

**IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
LUFKIN DIVISION**

PERSONAL AUDIO, LLC,

Plaintiff,

v.

XM SATELLITE RADIO, INC.,

Defendant.

CASE NO. 9:10-CV-00035-RC

JURY TRIAL DEMANDED

**XM SATELLITE RADIO INC.'S REPLY TO
PERSONAL AUDIO LLC'S RESPONSE TO THE MOTION TO DISMISS
AND CROSS-MOTION TO CONSOLIDATE**

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INTRODUCTION

The factual record of Personal Audio's failure to timely add XM to the Sirius Action is well-established and described in the Court's Order denying Personal Audio's request for leave to amend to add XM as a party. (Sirius Action, Dkt. 127 at 2-4). In that Order, the Court recognized that at least from the time Personal Audio served infringement contentions on XM, Personal Audio "has consistently asserted claims against players which are apparently made by XM." (*Id.* at 6). Having attempted unsuccessfully to pursue those claims against XM in the Sirius Action (*Id.* at 4), Personal Audio is now precluded from presenting the very same claims against XM again in a new and untimely lawsuit, coupled with the cross-motion to consolidate, as an end run around the Court's Scheduling Order. The facts and reasoning of *Orion* are strikingly similar to the instant case and, as explained more fully below, dictate the same result here — dismissal of the improper second action against XM.

I. PERSONAL AUDIO CONSISTENTLY ASSERTED CLAIMS AGAINST XM RECEIVERS BUT INEXPLICABLY FAILED TO TIMELY ADD XM TO THE SIRIUS ACTION

Personal Audio's Opposition solely relies on its argument that "XM was never a defendant in the Sirius Action." (Opp. at 1). This argument fails for the simple reason that Personal Audio admittedly treated XM as a party in the Sirius Action by demanding discovery from XM and serving infringement contentions against XM receivers. (Sirius Action, Dkt. 105 at 6-8.)¹

¹ As noted by the Court, Personal Audio's service of infringement contentions on XM pursuant to the Scheduling Order in the Sirius Action confirms beyond a doubt that Personal Audio viewed XM as a party to the Sirius Action. (*Id.*). Pursuant to local Patent Rule 3-1, infringement contentions must be served "on all parties" and include "each claim of each patent-in-suit that is allegedly infringed by each opposing party," and must also be specific to each Accused Instrumentality "of each opposing party." (P.R. 3-1(a), (b)). A copy of Personal Audio's infringement contentions from the Sirius Action directed to XM receivers, served on February 1, 2010, is attached as Exhibit A.

Indeed, the Court's Order denying Personal Audio's motion to add XM confirms that Personal Audio consistently treated XM as a party to the Sirius Action, even though it failed to properly add XM (despite publicly available information on XM's legal status and being repeatedly told to formally add XM):

Throughout this litigation, Personal Audio has consistently asserted claims against players which are apparently made by XM, rather than Sirius. *See, e.g.*, Pl. Mot. Amend, Ex. F (February 1, 2010 Initial Disclosures). Some discovery has been obtained regarding XM, and Personal Audio has served infringement contentions relating to XM devices. Despite not actually adding XM as a party, Personal Audio appears to have pursued this case under the mistaken assumption that the XM products were properly before the court.

(Sirius Action, Dkt. 127 at 6).

Personal Audio's argument also flatly contradicts its position in support of its motion for leave to amend. As recognized by the Court, "Personal Audio's position is that XM has been treated as a defendant all along." (Sirius Action, Dkt. 127 at 6; Sirius Action, Dkt. 105).

Having treated XM as a party to the Sirius Action by obtaining discovery and asserting infringement claims and then failing to properly pursue those claims in compliance with the Court's Scheduling Order in the Sirius Action, Personal Audio is now precluded from a second bite at the apple in a new suit.

II. HAVING TREATED XM AS A PARTY IN THE SIRIUS ACTION, THE SUIT AGAINST XM SHOULD BE DISMISSED AS AN IMPERMISSIBLE END-RUN AROUND THE SCHEDULING ORDER IN THE SIRIUS ACTION

Even after having ample opportunity in the Sirius Action to properly pursue the infringement charges it leveled against XM, Personal Audio failed to do so and waived those claims. If Personal Audio were allowed to assert these same claims in a new lawsuit, and if its cross motion for consolidation is granted, then Personal Audio would achieve the exact same

result as if its motion for leave to amend had been granted. Allowing such a result would truly elevate form over substance. Thus, the XM lawsuit should be barred altogether as an impermissible end run around the Scheduling Order in the Sirius Action.

Consistent with Judge Davis' reasoning and holding in *Orion v. Home Depot USA, Inc.*, No. 2:05-cv-306 (Dkt. 42) (E.D. Tex. Oct. 7, 2005) (Mehra Decl. Exh. 24), the instant action against XM is not a new case based on previously unavailable information and therefore should be dismissed. Personal Audio's only distinction over *Orion* is that the denial of the second action in *Orion* arose in the claim-splitting context. (Opp. at 2). That is a distinction without a difference on the instant facts. The reasoning of the *Orion* Court applies with equal force to the strikingly similar facts in the instant case as explained below.

Specifically, in *Orion*, Judge Davis denied as untimely the plaintiff's attempt to enter amended preliminary infringement contentions (PICs). In an effort to evade Judge Davis' order denying the entry of the untimely PICs, plaintiff filed a new lawsuit later that day asserting the same amended PICs based on information available to Plaintiff at the outset of the case. *Orion*, Dkt. 42 at 1. Judge Davis barred the second lawsuit, explaining that claim splitting precludes multiple actions when the claims should have been brought in a single action. *Id.* Judge Davis explained that his decision was based on the need for parties to adhere to the rules and deadlines promulgated by this Court:

Specifically, in patent cases before this Court, the "Patent Rules demonstrate high expectations as to plaintiff's preparedness before bringing suit, requiring plaintiffs to disclose their preliminary infringement contentions before discovery has even begun." *American Video Graphics, L.P. v. Electronic Arts, Inc.*, 359 F.Supp.2d 558, 560 (E.D. Tex. 2005) (Davis, J.). To this end, plaintiffs are expected to rigorously analyze all publicly available information before bringing suit and must explain with great specificity their theories of infringement at the outset of the case.

See STMicroelectronics, Inc. v. Motorola, Inc., 308 F.Supp.2d 754, 755 (E.D. Tex. 2004) (Davis, J.).

(*Id.* at 2).

In the Sirius Action, the Court already recognizes that Personal Audio treated XM as a party in the Sirius Action and tried to present the same infringement claims it now seeks to reassert in the XM Action. (Sirius Action, Dkt. 127 at 6). The same as in *Orion*, this Court has “high expectations” on Personal Audio to “rigorously analyze all publicly available information” which necessarily includes indentifying the proper name and legal status of the parties alleged to be infringers. This is precisely what Personal Audio did not do with respect to XM in the Sirius Action, even though Personal Audio asserted infringement contentions against XM receivers.²

It is unclear how Personal Audio can possibly claim any confusion as to the legal distinction between XM and Sirius. As the Court pointed out in its Order (and Personal Audio continues to ignore), Sirius repeatedly and clearly explained this relationship to Personal Audio’s counsel. In addition to this express notice, there was abundant publicly available information on XM’s legal status. (XM Mot. to Dismiss at 2). Despite having this information, and seeking to pursue the same infringement claims against XM in the Sirius Action, Personal Audio failed to timely join XM as a party to the Sirius Action. This is exactly the situation in *Orion* – resulting in dismissal of a second action seeking to evade the consequences of a lack of diligence that barred claims involving the same patents that should have been presented in a first case. Judge

² Personal Audio attempts to distinguish *Orion* by quoting the Fifth Circuit’s explanation that “A main purpose behind the rule preventing claim splitting is to protect the defendant from being harassed by repetitive actions based on the same claim.” (Opp. at 2) (quoting *In re Super Van, Inc.*, 92 F.3d 366, 371 (5th Cir. 1996)). But that is precisely the problem here. XM has already been burdened by participating in early discovery in the Sirius Action. As Personal Audio points out, once infringement contentions are served, the recipient of those contentions should not be subject to a further suit on those patents. (Opp. at 2). Having failed to properly pursue those claims in the Sirius Action, Personal Audio should not be permitted to harass XM with a new action.

Davis' analysis in *Orion* aptly describes the “could have,” “should have,” but “did not” situation here:

As to the prejudice to Toyota, the Court notes that while Orion has brought these allegations in a “new” case, there is really nothing new about them. The allegations brought in the Second Action are based on the same patents, presumably the same claims, and information that was available to Orion from the outset of the First Action. In other words, this is not a situation where a plaintiff desires to assert new patents or brings new infringement contentions based on information previously unavailable.

(*Orion*, Dkt. 42 at 2).

Sirius does not dispute that Personal Audio would be permitted to bring a separate action against an entirely new non-party asserting the same patents against accused products with similar functionality. That is not the situation here.³ In cross-moving for consolidation, Personal Audio concedes that the issues raised against XM in the Sirius Action are the same raised in this action. (Opp. at 3). (“The XM and Sirius actions clearly contain common questions of fact and law. Both actions will focus on the same claims in the same asserted patents...”). This Court has a well-established record for upholding adherence to rules and deadlines, and not rewarding a party’s lack of diligence. Personal Audio, the same as Sirius, should not be permitted to circumvent rules and deadlines of this Court.

It is respectfully submitted that if Personal Audio is permitted to proceed with its claims against XM under these facts, then any plaintiff who fails to timely comply with a deadline for adding parties could evade the consequences of that lack of diligence by simply

³ The situation here is no different than the situation where an accused infringer is precluded from relying on dispositive prior art that is untimely asserted and then tries to file a new declaratory judgment action asserting the same precluded prior art against the same patents. If that were the situation here, Sirius is certain that Personal Audio would seek to preclude Sirius from relying on such art in a second suit. Counsel for Personal Audio has repeatedly filed motions in this District to strike untimely supplemental invalidity contentions. (See, e.g., Mehra Decl. Exhs. 14 and 15).

filing a new suit and then consolidating it with the first action. The Court has already determined that there was no credible explanation for Personal Audio's failure to timely add XM. (Sirius Action, Dkt. 127 at 5). The consequence of Personal Audio's lack of diligence and violation of this Court's Scheduling Order should be waiver of its infringement claims against XM.

III. PERSONAL AUDIO'S CROSS MOTION FOR CONSOLIDATION SHOULD BE DENIED AS ENTRY INTO THE SIRIUS ACTION AT THIS LATE STAGE WOULD BE HIGHLY PREJUDICIAL TO XM

In the event that Personal Audio's complaint against XM is not dismissed, Personal Audio's cross motion to consolidate XM into the Sirius Action under the current Schedule should be denied. While XM appreciates the efficiency of proceeding under a single schedule, separate jury trials will be required by Apple and Sirius and/or XM, and XM would be severely prejudiced if forced to proceed under the present Schedule. Since the expiration of the March 1, 2010 deadline to add parties, XM has properly ceased preparing to defend itself against Personal Audio's infringement claims. XM would be severely prejudiced by the loss of three months of time to prepare its case in a fast paced schedule.⁴ Moreover, XM will be faced with the difficult task of attempting to collect, review and produce its documents on the extremely accelerated basis that would be necessary under the present Schedule. Doing so would subject XM to additional expense and burden that would have been avoided if XM were producing documents under a normal timeframe. Personal Audio should not be rewarded, nor should XM be punished, for Personal Audio's inexplicable lack of diligence in timely pursuing its claims against XM.

Although Sirius and XM are separate legal entities with separate accused products, there is enough overlap in the issues presented that it would be a waste of the resources of the

⁴ As the Court noted in its Order denying Personal Audio's motion for leave to amend, the *Markman* hearing is only three months away and trial in the Sirius Action is scheduled for March.

Court and of all parties to place Sirius and XM on separate schedules. XM respectfully submits that the better course (in the event the motion to dismiss is denied) would be to stay Personal Audio's claims against XM and Sirius until the final resolution of the case against Apple and the pending *inter partes* reexamination of the '178 patent. The action against Sirius and XM could then proceed, if it was even necessary to proceed at that point.

IV. CONCLUSION

For the reasons set forth above and in Sirius' opening brief, Sirius respectfully requests that the Court dismiss this action with prejudice and deny Personal Audio's motion to join or consolidate the XM Action with this action.

Dated: June 1, 2010

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing document has been served on all counsel of record who are deemed to have consented to electronic service via the Court's CM/ECF system per Local Rule CV-5(a)(3) on June 1, 2010.

/s/ Elizabeth L. DeRieux