United States District Court
For the Northern District of California

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

COLLABORATION PROPERTIES, INC., a Nevada Corporation,

Plaintiff,

v.

TANDBERG ASA, and TANDBERG, INC., a Delaware Corporation,

Defendants.

No. C 05-01940 MHP

MEMORANDUM & ORDER
Re: Motion for Leave to File Amended Answer and Counterclaims

Plaintiff Collaboration Properties, Inc. ("CPI") filed this action against defendants Tandberg ASA and Tandberg, Inc. (collectively, "Tandberg"), alleging infringement of U.S. Patent Nos. 5,867,654, 5,896,500 and 6,212,547. The asserted patents relate generally to videoconferencing hardware and software. Now before the court are several motions, including Tandberg's motion for leave to file an amended answer and counterclaims. Having considered the parties' arguments and submissions, and for the reasons set forth below, the court enters the following memorandum and order.

BACKGROUND[1]

Tandberg distributes and sells teleconferencing products, including videoconferencing hardware and software. CPI is a patent holding company; CPI is also the wholly owned subsidiary

United States District Court
For the Northern District of California

of Avistar Communications Corp., which competes with Tandberg. From 1997 to 2003 Tandberg supplied Avistar with certain components used in Avistar's videoconferencing products. During the course of their business relationship, Tandberg and Avistar entered into a supplier agreement (the "supplier agreement") which, according to Tandberg, insulate Tandberg from liability in this lawsuit.

The relationship between Tandberg and Avistar ended in 2003, and CPI filed this lawsuit on May 11, 2005. Following an initial case management conference, CPI served Tandberg with its preliminary infringement contentions, pursuant to Patent Local Rule 3-2, on September 26, 2005. Tandberg responded with its preliminary invalidity contentions, pursuant to Patent Local Rules 3-3 and 3-4, on November 29, 2005. The parties exchanged preliminary claim construction materials on December 23, 2005 and filed a voluminous joint claim construction statement with this court on February 3, 2006. By prior order of this court, the parties are limited to ten disputed claim terms.

On November 21, 2006, after CPI served its preliminary infringement contentions but before Tandberg served its preliminary invalidity contentions, the Federal Circuit decided IPXL Holdings, L.L.C. v. Amazon.com, Inc., 430 F.3d 1377 (Fed. Cir. 2005). In IPXL Holdings, the court held that a claim reciting "both a system and the method for using that system" is invalid for indefiniteness under 35 U.S.C. section 112, paragraph 2. Id. at 1384. The court further noted that the question it decided was an issue of first impression in the Federal Circuit. In light of the ruling in IPXL Holdings, the parties filed motions seeking leave to file amended infringement and invalidity contentions. Both motions are opposed.

On January 13, 2006 Tandberg filed a motion for summary judgment, alleging that it is licensed to practice the asserted patents under the supplier agreement (Tandberg's "license defense"). Specifically, Tandberg alleges that the supplier agreement contains a covenant not to sue which extends to all of Avistar's later-acquired patents and to all of Tandberg's present and future products. Simultaneously, Tandberg moved for leave to amend its answer and counterclaims to include the license defense and to add Avistar as a party. On February 24, 2006 Tandberg filed a second motion for summary judgment, alleging a defense of release based on a separate agreement with Avistar (Tandberg's "release defense"). Tandberg did not separately move to amend its answer

United States District Court
For the Northern District of California

and counterclaims to include the release defense, but requested at oral argument that the court permit it to do so. The parties have agreed to stay both motions for summary judgment pending discovery related to the agreements, and pending this court's resolution of Tandberg's motions for leave to amend its answer and counterclaims.

LEGAL STANDARD

The Federal Rules of Civil Procedure provide that leave to amend be "freely given when justice so requires." Fed. R. Civ. P. 15(a). The Ninth Circuit has construed Rule 15(a) broadly, requiring that leave to amend be granted with "extraordinary liberality." Morongo Band of Mission Indians v. Rose, 893 F. 2d 1074, 1079 (9th Cir. 1990); see also DCD Programs, Ltd. v. Leighton, 833 F.2d 183, 186 (9th Cir. 1987) (Rule 15's policy of favoring amendments to pleadings should be applied with "extreme liberality"); Advanced Cardiovascular Sys., Inc. v. SciMed Life Sys., Inc., 989 F. Supp. 1237, 1241 (N.D. Cal. 1997) (Jensen, J.) ("[T]he court must be very liberal in granting leave to amend"); Poling v. Morgan, 829 F.2d 882, 886 (9th Cir. 1987) (describing a "strong policy permitting amendment").

Despite this liberal policy of amendment, leave will not be given where the district court has "a substantial reason to deny" the motion. J. W. Moore et al., Moore's Federal Practice ¶ 15.14[1] (3d ed. 1998) ("district judge[s] should freely grant leave to amend when justice requires, absent a substantial reason to deny"). The court may decline to grant leave where there is "any apparent or declared reason" for doing so. Foman v. Davis, 371 U.S. 178, 182 (1962); see also Lockman Found. v. Evangelical Alliance Mission, 930 F.2d 764, 772 (9th Cir. 1991).

The Ninth Circuit has interpreted Foman as identifying "four factors relevant to whether a motion for leave to amend pleadings should be denied: undue delay, bad faith or dilatory motive, futility of amendment, and prejudice to the opposing party." United States v. Webb, 655 F.2d 977, 980 (9th Cir. 1981); see also Poling, 829 F.2d at 886. The enumerated factors are not of equal weight, and delay alone is insufficient reason to deny leave to amend. Webb, 655 F.2d at 980 (citing Howey v. United States, 481 F.2d 1187 (9th Cir. 1973)). On the other hand, "[p]rejudice to the opposing party is the most important factor." Jackson v. Bank of Hawaii, 902 F.2d 1385, 1387 (9th

United States District Court
For the Northern District of California

Cir. 1990). The party opposing leave to amend bears the burden of showing prejudice. DCD Programs, 833 F.2d at 187. Futility alone can also justify the denial of a motion to amend. Bonin v. Calderon, 59 F.3d 815, 845 (9th Cir. 1995), cert. denied, 516 U.S. 1051 (1996).

DISCUSSION

CPI opposes Tandberg's proposed amendment on the grounds that it is unjustifiably delayed, prejudicial, and futile.

I. Futility

The court has already ruled at the hearing for this motion that Tandberg's release defense is utterly meritless, as it is based on an agreement arising out of wholly unrelated litigation between CPI and another of Avistar's competitors. Because the release defense is meritless, the court denies Tandberg leave to amend its answer to include that defense. The court will therefore limit the remainder of this order to considering whether Tandberg should be permitted to add its license defense, which is not frivolous on its face.

II. Delay

CPI argues that Tandberg has been in possession of the agreements and other documents underpinning its license defense since long before this litigation commenced, and that the delay in asserting the defense is unjustified. Tandberg does not offer any reasonable explanation for why it failed to assert the license defense in its original answer. Instead, Tandberg points out that in the cases cited by CPI the party opposing amendment stood to suffer substantial prejudice as a result of amendment. See Parker v. Joe Luhan Enters., Inc., 848 F.2d 118, 121 (9th Cir. 1988) ("the granting of the motion to amend would have substantially prejudiced the appellees.").

Tandberg is correct that delay alone is generally an insufficient basis for denying leave to amend. See Webb, 655 F.2d at 980. Nonetheless, unexcused delay serves as an additional factor weighing against granting leave to amend when other factors are present. The court is troubled by the lack of explanation for Tandberg's failure to include the defense in its original answer and

United States District Court
For the Northern District of California

counterclaims, but, as discussed below, finds that a sanction other than preclusion is appropriate.

III. Prejudice

CPI argues that the late addition of Tandberg's license defense—which is the basis for Tandberg's potentially dispositive motion—has prejudiced CPI by causing CPI to engage in potentially needless claim construction and infringement analysis in support of its infringement claims. CPI also argues that it will suffer prejudice as a result of having to conduct additional discovery in order to address and respond to Tandberg's motion for summary judgment.

With respect to CPI's first argument, the court agrees that the delay in asserting the license defense may have caused unnecessary work. This lawsuit will not proceed to adjudication of the parties' infringement and invalidity contentions if Tandberg is in fact completely insulated from liability. Moreover, resolution of the license defense does not appear to depend on construction of the disputed terms of the patent—the focus of much of the potentially wasted work. To the extent that CPI has expended resources preparing claim construction, infringement and validity arguments that will never be used, it may have suffered past prejudice.

With respect to CPI's second argument, the court does not find that CPI will incur a significant additional burden in opposing Tandberg's currently pending motion. Despite CPI's protest that it is a small company with limited resources, litigation cost does not appear to be a factor governing the parties' behavior in this case. CPI repeatedly asserts that it has prepared an 850-page set of preliminary infringement contentions. The parties' joint claim construction statement weighs in at more than 300 pages, including exhibits. There are currently at least six motions pending before the court, two of which are directly attributable to CPI. In light of this profligate use of highly paid attorneys, the future burden associated with the license defense—at present, two additional depositions—is inconsequential by comparison.

Given that CPI may have suffered some past prejudice attributable to wasted work, the question remains whether precluding CPI from asserting its license defense is the appropriate remedy. Several factors weigh against denying leave to amend outright. This litigation is currently less than ten months old, and fact discovery will not close for at least six more months. The prejudice asserted by CPI relates to costs and efforts that are already in the past. In contrast, the

United States District Court
For the Northern District of California

potential benefit to the parties and the court from allowing Tandberg's license defense to proceed is substantial. Claim construction in this case is likely to be quite costly for both the parties and the court, as evidenced by the already-unwieldy stack of paper currently before the court. In addition, despite Tandberg's assertion of its license defense, CPI still wishes to proceed with claim construction, which requires that it amend its 850-page infringement contentions in order to address IPXL Holdings. Doing so will inevitably cause some of the work CPI has already done to be wasted, and will delay claim construction and the end of discovery. Thus, CPI is partly responsible for the prejudice it seeks to attribute to Tandberg's actions.

To compensate CPI for the prejudice suffered, after adjudication of the license defense the court will permit CPI to file a motion requesting sanctions. Subject to the preceding qualification and the further condition set forth infra, Tandberg's motion for leave to amend its answer and counterclaims to include the license defense is therefore granted.

III. Addition of Avistar As a Party

In addition to adding the license defense, Tandberg seeks to add state law contract and tort counterclaims against Avistar based on Avistar's alleged breach of the supplier agreement forming the basis for the license defense. Tandberg argues that Avistar is CPI's alter ego, and therefore may be made a party to this lawsuit without regard to any specific rule governing joinder. In the alternative, Tandberg argues that joining Avistar is necessary because Avistar has an interest in the asserted patents and because Avistar is a signatory to the agreements forming the basis of Tandberg's license defense. Tandberg further notes that Avistar was successfully joined under similar circumstances in another lawsuit previously brought in this district. See Collaboration Properties, Inc. v. Polycom, Inc., No. 02-04591 (N.D. Cal., filed Sep. 23, 2002) (Chesney, J.).

CPI argues that the state law claims against Avistar are not related to the patent claims currently being litigated. CPI also notes that Tandberg has recently filed a patent infringement suit against Avistar in the Eastern District of Texas, and argues that the addition of Avistar to this lawsuit will needlessly compound the litigation.

Joinder under Rule 20 is appropriate where the plaintiff or counterclaimant asserts a right to

United States District Court
For the Northern District of California

relief arising out of the same transaction and occurrence, and where some question of law or fact common to all plaintiffs or counterdefendants will arise in the action. See Coleman v. Quaker Oats Co., 232 F.3d 1271, 1296 (9th Cir. 2000). Here, the breach of contract and other state law claims arise out of the same agreements that form the basis of Tandberg's license defense. Both the license defense and the breach of contract claim will require the court to determine whether the agreements in question continue to have legal force. Joinder is therefore permissible.[2]

Joinder under Rule 20 is permissive, however, and the court is free to limit the joinder in a manner that serves the interests of justice. See Fed. R. Civ. P. 20(b) (authorizing the court to "make other orders to prevent delay or prejudice"); Desert Empire Bank v. Insurance Co. of No. Am., 623 F.2d 1371, 1375 (9th Cir.1980) (holding that a trial court should "examine the other relevant factors in a case in order to determine whether the permissive joinder of a party will comport with the principle of fundamental fairness."); Wynn v. National Broadcasting Co., Inc., 234 F. Supp. 2d 1067, 1078 (C.D. Cal. 2002) (noting that the requirements of Rule 20 "must be satisfied in order to allow for joinder under Rule 20(a), however, even if these requirements are satisfied, there is no requirement that the parties must be joined."). Here, the court is greatly troubled by the potential for mischief and wasted resources created by the parallel litigation in Texas. Allowing the two disputes to proceed in parallel will only add to the financial burden on the parties, as well as the burden on the resources of the court. In addition, as CPI observes, allowing the litigation to proceed on two fronts invites gamesmanship, as the parties to each suit may seek delay for strategic reasons. The court will therefore grant leave for Tandberg to amend its answer and counterclaims to include the license defense and to add Avistar as a party only if Tandberg dismisses its Texas action against Avistar and adds its patent claims against Avistar as counterclaims in this lawsuit.

IV. Other Pending Motions

The parties raised a host of additional disputes during the course of the hearings for the instant motions. The court addressed each dispute at oral argument, considering the merits of both parties' arguments. The court's previously issued rulings are summarized below.

(1) Both parties are permitted to amend their preliminary infringement or invalidity

contentions in light of IPXL Holdings. CPI shall serve its amended preliminary infringement contentions within two weeks of the March 6, 2006 hearing. Tandberg shall serve its amended preliminary invalidity contentions within two weeks of being served with CPI's updated infringement contentions.

(2) CPI's motion to compel production of Tandberg's source code, subject to a protective order, is granted. The precise scope of the protective order is addressed in a separate order issued herewith.

(3) CPI's motion to compel production in the United States of certain outdated Tandberg videoconferencing systems is denied. CPI and its experts are instructed to travel to Norway for inspection and investigation of the historical Tandberg systems. Tandberg is ordered to make the systems available for inspection and to provide reasonable assistance to CPI in their use.

United States District Court
For the Northern District of California

United States District Court
For the Northern District of California

CONCLUSION

For the above reasons the court hereby conditionally GRANTS Tandberg's motion for leave to amend its answer and counterclaims to include its license defense and to add Avistar as a party, subject to the conditions set forth above. The court DENIES Tandberg's motion for leave to amend its answer and counterclaims to include its release defense. The court GRANTS both parties' motions for leave to serve amended infringement and invalidity contentions. The court GRANTS CPI's motion to compel production of Tandberg's source code. Finally, the court DENIES CPI's motion to compel production in the United States of Tandberg's obsolete videoconferencing systems.

IT IS SO ORDERED.

Date: March 28, 2006

MARILYN HALL PATEL
United States District Judge
Northern District of California

United States District Court
For the Northern District of California

ENDNOTES

1. Unless otherwise noted, background facts are taken from CPI's Complaint and the parties' Joint Case Management Statement.

2. As the court grants Tandberg's motion under Rule 20, it need not consider the merits of Tandberg's alter ego argument.