

Manufacturers First, Customers Last: Customer- Suit Exception in Patent Litigation

Sonrai Memory Ltd. v. Samsung Elecs. Co., No. 6:21-CV-00167-ADA, 2022 WL 572301 (W.D. Tex. Feb. 24, 2022)

By: Edward Runyan & Anthony Hao | March 4, 2022

The instant case shows how a district court applied the “customer-suit exception” in a patent infringement suit. Normally, courts give priority to a prior-filed action over a later-filed action. This is commonly known as the “first-filed rule.” However, in the context of patent litigation, the “customer-suit exception” provides an exception to the rule. The exception was applied in a recent decision handed down by Judge Albright of the Western District of Texas.

In general, the customer-suit exception provides that, when patent infringement actions are brought against a manufacturer and its customers, the manufacturer suit takes priority, even if the customers’ suit was filed first. In other words, the action against the customers will be stayed pending resolution of the action against the manufacturer. The same is true when the manufacturer files an invalidity action against the patent owner: the invalidity action has priority over the infringement action against the customers.

In prioritizing the action against the manufacturer, courts are removing the burdens of trial on the customers and protecting the manufacturer’s greater interest in defending against charges of patent infringement. In determining whether the customer-suit exception applies, courts analyze three factors: “(1) whether the customer-defendant in the earlier-filed case is merely a reseller; (2) whether the customer-defendant agrees to be bound by any decision in the later-filed case that is in favor of the patent owner; and (3) whether the manufacturer is the only source of the infringing product.” *Sonrai Memory Ltd. v. Samsung Elecs. Co.*, 2022 WL 572301 at *3.

In *Sonrai*, Sonrai filed patent infringement actions against both manufacturers and customers of certain NAND flash memory chips. Samsung, being one of the customers, requested the court to stay the action against it pending resolution of the manufacturer actions.

In granting the stay, Judge Albright found that, although Samsung was more than a mere reseller, there was a “significant overlap” in the manufacturer and customer suits that drew the case within the rule. Specifically, he noted that 1) the defendants all agreed that the asserted apparatus claims were exclusively asserted against the chip and the products containing them; and 2) Sonrai used the same infringement claim chart in all of its actions against the customers. Accordingly, the Court concluded that its determinations in the manufacturer actions would simplify the Samsung case “so long as Samsung agree [sic] to be bound by those determinations.” *Id.*

Finally, for the third factor, the Court used its discretion to sever and stay Sonrai’s customer action from other actions brought against Samsung. The Court explained that it did so in the interests of conserving judicial and party resources and avoiding inconsistent judgments.