patent case). Bifurcation of damages is not appropriate here.

A. Bifurcation Of Damages Would Result in Duplicative Trials and Would Waste The Parties' and the Court's Resources.

Bifurcating damages and liability would be inefficient in this case. As an initial matter, the premise of Parallel's argument—that having separate damages trials would somehow lessen the Court's workload—is fundamentally flawed. Bifurcating damages would potentially ***double*** the Court's docket. The parties and the Court would have to conduct two separate fact discovery periods, two separate expert discovery phases, two separate pretrial conferences, two separate hearings to resolve motions in limine and pretrial motions, separate jury selection sessions, and separate trials. In other words, adding separate trials on damages would ***increase*** the resources the parties and the Court would have to devote to this case. *See Johns Hopkins Univ. v. CellPro*, 160 F.R.D. 30, 36 (D. Del. 1995) (denying request for bifurcation because separate trials would cause delay and be inefficient).[1]

Moreover, bifurcation would result in duplicative and inefficient trials. Determination of infringement will require a comparison of the claimed invention to the defendants' accused systems. Kodak, for instance, will present Kodak engineers and independent experts to explain how the Kodak accused systems operate and how they are different from the claimed invention. The determination of any potential damages would require this same evidence, ***likely from the same witnesses.*** Specifically, the Federal Circuit has made clear that damages must be tied to

[1] This is particularly true where, as here, there are 124 defendants and different trials for different defendants will already likely be required in order to give individual defendants a full and fair opportunity to defend themselves. Bifurcating damages for each of these separate trials will significantly increase the number of proceedings required. Indeed, under Fed. R.Civ. P. 42, the Court has discretion to order separate trials on Parallel's claims against each of the individual defendants to avoid the violation of due process, and inevitable prejudice, that will result from failing to address the individual liability of each defendant. *See also* Fed. R. Civ. P. 20(b) (permitting the Court to order separate trials "to protect a party against embarrassment, delay, expense, or other prejudice"). The Court may also sever claims, and order separate trials, against individual parties as a result of misjoinder under Fed. R. Civ. P. 21. Here, there is no common occurrence or transaction that supports the joinder of 124 unrelated defendants using entirely distinct accused systems.

the specific portion of the defendant's technology that purportedly uses the alleged invention. *See Lucent*, 580 F.3d at 1336-39 (finding damages award for patent infringement requires evidence that the alleged invention contributes to the value of the accused product); s*ee also Uniloc USA, Inc. v. Microsoft Corp.*, --- F.3d ----, 2011 WL 9738, *24 (Fed. Cir., Jan. 4, 2011) (same). As a result, in any damages portion of the case, Kodak would present Kodak engineers and independent experts to ***again*** explain how the Kodak accused systems operate and explain the relative insignificance of the accused feature in the context of Kodak's overall systems. *See Griffin v. City of Opa-Locka*, 261 F.3d 1295, 1301 (11th Cir. 2001) (upholding denial of request for bifurcation where there was a substantial overlap in the issues, facts, and witnesses).

Similarly, as part of the liability case, Kodak will present evidence that Parallel's alleged invention is not novel and therefore invalid. Evidence of the limited novelty of the patent-in-suit is one of the reasonable royalty factors that is used to determine royalty damages. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971). In other words, if damages is bifurcated, Kodak would potentially be required to present the same evidence of lack of novelty in two separate trials. *See Joy Techs., Inc. v. Flakt, Inc.*, 772 F. Supp. 842, 848 (D. Del. 1991) (denying bifurcation of damages and noting that even a "minor overlap of evidence" weighs against bifurcation); *Brad Ragan, Inc. v. Shrader's Inc.*, 89 F.R.D. 548, 550 (S.D. Ohio 1981) (denying motion to bifurcate damages because "proof on the liability issues would substantially overlap with [] proof on damages," and thus bifurcation would not affirmatively advance "substantial economies").

Parallel's arguments do not change this result. Parallel argues that bifurcation is justified because infringement issues "will be common for all [124] defendants." (*See* Dkt. No. 454 at 5.)

As an initial matter, Parallel provides no support whatsoever for this assertion. In fact, the 124 defendants in the case are, even according to Parallel, involved "in a wide variety of business activities having different business models, including retail sales, banking services, airline services, automobile sales, travel agencies and online services." (*Id.* at 2.) As a result, the defendants have vastly different accused systems. (*See id.* at 5 ("[Some] accused websites do not offer any goods or services for sale at all, but rather have value as advertising websites").) Determination of infringement will therefore require arguments specific to each of the 124 defendants' separate accused systems.

Parallel also asserts that bifurcation would avoid "the possibility of jury confusion." (*Id.* at 2). But Parallel never explains how trying damages issues with liability would confuse the jury. Indeed, as explained above, many of the issues between damages and liability overlap making it logical (and more efficient) to present those issues together. In a typical patent case, the jury evaluates both liability and damages. Parallel has presented no reason why the jury cannot do that here.

There are far better options than the bifurcation of damages to make this case more efficient. Scheduling early claim construction followed by summary judgment, for instance, could quickly resolve this case for a large number of defendants. Claim construction could definitely demonstrate that certain defendants do not infringe the asserted claims. This would create the efficiency that Parallel claims it desires without the risk of duplicative trials and wasted judicial resources. The Court could also stay discovery on issues unrelated to claim construction until after the *Markman* hearing, and then proceed with full discovery and trial on both damages and liability. That would save the parties the expense of full scale document

production at the outset of the case and improve the prospects for early settlement based on the Court's *Markman* ruling.

B. Bifurcation Of Damages Would Discourage Settlement

Bifurcating damages would also inhibit pre-trial settlement discussions. Settlement discussions typically involve considerations of both liability and the potential damages resulting from any such liability. Delaying the damages portion of this case would prevent the parties from obtaining full information regarding the potential damages at issue and thereby limit the parties' ability to have meaningful settlement discussions. Indeed, as Parallel itself argues, if damages issues are bifurcated, meaningful settlement discussions might begin only ***after*** a trial on the defendants' liability. (Dkt No. 454 at 4 ("[I]n the event of this Court's resolution [at trial] of liability issues the parties will be in a much more informed position to discuss settlement").) Kodak is a good example. Because the accused features of Kodak's systems are a miniscule part of the overall system, damages discovery will show that any potential recovery in this case is far smaller than Parallel might expect. As a result, litigating damages now—as opposed to waiting months while the parties address liability—would promote a resolution to this case by forcing Parallel to be realistic about the damages it can recover. *See Lucent,* 580 F.3d at 1336-39.

C. Bifurcation Would Prejudice Kodak

Parallel has the burden of showing that bifurcation would not prejudice the defendants. *See Princeton Biochemicals, Inc. v. Beckman Instruments, Inc*., 180 F.R.D. 254, 256 (D.N.J. 1997) ("The party seeking bifurcation has the burden of demonstrating that judicial economy would be promoted and that ***no party*** would be prejudiced by separate trials.") (emphasis added). Parallel provides no explanation, let alone any factual support, for its blanket assertion that "no defendant will be prejudiced by the grant of this motion." (Dkt. No. 454 at 2.)

Contrary to Parallel's unsupported assertion, Kodak would be prejudiced in at least two ways by the bifurcation of damages. First, as noted above, bifurcating damages could require Kodak to call the same witnesses twice in two separate trials, thus needlessly inconveniencing its employees, disrupting its operations, and unnecessarily extending this litigation. Second, Kodak should be permitted to conduct full discovery relating to Parallel's damages claims rather than waiting for a separate proceeding. Particularly given the overlap between liability and damages issues, such discovery may very well reveal information that is relevant to liability issues (e.g. Parallel's statements in license negotiations may characterize the claimed invention in ways that are relevant to the determination of infringement). Parallel's motion to bifurcate damages is therefore effectively a motion to block the defendants' from taking damages discovery now. But defendants should be permitted to take the full range of discovery needed to defend themselves. *See In re Innotron Diagnostics*, 800 F.2d 1077, 1084 (Fed. Cir. 1986) (in deciding whether to bifurcate a trial, a Court's "major consideration is directed toward the choice most likely to result in a just final disposition of the litigation").

III. CONCLUSION

The massive number of defendants and resulting complexity of this case is of Parallel's own doing. Because of the overlap of damages and liability issues, bifurcation of damages would only make this case more complex and inefficient. Other case management solutions are more efficient, will reduce the burden on the Court and the parties, and will better promote an early resolution to this case. Accordingly, Kodak respectfully requests that the Court deny Parallel's Motion to Bifurcate Damages Issues in this case.

Dated: February 4, 2011

Respectfully submitted,

/s/David J. Beck

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CERTIFICATE OF SERVICE

I, Michael E. Richardson, hereby certify that the foregoing document was filed electronically in compliance with Local Rule CV-5(a) and served on all counsel who have consented to electronic service pursuant to Local Rule CV-5(a)(3)(A) through the Court's CM/ECF system. Any other counsel of record will be served by first class mail on this date.

Date: February 4, 2010

/s/ Michael E. Richardson
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