

September 22, 2010

### Another Case Transferred Out of the Eastern District of Texas

In a another decision concerning a motion to transfer a case out of the Eastern District of Texas, *In re Zimmer Holdings, Inc.*, No. 2010-M938 (Fed. Cir. June 24, 2010), the Federal Circuit issued a writ of mandamus ordering the transfer of a patent infringement case out of the Eastern District of Texas to the Northern District of Indiana. This is yet another case ordering transfer out of what has become one of the most desirable forums for patent infringement plaintiffs.

In the last decade, many defendants found themselves in the Eastern District of Texas defending allegations of patent infringement. Since motions to transfer were routinely denied in this district, defendants had little hope of having their cases heard in a more convenient location, even when they had virtually no ties or connection to Texas. However, the sands began to shift in 2008 when the Fifth Circuit issued its en banc decision regarding case transfers. *In re Volkswagen of America, Inc.*, 545 F.3d 304 (5th Cir. 2008) (en banc). The en banc court provided new guidance on the standard for transferring cases. Based on *Volkswagen*, the Federal Circuit began to grant one mandamus petition after another, forcing the Eastern District of Texas to transfer cases out of that district.<sup>1</sup> *In re Zimmer Holdings* provides further guidance regarding the circumstances that warrant a transfer of venue out of the Eastern District of Texas.

In the underlying case, the plaintiff, MedIdea, filed a patent infringement action against various Zimmer entities (collectively, Zimmer) in the Eastern District of Texas. Zimmer asked the district court to transfer the case to either the Northern District of Indiana or the Eastern District of Michigan pursuant to 28 U.S.C. § 1404(a), which authorizes transfer “for the convenience of parties and witnesses, in the interest of justice.” Zimmer sought transfer of the case to Indiana as a more convenient forum because of three factors that it alleged favored transfer: (i) Zimmer’s principal place of business is in Indiana; (ii) MedIdea had extensive ties to the adjacent state of Michigan (Media was incorporated in Michigan, had a registered office in Michigan, and both of MedIdea’s officers reside in Michigan); and (iii) the vast majority of the evidence would come from either Michigan or Indiana.

MedIdea asserted that venue was proper in the Eastern District of Texas because MedIdea’s principal place of business is in the Eastern District of Texas. The Eastern District denied the motion to transfer based largely on MedIdea’s corporate presence in the Eastern District of Texas, and the fact that a related co-pending case in the Eastern District of Texas would not result in judicial efficiencies.

---

<sup>1</sup> See, *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); and *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

The Federal Circuit disagreed with the district court. It found that MedIdea's presence in the Eastern District of Texas was "recent, ephemeral, and an artifact of litigation" because MedIdea simply transported copies of relevant documents from Michigan to a Texas office space that MedIdea shared with another of its trial counsel's clients. The Federal Circuit held that MedIdea's significant ties with Michigan and artificial ties with Texas illustrate a classic case where a plaintiff is attempting to "game the system" by seeking to establish venue in an improper forum. The Federal Circuit further noted that transferring the case to Indiana would result in substantial conveniences for both parties. Lastly, the Federal Circuit noted that there was little overlap between the two co-pending actions in the Eastern District of Texas, which would likely result in significantly different discovery, evidence, proceedings, and trial.

The *In re Zimmer Holdings* decision is another important reference point for companies that find themselves as defendants in the Eastern District of Texas. Where the plaintiff has no legitimate ties to that district and a more convenient forum exists, there is now a higher probability that the case can be successfully transferred to the more convenient forum.

A copy of the opinion can be found at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/2010-M938.6-24-10.1.PDF>.

### **Federal Circuit Affirms that a Provisional Application Can Show Another Party Was First to Invent**

On July 7, 2010, the Federal Circuit addressed the "first to invent" doctrine in a case named *In re Peter Joseph Giacomini*, No. 2009-1400 (Fed. Cir. July 7, 2010), upholding the U.S. Patent and Trademark Office's (USPTO's) Board of Patent Appeals and Interferences' (the PTO Board's) rejection of the Giacomini application as anticipated by U.S. Patent No. 7,039,683 (the Tran patent) under section 102(e). In a case of statutory construction of section 102(e), the Federal Circuit confirmed the USPTO's practice of using the provisional filing date as the effective filing date of a U.S. patent or patent publication claiming priority to that provisional application.

The U.S. patent system is based on the "first to invent" doctrine, which awards patents to the first party to "reduce to practice" an invention. Most other countries use the "first to file" system, which awards patents to the party who files the application first. In 1995, the USPTO established the provisional application option to give inventors a low-cost option to secure a filing date for certain types of inventions. Provisional applications must be followed by complete utility patent application within 12 months of filing the provisional application.

The Tran group filed its provisional application on September 25, 2000. The Giacomini team, consisting of Peter Joseph Giacomini and three other inventors, filed its utility application for a technique for storing select electronic data in a cache or memory system just over two months later, on November 29, 2000. The Tran group followed a month later with a December 29, 2000, utility patent application.

The Federal Circuit's unanimous ruling in *In re Giacomini* upheld the April 2009 PTO Board ruling, where the PTO Board rejected certain claims of the Giacomini team. The PTO Board ruled that the Tran patent had a patent-defeating effect as of the filing date of the Tran provisional application.

In this case, the Federal Circuit held that "[t]he Tran provisional [application] evinces that Tran, and not Giacomini, was the first to invent the claimed subject matter," wrote Chief Judge Randall Rader. Judge

Rader wrote, “Allowing Giacomini’s application would create an anomalous result where someone who was not the first to invent in the United States receives a patent.”

Judge Rader also noted that Giacomini waived his right to argue that that the Tran provisional application did not include the necessary written description of the claimed subject as required by the Section 112 of the U.S. Patent Law, because he never raised the argument to the PTO Board.

A copy of the opinion can be found at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/09-1400.pdf>.

### **U.S. International Trade Commission (ITC) Rules that “Litigation Activities” Directly Related to Licensing May Help to Satisfy the Economic Prong**

On April 14, 2010, in an important opinion that issued in the investigation named *Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same*, Inv. No. 337-TA-650, Comm’n. Op. (2010), the U.S. International Trade Commission (ITC) determined that litigation activities directly related to licensing of patent(s) at issue may be used to help to satisfy the economic prong of the domestic industry requirement of section 337(a) of the Tariff Act of 1930. In its opinion, the ITC emphasized that patent infringement activities alone (i.e., such activities that are **not** related to engineering, research and development, or licensing), do not satisfy the requirements of the economic prong, but litigation activities—including patent infringement lawsuits—may satisfy the economic prong if a complainant can prove that such activities are related to licensing activities that pertain to the patent(s) at issue, and can document the associated costs.

In a proceeding by the ITC where an exclusionary order is sought under Section 337, barring the importation of certain products found to infringe one or more claims of a valid patent, the ITC must find, among other things, that the complainant has a “domestic industry” in the U.S. for the products to-be-barred. 19 U.S.C. § 1337(a)(2). A finding of domestic industry requires the satisfaction of technical and economic “prongs.” The technical prong requires that the complainant establish that an industry practices at least one claim of a patent(s)-at-issue, whereas the economic prong requires the complainant to establish that an industry exists or is being established.

With respect to the economic prong, section 337(a)(3)(C) states that “an industry in the United States shall be considered to exist if there is in the United States . . . substantial investment in . . . exploitation [of the patent], including engineering, research and development, or licensing.” In its opinion in *Certain Coaxial Cable Connectors*, the ITC declined to determine that patent infringement litigation activities taken alone constitute “exploitation” under the section 337(a)(3)(C) because, as the ITC reasoned, such a determination would render the domestic industry requirement a nullity. The ITC further determined that allowing patent infringement litigation activities, standing alone, to constitute a domestic industry would place the bar for establishing a domestic industry so low as to effectively render it meaningless. The ITC did conclude, however, that licensing is an activity that is *clearly* within the realm of “exploitation” as contemplated by section 337(a)(3)(C), but the issue it must determine is whether *litigation activities* that are related to licensing may be considered exploitation.

The ITC first reasoned that the word “licensing” in section 337(a)(3)(C) suggests the “exploitation” of a patent in a manner similar to “engineering” and “research and development.” Furthermore, the ITC reasoned that “Congress contemplated that the domestic industry requirement would cover entities such as ‘universities and other intellectual property owners who engage in extensive licensing of their [patent] rights to *manufacturers*,’” and that the licensing provision was added to the domestic industry

requirement in 1988 in order to overcome a Commission decision (*see*, Certain Products with Gremlin Character Descriptions, Inv. No. 337-TA-201, Comm’n. Op. (1986)) where a licensor was unable to show a then-existing injury requirement, notwithstanding that the licensees were able to do so.

The ITC concluded that in order to establish that a substantial investment in exploitation of the patent has occurred through licensing, a complainant must prove that each asserted activity is related to licensing, and that licensing activities pertain to the particular patent(s)-at-issue. Such activities may include, among other things, drafting and sending cease-and-desist letters, filing and conducting a patent infringement litigation, conducting settlement negotiations, and negotiating, drafting, and executing a license. The mere execution of a license does not necessarily capture all prior expenditures to establish a substantial investment in the exploitation of the patent(s)-at-issue, but a complainant must *clearly link* each activity to licensing efforts concerning the asserted patents.

Finally, when determining whether litigation activities related to licensing satisfy the economic prong, the ITC held that it may take into account certain factors, such as (1) the type of activity; (2) the relationship between the activity, licensing, and the patent-at-issue; (3) the amount of the investment; and (4) whether the activity is of a type that Congress explicitly indicated may establish a domestic industry (for example, activities that encourage practical applications of the invention or bring the patent technology to the market).

For more information on the issues discussed in this Update, please contact any of the following Morgan Lewis attorneys:

#### **Houston**

C. Erik Hawes	713.890.5165	<a href="mailto:ehawes@morganlewis.com">ehawes@morganlewis.com</a>
David J. Levy	713.890.5170	<a href="mailto:dlevy@morganlewis.com">dlevy@morganlewis.com</a>

#### **Washington, D.C.**

Robert W. Busby	202.739.5970	<a href="mailto:rbusby@morganlewis.com">rbusby@morganlewis.com</a>
Robert J. Gaybrick	202.739.5501	<a href="mailto:rgaybrick@morganlewis.com">rgaybrick@morganlewis.com</a>
William Jackson Matney, Jr.	202.739.5759	<a href="mailto:jmatney@morganlewis.com">jmatney@morganlewis.com</a>
Collin W. Park	202.739.5516	<a href="mailto:cpark@morganlewis.com">cpark@morganlewis.com</a>

#### **About Morgan Lewis’s Intellectual Property Practice**

Morgan Lewis’s Intellectual Property Practice consists of more than 150 intellectual property professionals. We represent and advise clients concerning all aspects of intellectual property: patents, trademarks, and copyrights; intellectual property litigation; intellectual property licensing; intellectual property enforcement programs; trade secret protection; related matters involving franchises, the Internet, advertising, and unfair competition; outsourcing and managed services; and the full range of intellectual property issues that arise in business transactions.

#### **About Morgan, Lewis & Bockius LLP**

With 23 offices in the United States, Europe, and Asia, Morgan Lewis provides comprehensive transactional, litigation, labor and employment, regulatory, and intellectual property legal services to clients of all sizes—from global Fortune 100 companies to just-conceived startups—across all major industries. Our international team of attorneys, patent agents, employee benefits advisors, regulatory scientists, and other specialists—nearly 3,000 professionals total—serves clients from locations in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San

Francisco, Tokyo, Washington, D.C., and Wilmington. For more information about Morgan Lewis or its practices, please visit us online at [www.morganlewis.com](http://www.morganlewis.com).

This Newsletter is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius LLP. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does this message create an attorney-client relationship. These materials may be considered **Attorney Advertising** in some states. Please note that the prior results discussed in the material do not guarantee similar outcomes.

**© 2010 Morgan, Lewis & Bockius LLP. All Rights Reserved.**

