

# Σummatations:

## An Intellectual Property Newsletter



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### **FEDERAL CIRCUIT FINDS PATENT TRIAL AND APPEAL BOARD ERRED IN RELYING ON INHERENCY TO FIND PATENT CLAIMS OBVIOUS**

In *Southwire Co. v. Cerro Wire LLC*, Appeal No. 2016-2287 (Federal Circuit September 8, 2017), the U.S. Court of Appeals for the Federal Circuit determined that the Patent Trial and Appeal Board (“PTAB”) at the USPTO erred in finding patent claims unpatentable for obviousness, based on a finding of what a prior art reference *inherently* taught, rather than what it *expressly* taught. In this case, Cerro Wire filed a petition for *inter partes* reexamination, alleging that Southwire’s U.S. Patent No. 7,557,301 (“the 301 Patent”) was unpatentable for obviousness under 35 U.S.C. 103. The ‘301 patent is directed to a method of manufacturing an electric cable, wherein a lubricant is incorporated into the outer sheath, such that the lubricant migrates to the surface of the sheath and results in a reduction of the pulling force required to install the cable. The ‘301 Patent purports to improve upon prior art methods for lubricating the cable, by incorporating a lubricant into the cable sheath material *during manufacture*, so that the cable sheath comprises a lubricant that will migrate to the exterior of the sheath and lubricate the surface during installation.

In its request for *inter partes* reexamination, Cerro Wire alleged that the claims of the ‘301 Patent were obvious in light of U.S. Patent No. 6,160,940 to Summers (“the Summers Patent”), in view of Dow Corning’s MB50-011 Masterbatch product, and Underwriters Laboratories “Standard for Safety Nonmetallic Sheathed Cables” publication. For purposes of the appeal, Southwire disputed the

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PTAB's interpretation and application of the Summers Patent. Claim 1 of the '301 Patent recited that the force required to install the pre-lubricated cable "is at least about a 30% reduction in comparison to an amount of force required to install a non-lubricated cable of the same cable type and size..." Cerro Wire asserted, and the Examiner and PTAB both found, that although the Summers Patent did not *expressly* teach that the friction-reducing additive can reduce the pulling force by "at least about ... 30%," as required by Claim 1, the Summers Patent taught that this characteristic "is an *inherent* result of the cable being made in accordance with the method steps." Emphasis added.

The PTAB found, in particular, that "[w]here the claimed and prior art products are ... produced by identical or substantially identical processes, a *prima facie* case of either anticipation or obviousness has been established." The PTAB explained that the Summers Patent's lubricant's "would achieve the claimed force reduction because Summers (in view of Dow) teaches the same method steps ..." Since the claims of the '301 Patent recite "a preselected lubricant" chosen to "provide a reduced coefficient of friction," they "require an amount of lubricant which meets the stated reduction in [the coefficient of friction]." Therefore, the PTAB concluded, because the Summers Patent teaches reducing the coefficient of friction using a lubricant, it inherently teaches the 30% reduction limitation because it renders it "obvious to have selected [lubricant] amounts" that achieve the claimed reduction.

The Federal Circuit held instead that the PTAB erred in relying on inherency in making its obviousness determination. Although under certain circumstances it was proper to rely on what a prior art reference would inherently teach to a person of ordinary skill in the art, as opposed to what it expressly teaches, the Federal Circuit noted that "the use of inherency in the context of obviousness must be carefully circumscribed because '[t]hat which may be inherent is not necessarily known' and that which is unknown cannot be obvious." Although inherency may supply a missing claim limitation in an obviousness analysis, the Federal Circuit emphasized that "the limitation at issue *necessarily* must be present" in order to be inherently disclosed by the reference." Emphasis original. The Federal Circuit found that the PTAB had cited no evidence that a reduction of 30% in the pulling force would necessarily result from the claimed process, which contains no steps

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that ensure such reduction. The Court concluded that the PTAB erred in relying on inherency without finding that the Summers Patent *necessarily* would achieve a 30% reduction in pulling force. Merely finding that applying a coefficient of friction reducing lubricant renders that limitation obviousness was not enough.

Nonetheless, the Federal Circuit found that the PTAB's error was harmless, and that the claims of the '301 Patent were unpatentable for obviousness under Section 103, because none of the patented steps differed in any material way from the process disclosed in the Summers Patent (in view of Dow), and there was no evidence that the claimed 30% reduction in pulling force would have been an unexpected or unattainable result from practicing the Summers Patent.

In this way, *Southwire* is yet another example of the Federal Circuit's intervention to direct the PTAB to "tighten up" the legal standards and procedures that it applies to reexamine or review the patentability of the claims of already issued patents. These decisions of the Federal Circuit take on added importance, given the rapidly expanding numbers of cases where businesses that have been accused of patent infringement are invoking the internal administrative procedures of the USPTO under the America Invents Act, such as *inter partes* review or post-grant review, in order to challenge the validity of the claims of the issued patents, rather than litigating those issues in a traditional case in federal court. Hopefully, the Federal Circuit's recent precedents disciplining the PTAB, and criticizing its analytical and procedural processes, will have the effect of improving the quality of the PTAB's decisions to the benefit of patent owners and challengers alike.

## **PATENT TRIAL AND APPEAL BOARD ANNOUNCES RULES FOR DEALING WITH MULTIPLE *INTER PARTES* REVIEW PETITIONS AGAINST A PARTICULAR PATENT**

On September 6, 2017, in *General Plastic Industrial Co., Ltd v. Canon Kabusiki Kaisha*, the Patent Trial and Appeal Board ("PTAB") of the USPTO announced rules governing how multiple petitions of *inter partes* review that are filed against a particular U.S. Patent by the same party will be handled. In *General Plastic*, multiple successive petitions had been filed by Petitioner General Plastic against two U.S. Patents owned by Canon (seven petitions (7) in total) directed to copier toner cartridges, alleging that the claims of those patents were unpatentable for obviousness under 35 U.S.C. 103, based on various combinations of cited prior art. General Plastic initially filed one petition with respect to each patent. When those petitions were both denied, it filed two follow-on petitions against one patent, and three follow-on petitions against the other patent. In each case, the PTAB declined to institute an *inter partes* review proceeding against either of Canon's patents. General Plastic sought a rehearing from the PTAB of all of its decisions denying institution. The PTAB denied General Plastic's request for rehearing.

In denying General Plastic's request for rehearing, the PTAB noted that it has discretion to institute *inter partes* review under 35 U.S.C. 314 and 37 C.F.R. 42.108(a), and that it "may not authorize an *inter partes* review to be instituted unless the Director determines that the information presented in the petition ... shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition." Although there is no *per se* rule precluding the filing of follow-on petitions after the PTAB's denial of one or more first-filed petitions on the same patent, the PTAB has relied on a number of factors when determining whether it would grant such follow-on petitions. Such factors include:

1. whether the same petitioner previously filed a petition directed to the same claims of the same patent;
2. whether at the time of filing of the first petition the petitioner knew of the prior art asserted in the second petition or should have known of it;
3. whether at the time of filing of the second petition the petitioner already received the patent owner's preliminary response to the first petition or received the Board's decision on whether to institute review in the first petition;
4. the length of time that elapsed between the time the petitioner learned of the prior art asserted in the second petition and the filing of the second petition;
5. whether the petitioner provides adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patent;
6. the finite resources of the Board; and
7. the requirement under 35 U.S.C. § 316(a)(11) to issue a final determination not later than 1 year after the date on which the Director notices institution of review.

This list of factors is nonexclusive, and there may be other factors that are presented by the facts of a particular case which warrant consideration by the PTAB. In addition, 35 U.S.C. 325(d) requires that the PTAB consider whether “the same or substantially the same prior art or arguments previously were presented to the Office” when making its decision whether to institute a follow-on petition.

Although the PTAB recognized that an objective of *inter partes* review proceedings under the America Invents Act is to provide an effective and efficient alternative to district court litigation, it also recognized the potential for abuse of the review process by repeated attacks on patents, which were intended to leave the validity of an issued U.S. Patent in a constant state of uncertainty. These factors thus take the potential for injustices and undue prejudices to the patent owner into account.

In *General Plastic*, the PTAB was concerned with whether the petitioner was “gaming” the system by waiting to review the patent owner's responses to the petitions, and the PTAB's decision of the first round of petitions prior to filing follow-on petitions. The PTAB was particularly concerned with shifts in the combinations of prior art references that petitioner asserted and the related arguments in follow-on petitions. The PTAB therefore sought to prevent instances where petitioners would strategically stage their selections of prior art and arguments in multiple petitions, using its earlier decisions as a “roadmap,” until a ground is found which results in the grant of review. This gamesmanship was seen as unfair to patent owners. However, the PTAB recognized that there may be circumstances when multiple petitions by the same petition against the same claims of a patent should be permitted, and that such determination should be based on the facts of a particular case.

In applying the factors to the facts of this case, the PTAB found that six (6) of them weighed against institution. Under factor 1, the same claims of the same patent were at issue in the follow-on petitions as in the first-filed petitions, where institutions were denied. The follow-on petitions were all filed nine months after the filing of the first-filed petitions. At the time petitioner filed the follow-on petitions, the patent owner had filed its Preliminary Responses to the first-filed petitions, and the Board had issued Decisions Denying Institution of the first-filed petitions, as well as Decisions Denying Rehearing of those decisions. Petitioner provided no meaningful explanation for the delay in filing the follow-on petitions. Instead, Petitioner stated that it had found new prior art as a result of two later searches. The new prior art searches did not commence until after the PTAB issued the Decisions Denying Institution in the proceedings based on the first-filed petitions.

Additionally, with respect to factor 6, the PTAB found that its resources would be more fairly expended on initial petitions, rather than follow-on petitions. With respect to factors 4 and 5, the PTAB found that petitioner provided no explanation in its Petition or in its Reply to Patent Owner's Preliminary Response of any unexpected circumstances that prompted the new prior art searches, or for the delay. Although petitioner demonstrated that it found new prior art, it provided no explanation why it could not have found this new prior art earlier—prior to filing the first-filed petitions—through the exercise of reasonable diligence.

The PTAB additionally found that the petitioner had modified its challenges in the follow-on petitions in an attempt to cure the deficiencies that the Board identified in its first-filed petitions. More specifically, the newly-asserted prior art, predominantly directed to toner cartridges only, “without resort to any copier components as part of its invalidity arguments,” was a shift in petitioner's positions and arguments from the first-filed petitions based on the analysis articulated in the PTAB's Decisions Denying Institution of those petitions. Moreover, the shift in Petitioner's challenges was not the consequence of a position that the patent owner surprisingly advanced or the Board surprisingly adopted, because petitioner's citations to prior art and arguments applying the references were directed to the same limitations of the patents which require a sealing member that was a component of the toner cartridge, and not the copier itself. On that basis, the PTAB found that “[t]he filing of sequential attacks against the same claims, with the opportunity to morph positions along the way, imposes inequities on [Patent Owner].” Therefore, the PTAB concluded that the factors strongly favored non-institution of the follow-on petitions.

The PTAB's decision in *General Plastics* makes clear that it will strongly scrutinize the conduct and motivations of petitioners who file multiple waves of petitions for *inter partes* review against the same patents, in order to protect the integrity of the process from abuse, and protect the fairness of the process to patent owners.

## PATENT TRIAL AND APPEAL BOARD FINDS PATENT CLAIMING A PROCESS AND SYSTEM FOR CREDIT CARD TRANSACTIONS IS PATENTABLE SUBJECT MATTER UNDER SECTION 101

In a September 20, 2017 decision, the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office found in *Ex Parte Faith* that a patent directed to methods, computer readable medium, and systems for conducting a transaction, such as one using a credit card, claimed subject matter that was patentable under 35 U.S.C. 101. The Examiner at the USPTO had finally rejected several claims of U.S. Patent Application No. 13/919,900 as being unpatentable under Section 101, and the applicant appealed. Claim 9 of the '900 Application claimed a method for conducting a transaction, while Claim 21 claimed a system for accomplishing that transaction.

<p>Claim 9. A method for conducting a transaction, comprising:</p> <p>generating, by a portable consumer device, a verification value in response to a transaction involving an access device;</p> <p>sending, by the portable consumer device, the verification value and a portion of a first dynamic data element to the access device, the portion of the first dynamic data element including data included in a fixed position of the first dynamic data element, the verification value being different from the portion of the first dynamic data element; and</p> <p>communicating, by the access device, the verification value and the portion of the first dynamic data element to a service provider computer;</p> <p>wherein the service provider computer determines a plurality of candidate dynamic data elements using the portion of the first dynamic data element in response to determining that the verification value does not match a second verification value independently generated by the service provider computer, determines a plurality of candidate verification values from the plurality of candidate dynamic data elements,</p>	<p>Claim 21. A system comprising:</p> <p>a database; and</p> <p>a server coupled to the database and operable to:</p> <p>receive a verification value and a portion of a dynamic data element, the portion of the dynamic data element including data located within a fixed position of the dynamic data element;</p> <p>determine that the verification value does not match an expected value, the expected value stored at the system;</p> <p>upon determining that the verification value does not match an expected value, determine a plurality of candidate dynamic data elements using the portion of the dynamic data element;</p> <p>calculate a plurality of candidate verification values using the plurality of candidate dynamic data elements;</p> <p>determine if the received verification value matches any of the plurality of candidate verification values; and</p>
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<p>and determines whether the verification value matches any of the plurality of candidate verification values;</p> <p>wherein, each of the plurality of candidate verification values is unique to a corresponding candidate dynamic data element of the plurality of candidate dynamic data elements; and</p> <p>wherein the transaction is thereafter authenticated when the verification value matches any of the plurality of candidate verification values</p>	<p>if the received verification value matches any of the plurality of candidate verification values, store the candidate dynamic data element associated with the matching candidate verification value,</p> <p>wherein the transaction is thereafter authenticated when the received verification value matches any of the plurality of candidate verification values.</p>
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The PTAB applied the two-part test for finding patentable subject matter that was set forth in *Alice Corp. Pty Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347,2354 (2014). Applying the first part of the *Alice* test, the PTAB found that the claims were directed to the abstract idea of generating a verification value in response to a transaction, which was found to be a common economic practice. However, the PTAB found that the claims recite significantly more than that abstract idea, so that they constituted a truly inventive concept.

Although generating a verification value is an abstract idea, the embodiments of the invention disclosed in the patent application provided for improved data security over conventional payment processing systems. The claimed invention generates a verification value in response to a transaction involving a portable consumer device and sends the verification value and a portion of a dynamic data element to a service provider that determines whether the verification value matches any of a plurality of candidate verification values and, if a match is determined, the transaction is authenticated, thus helping to reduce transactional fraud. The PTAB determined that the claimed transaction authentication, while abstract itself, improves the underlying technology involved with fraud-prevention for such electronic transactions, and therefore adds "significantly more" than merely implementing the abstract idea of generating a verification value. The Examiner's final rejection was therefore overruled.

The PTAB's decision in *Ex Parte Faith* joins the small but growing body of case law which finds a claimed invention to be directed to patentable subject matter, even though it is implemented on a general purpose computer, in instances where the method and/or system constitutes a definite improvement in the technology that is used to accomplish the function that is described in the patent, rather than merely carrying out the function itself.

## **FEDERAL CIRCUIT THROWS OUT JUDGE GILSTRAP’S POST *T.C. HEARTLAND* PATENT VENUE RULES, AND OTHER DEVELOPMENTS IN THE LAW OF PATENT VENUE**

As reported in the June 2017 edition of Σumptions, on May 22, 2017 the U.S. Supreme Court decided the case of *T.C. Heartland, LLC. v. Kraft Food Group Brands, LLC* (2017), in which the Court was asked to decide the issue of what the proper “venue” or location should be for a patent infringement lawsuit that is brought against a domestic U.S. corporation. The requirements for proper venue in a patent infringement case are defined in federal statute, 28 U. S. C. §1400(b), which provides that “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” For purposes of the federal patent venue statute, the Supreme Court ruled in *T.C. Heartland* that a domestic U.S. Corporation “resides” in the state in which it is incorporated. This represented a significant change in the law, as the definition of “resides” is now much narrower and more limited than the broad definition that was applied by the federal courts before *T.C. Heartland*.

As we previously reported, this has caused many companies who have been sued for patent infringement in federal district courts that are located outside of their state of incorporation to file a flood of motions asking that the case be dismissed for improper venue, or that the case be transferred to their home jurisdiction (or other more favorable forum) where they are located. It also caused several U.S. District Courts which have been popular forums for litigating patent infringement cases to address how they will deal with the patent venue issue going forward, particularly with respect to what constitutes “acts of infringement” or a “regular and established place of business” under Section 1400(b), which are issues that remained dormant under the pre-*T.C. Heartland* patent venue rules.

One such example of this was the discussion of the factors to be considered for determining whether a defendant maintained “a regular and established place of business” in the district that were presented by Judge J. Rodney Gilstrap of the U.S. District Court for the Eastern District of Texas in *Raytheon Co. v. Cray, Inc.* Case No. 2:15-cv-01554-JRG (E.D. Tex. June 29, 2017), which we reported on in the July 2017 edition of Σumptions. Judge Gilstrap’s patent venue standards were controversial, because they were flexible, and broad in scope, and were seen by many as an attempt by the Texas Court to retain its position as one of the most popular courts for litigating patent cases in the United States.

Therefore, it was not a surprise when Cray, Inc. challenged Judge Gilstrap’s venue rules by filing a petition for a writ of mandamus with the U.S. Court of Appeals for the Federal Circuit in which it requested that Judge Gilstrap’s order denying its motion to transfer venue to its home jurisdiction be vacated. The Federal Circuit recently decided Cray’s petition in *In re Cray Inc.*, Appeal No. 2017-129 (Fed. Cir. September 21, 2017) and found that Judge Gilstrap’s refusal to transfer venue for that case was an abuse of judicial discretion. The Federal Circuit specifically found that the Texas Court’s venue rules misinterpreted the scope and effect of the Federal Circuit’s prior precedent in determining that Cray maintained “a regular and established place of business” in the Eastern District of Texas.



The Federal Circuit noted in its decision that its prior precedent on this issue, *In re Cordis*, did not undertake a full analysis of the “regular and established place of business” language of Section 1400(b), which the Court undertook now in *Cray*. In doing so, the Court sought to provide greater certainty and uniformity on this issue. The Federal Circuit found, as an initial matter, that the issue of venue under Section 1400(b) was unique to patent law, because it “constitutes the exclusive provision controlling venue in patent infringement proceedings.” Therefore, the Federal Circuit determined that it would apply its own law and legal interpretation to determining what constitutes a “regular and established place of business.” This means that in future patent cases, all district courts and the Federal Circuit itself must apply the standards for patent venue set forth in *Cray*.

The Federal Circuit’s review of the case law and the statute’s language resulted in its determination that there are three general requirements for finding a “regular and established place of business:” 1) there must be a physical place in the district; 2) it must be a regular and established place of business; and 3) it must be the place of the defendant. If any of these statutory requirements are not met, then venue will be found improper under Section 1400(b). The “regular and established place of business” standard requires more than minimum business contacts with the district that are necessary for establishing personal jurisdiction, or satisfying the “doing business” standard of the general venue statute.

The Federal Circuit found specifically that Section 1400(b) required that “a defendant has” a “place of business” that is “regular and established,” and that all of these requirements must be met. Based on this, the Court found that Judge Gilstrap’s four-part test for patent venue is not sufficiently tied to these statutory requirements, and it is thus inadequate. Although there has been no precise rule that has been announced for finding a “regular and established place of business,” and each case depends on its own fact, this analysis must be closely tied to the language of the statute.

The requirement for a physical place includes “[a] building or a part of a building set apart for any purpose” or “quarters of any kind” from which business is conducted. The patent venue statute does not apply to a virtual space or an electronic communication from one person to another. While the required “place” does not have to be “a fixed physical location in the sense of a formal office or store,” there must be a physical, geographical location in the district from which the business of the defendant is carried out.

With respect to the “place” being “regular and established,” it is “regular” if it operates in a “steady, uniform, orderly and methodical” manner.” Sporadic or periodic activity within the district cannot create patent venue. For example, performing a single act within the district pertaining to a particular business was found by the Federal Circuit to be insufficient, but conducting a series of acts with the district may be considered “regular.” According to the Court, an “established” place of business is one that is “stable,” and not transient, so that it is “settled certainly, or fixed permanently.” As examples, the Federal Circuit cited semiannual displays of products at a tradeshow as being temporary (and insufficient), while a five-year continuous presence in the district was “established” for purposes of patent venue. However, if an employee was able to move his or her home out of the district without approval from their employer, then that would cut against the employee’s home being considered a place of business of the defendant.

Finally, the “regular and established place of business” must be “the place of the defendant,” and not solely a place of the defendant’s employee. The defendant must establish or ratify the place of business; it is not enough that the employee does so on his or her own. Relevant considerations include whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place. A home can be a place of business of the defendant, if that is the place where the business is done. Another consideration might be whether the defendant conditioned employment on an employee’s continued residence in the district or the storing of materials at a place in the district so that they can be distributed or sold from that place. Marketing or advertisements also may be relevant, but only to the extent they indicate that the defendant itself holds out a place in the district for its business. Other relevant inquiries include whether the defendant lists the alleged place of business on a website, or in a telephone or other directory; or places its name on a sign associated with or on the building itself. However, the mere fact that a defendant has advertised that it has a place of business or has even set up an office is not sufficient; the defendant must actually engage in business from that location.

Ultimately, the Federal Circuit found Cray’s sales representatives who worked from their homes in the district were insufficient to establish venue. There was no evidence that Cray owns, leases or rents their homes in order to do business, or that Cray had any role in selecting their locations or directed the representatives to store inventory or conduct demonstrations from their homes. Similarly, no evidence was found that Cray directed its representatives to maintain their homes in the district or that a location within the district was at all important to Cray’s business. Therefore, Cray did not establish these places of business, its representatives did.

Therefore, the *Cray* case will likely be seen as an important clarification of the factors and standards that must be applied to determining whether a patent infringement defendant maintains a “regular and established place of business” in the district. It may also be seen as a narrowing or tightening of the circumstances under which venue will be found proper in a particular case, particularly when compared to the broader, more flexible standards of Judge Gilstrap and the Texas Court that *Cray* overruled. Therefore, patent venue will remain a fruitful issue for a patent infringement defendant to raise if it wishes to avoid a lawsuit in a particular district.

### **OTHER RECENT DISTRICT COURT VENUE CASES**

District Courts in other recent cases have recently wrestled with these and other important issues. In some cases defendants have filed their venue motions several years after the patent infringement case was filed. As a result, courts have issued conflicting decisions regarding whether the defendants have waived their objection to venue, in spite of the change in the law effected by *T.C. Heartland*, because that issue was not raised sooner.

Chief Judge Leonard P. Stark of the U.S. District Court for the District of Delaware recently issued two decisions which clarified what is meant by a “regular and established place of business” in Delaware for purposes of establishing venue for patent infringement lawsuits in that state. In *Boston Scientific Corp. v. Cook Group, Inc.*, Case No 15-cv-980-LPS-CJB (D. Del. September 11, 2017), the defendants filed a motion to dismiss the patent infringement lawsuit for improper venue, or in the alternative to transfer the

case to the U.S. District Court for the Southern District of Indiana. As an initial matter, Judge Stark found that the defendants had the burden of proving that venue was improper in that case, since they were the parties that brought the motion.

Judge Stark then noted that venue would not be proper under *T.C. Heartland*, because none of the defendants “resided” in Delaware. The parties disagreed, however, about whether venue would be proper because the defendants had a “regular and established place of business” in Delaware. Judge Stark also found that the defendants had not waived their right to challenge venue, in spite of waiting more than two (2) years after the suit was filed in which to do so, because the *T.C. Heartland* decision was an intervening change in the law which overruled the contrary rule stated in the Federal Circuit’s prior *VE Holdings* decision, so that it constituted an exception to the usual waiver situation.

In determining whether the defendants had a “regular and established place of business” in Delaware, Judge Stark required that there be some *physical* presence in Delaware, although this did not mean that the defendants must necessarily have a formal office or storefront in that state. According to Judge Stark, this is consistent with the requirements of other courts that the defendants must have a “permanent and continuous presence” in the district before venue will be proper. Simply doing business in a district or being registered to do business in a district is insufficient, without more. Merely demonstrating that a business entity has sufficient “minimum business contacts” with the district for purposes of personal jurisdiction will not necessarily be sufficient either. In this way, Judge Stark’s analysis was fully consistent with the Federal Circuit in *Cray*.

Moreover, Judge Stark noted that only maintaining a website that allows consumers to purchase a defendant’s goods or products within the district does not, by itself, demonstrate that the defendant has a regular and established place of business in the district either, since that website can be accessed from anywhere. Finally, Judge Stark found that a regular and established place of business is not created solely by the defendants shipping products into the district, whether to an individual, or for distribution by third parties. Maintaining an “exclusive distributorship” or “establishing and maintaining some control over a chain of exclusive, independent distributors” in the district does not create a regular and established place of business. Based on these standards, Judge Stark found that venue was not proper as to any of the defendants, because none of them had a physical presence in Delaware. Their contacts generally consisted of sales activities within Delaware conducted by non-Delaware residents. The case was therefore transferred to the Southern District of Indiana.

In *Bristol-Myers Squibb Co. v. Mylan Pharmaceuticals, Inc.*, Case No 17-cv-379-LPS (D. Del. September 11, 2017), Judge Stark undertook a similar analysis with respect to the venue issue (as well as which party has the burden of proof) that he did in the *Boston Scientific* case. In *Bristol-Myers*, the defendant had filed an Abbreviated New Drug Application (ANDA), seeking FDA approval for a generic version of a patented, brand-name pharmaceutical drug. The filing of the ANDA was the artificial act of infringement under the Waxman-Hatch Act which supported the filing of that patent infringement lawsuit. The special nature of ANDA patent litigation raised several unique issues regarding venue that were addressed by Judge Stark.

Although Mylan had not sold any of the generic drug in Delaware, because it had not yet received marketing approval from the FDA, Judge Stark found that Congress nevertheless intended for the patent venue statute, Section 1400(b), to apply to artificial acts of infringement under the Waxman-Hatch Act, and that venue would be proper in districts where the defendant had a “regular and established place of business,” even though it had not actually committed an act of infringement there yet. Judge Stark determined that Congress did not intend for venue to be limited in Waxman-Hatch cases only in the district where the defendant “resides” under *T.C. Heartland*. Efforts undertaken by the Defendant to market the ANDA product in the district once FDA approval is received should be considered when determining whether the defendant has committed acts of infringement in the district. In this case, Mylan conceded that it intended to market its generic drug in Delaware when it receives FDA approval.

In *Bristol-Myers*, Judge Stark went on to discuss the same standards for finding a “regular and established place of business” that he did in *Boston Scientific*. However, Judge Stark was unable to determine, based on the evidentiary record before him, whether Mylan had a “regular and established place of business” in Delaware. Judge Stark therefore provided Bristol-Myers with the opportunity to take venue-related discovery that would establish whether Mylan had the required permanent physical presence in Delaware that would support venue for the lawsuit there.

In *Kranos IP Corp. v. Riddell, Inc.*, Case No. 2:17-cv-443-JRG, Judge Gilstrap of the U.S. District Court for the Eastern District of Texas (Marshall Division) denied defendant Riddell’s motion to dismiss the case for improper venue, but decided nonetheless to transfer the case to the U.S. District Court for the Northern District of Illinois, because that was a more convenient forum for the parties to litigate that particular case. Judge Gilstrap considered the facts supporting venue that Kranos had stated in its complaint, as well as the factual affidavits challenging venue that were submitted by Riddell. Judge Gilstrap found that Riddell resided in Illinois, not Texas, because it was incorporated there. Judge Gilstrap then addressed the issue of which party had the burden of proving that venue was or was not proper. Judge Gilstrap found that the burden is on the defendant challenging venue to prove that venue is not proper. The Court found that Riddell’s sales of accused infringing football helmets in the district were sufficient to meet the “committed acts of infringement” requirement of Section 1400(b).

In *Kranos*, Judge Gilstrap applied the four-factor test set forth in *Raytheon v. Cray* for determining whether a defendant had a “regular and established place of business” that was adopted in the Court’s prior *Raytheon* decision: 1) the extent to which a defendant has a physical presence in the district; 2) the extent to which a defendant represents, internally or externally, that it has a presence in the district; 3) the extent to which a defendant derives benefits from its presence in the district; and 4) the extent to which the defendant acts in a targeted way with existing or potential customer, consumers, users or other entities with the district.

In applying these tests, Judge Gilstrap found that Riddell had a substantial physical presence in the district, because it had two sales representatives who operated out of their residences in the district who made sales to entities in the district. Those representatives maintained samples, took deliveries of the accused infringing products and made sales presentations in the district. Riddell was also alleged to have sales

showrooms which displayed samples of the infringing helmets in the district. Judge Gilstrap also found that Riddell held its sales representatives out as the local contact persons for Riddell's actual or potential customers in the district. Although Judge Gilstrap acknowledged that having a "regular and established place of business" in the district required more than making sale or "doing business" there, he nonetheless concluded that significant sales revenue from a district suggests that the defendant's place of business there is "regular and established." The Court ultimately found this factor neutral, because there was insufficient evidence from which to determine whether Riddell benefited from substantial sales within the district as a result of its permanent sales presence there, or whether those sales came generally from sales throughout Texas.

Judge Gilstrap found the final factor to be neutral as well, because Riddell interacts with customers in the district through advertising, which is not sufficient on its own to support venue. Riddell's use of its sales representatives to give sales presentations in the district, and its customer support and helmet reconditioning activities (which are not based in the district) were not sufficient to support venue either. The Court also found that Riddell's website does not specifically target customers in the district as opposed to Texas as a whole. Nonetheless, the Court found that Riddell had a regular and established place of business in the district, so that venue was proper. As *Riddell* was decided *before* the Federal Circuit's decision in *Cray*, it is unclear whether *Riddell* will be considered a useable precedent in the future.

In *Smart Wearable Technologies, Inc. v. Fitbit, Inc.*, Case No. 3:16-cv-00077, Judge Conrad of the U.S. District Court for the Western District of Virginia (Charlottesville Division), granted Fitbit's motion to transfer venue to the U.S. District Court for the Northern District of California. In *Fitbit*, plaintiff Smart Wearable Technologies acknowledged that venue was improper under *T.C. Heartland*, but argued that Fitbit had waived its challenge to venue in that case, because it did not raise the issue in its other earlier motions to dismiss some of the patent infringement claims that were stated in the complaint. Although a party is generally held to have waived the defense of improper venue if that party failed to raise it in a motion to dismiss, an exception exists if the defense is not "available to the party" at that earlier time. The Court in *Fitbit* acknowledged that the trend among other courts is to find that *T.C. Heartland* **was not** an intervening change in the law that would prevent a waiver of the venue issue. However, the Court in *Fitbit* found that *T.C. Heartland* significantly changed the law of venue in actions for patent infringement, so that Fitbit did not waive its challenge to venue by failing to raise it in its earlier motions. Fitbit's argument that venue was not proper was foreclosed by the Federal Circuit's *VE Holdings* decision prior to *T.C. Heartland*, so that Fitbit was not obligated to raise the venue issue until after the law had changed. The Court also noted that the *Fitbit* case was still in its early stages, which also weighed against a finding of waiver.

Finally, in *Simpson Performance Products, Inc. v. Necksgen, Inc.*, Case No. 5:16-cv-00153-RLV-DCK, Judge Voorhees of the U.S. District Court for the Western District of North Carolina (Statesville Division) granted Necksgen's motion to dismiss for improper venue, and transferred the case to the U.S. District Court for the Southern District of California. Similar to the situation in *Fitbit* discussed above, defendant Necksgen waited until it had file two prior motions to dismiss the plaintiff's patent infringement complaint before it alleged that venue was improper in a third motion that was filed after the *T.C. Heartland* decision.

Plaintiff Simpson did not attempt to argue that venue was proper in the district, but instead argued that Necksgen had waived its right to challenge venue by not raising the issue earlier. Simpson had merely conducted some business in North Carolina such as selling products in and shipping products too North Carolina. It did not have a “permanent and continuous presence” in North Carolina, making venue there improper.

The Court in *Simpson* found, however, that Necksgen did not waive its right to challenge venue by not raising the issue as a defense in its first pleading in response to the Complaint. The Court acknowledged that an exception to the general rule of waiver exists in instances where the defense of venue was not available (because the current law did not provide a basis for it), and there was an intervening change in the law which recognizes an issue that was not previously available. In resolving the waiver issue, the Court in *Simpson* found that because *T.C. Heartland* overruled the prior patent venue case, *VE Holding*, which was a binding precedent of the Federal Circuit applicable in all patent infringement cases, *T.C. Heartland* constituted an intervening change in the law. Defendant Necksgen could not have presented its venue arguments sooner, because *VE Holdings* presented “a strong and controlling precedent” against the arguments that Necksgen could have presented. Although Necksgen could have raised the same arguments that T.C. Heartland raised, it was not unreasonable for Necksgen not to have raised what would have been a futile defense in light of *VE Holdings*. Finally, the Court found that Simpson was not prejudiced by the delay in raising the venue issue because Necksgen filed its venue motion promptly after *T.C. Heartland* made its venue defense possible, and the case was still in the early stages, as the defendant’s other motions to dismiss remained pending.

These cases present progress toward clarity regarding the legal standards that will be applied to determine whether Section 1400(b) will be considered proper in a particular case, and whether a patent infringement defendant has waived its challenge to venue. However, patent venue will remain a highly fact-specific inquiry that it not amenable to hard rules. Therefore, there are risks for both plaintiff and defendant if suit is filed in a district other than the one where the defendant is incorporated or where it has a headquarters or major physical presence.

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