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Clarifying, Confusing, or Changing the Legal Landscape: A Sampling of Recent Cases from the Federal Circuit

Donald W. Rupert and Daniel H. Shulman*

Introduction

Over the last few years, the Federal Circuit has decided a number of cases that have received national attention. Specifically, the court received attention for: its treatment of obviousness in *Teleflex, Inc. v. KSR International Co.*,¹ a case which was reversed by the Supreme Court;² the clarification of willful infringement principles in *In re Seagate Technology, L.L.C.*;³ the approval of procedures used by the United States Patent and Trademark Office (“USPTO”) to propose new patent prosecution rules in *Tafas v. Doll*;⁴ and its consideration of patentable subject matter in *In re Bilski*.⁵

While each of these cases provides important contributions to the evolving intellectual property law landscape, the court routinely decides other, equally important cases that do not make headlines in the popular press. It is these latter types of cases this Article will address. In the following pages, this Article explores several recent Federal Circuit decisions that may have far-reaching implications on patent law but which have not received widespread publicity. Some of these decisions clarify existing law, some confuse the law, and others change the settled law and practice. These cases address issues of: venue and

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¹ 119 F. App'x 282 (Fed. Cir. 2005), *rev'd*, 550 U.S. 398 (2007).

² *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427–28 (2007).

³ 497 F.3d 1360 (Fed. Cir. 2007) (en banc), *cert. denied*, 128 S. Ct. 1445 (2008).

⁴ 559 F.3d 1345, 1349, 1362–64 (Fed. Cir. 2009), *reh'g en banc granted*, 328 F. App'x 658 (Fed. Cir. 2009). On November 13, 2009 the Federal Circuit entered an order granting a joint motion to dismiss the appeal and denying a joint motion to vacate the district court's grant of summary judgment and injunction of enforcement of the rules that the U.S. Patent and Trademark Office had rescinded. *Tafas v. Kappos*, 586 F.3d 1369 (Fed. Cir. 2009).

⁵ 545 F.3d 943 (Fed. Cir. 2008) (en banc), *cert. granted sub nom. Bilski v. Doll*, 129 S. Ct. 2735 (2009).

declaratory judgment jurisdiction, licenses, and opinion practice, and will be discussed in Parts I, II, and III of this Article, respectively.⁶

There is no doubt that the Federal Circuit is a busy court. Over the three year period from October 1, 2006, through September 30, 2009, the Federal Circuit issued 1,073 merit decisions in patent cases appealed from the district courts.⁷ These decisions accounted for roughly 25% of all merits adjudications in the Federal Circuit.⁸

This volume of cases places an added burden on the court due, in part, to the court's conceptual underpinning and, in part, to its internal operating procedures. During the debates over the formation of the court, one position routinely presented was that the court would provide consistency to intellectual property law that was perceived to be lacking as a result of the varying views of the regional circuit courts, primarily as to patent matters.⁹ This goal of consistency plays out in the court's internal operating procedures that include a mechanism by which each precedential opinion is circulated to the judges of the court for review and comment prior to issuance.¹⁰ With these internal procedures, the court's view is that once a precedential decision is issued, it is binding on future panels and can only be overturned by the court sitting en

⁶ See *infra* Parts I.A.2, I.B, II, III. We trust readers will appreciate that survey articles of this type cannot detail the full history of each legal principle addressed. However, we will endeavor to provide sufficient background on each case to set the stage for the Federal Circuit's treatment of the issues.

⁷ See United States Court of Appeals for the Federal Circuit, Merit and Non-Merit Dispositions for Appeals in Patent Infringement Cases FY 2009, <http://www.cafc.uscourts.gov/pdf/PatentDispositionsChartFY09.pdf>; United States Court of Appeals for the Federal Circuit, Appeals Filed and Adjudicated, by Category, FY 2008, <http://www.cafc.uscourts.gov/pdf/TableAppealsFiledTerminated08.pdf>; United States Court of Appeals for the Federal Circuit, Appeals Filed and Adjudicated, by Category, FY 2007, <http://www.cafc.uscourts.gov/pdf/TableAppealsFiledTerminated07.pdf>; United States Court of Appeals for the Federal Circuit, Appeals Filed and Terminated, by Category, FY 2006, <http://www.cafc.uscourts.gov/pdf/TableAppealsFiledTerminated06.pdf>.

⁸ See sources cited *supra* note 7.

⁹ See Richard H. Seamon, *The Provenance of the Federal Courts Improvement Act of 1982*, 71 GEO. WASH. L. REV. 543, 544-45 (2003). The counter-argument also presented was that one appellate court having sole jurisdiction in patent matters could cause the law to stagnate because there would be no opportunity for issues to be revisited by another court, as occurs when different regional circuit courts address the same issue and occasionally reach different results. This circuit split, and the possibility of Supreme Court treatment of the issue, allows for debate and evolution of the law, in a way that is not possible in the Federal Circuit. See *id.* at 573-74.

¹⁰ U.S. COURT OF APPEALS FOR THE FED. CIRCUIT, INTERNAL OPERATING PROCEDURES 23-24 (2008), <http://www.cafc.uscourts.gov/pdf/IOPs122006.pdf>.

banc or by the Supreme Court.¹¹ While these internal procedures are necessary to ensure that prior decisions are not flatly contradicted by subsequent panel decisions, there remains the possibility that the procedures do not adequately consider the short and long term ramifications of some decisions or the language used in them. Some of the cases discussed herein, particularly those in Parts II and III, appear to fall into this category.

I. Venue and Jurisdiction: The Court Opens the Door to Venue Transfers Through Mandamus Proceedings and Muddies the Waters in Declaratory Judgment Jurisdictional Disputes

A. The Federal Circuit's Use of Mandamus to Order a Transfer of Venue

There should be no dispute that patent litigation is a business today. In general, filings have increased steadily for the last twenty-five years, or more,¹² and a number of courts have emerged as courts-of-choice. Indeed, it seems that patent litigators, particularly those who routinely represent plaintiffs, are drawn to specific courts perceived to be more patent friendly, faster, likely to award larger damages, or a combination of these and other characteristics. For example, for years patent attorneys filed cases in the Eastern District of Virginia, which became known as the “rocket docket” for deciding cases in what was, at the time, lightning speed.¹³ Attorneys also began to prefer the Eastern District of Texas, perceiving it to be a patent-friendly court with jury pools that render large awards.¹⁴ The Western District of Wisconsin soon followed, probably due to the speed with which it handled its cases.¹⁵ Other courts also received attention because they had patent savvy judges or had adopted local rules covering the handling of patent cases and the embedded *Markman* claim construction and inequitable conduct processes.¹⁶

Patent plaintiffs have had the ability to select a favorable forum, such as those listed above, and to contend that venue is proper in the selected court under the traditional venue tests. This has given rise to concern in corporate boardrooms. Indeed, many executives cringe when notified that their com-

¹¹ See *South Corp. v. United States*, 690 F.2d 1368, 1370 n.2 (Fed. Cir. 1982) (en banc).

¹² See Joseph P. Cook, *On Understanding the Increase in U.S. Patent Litigation*, 9 AM. L. & ECON. REV. 48, 48–49 (2007).

¹³ See Michael H. Baniak et al., *IP Litigation in the 21st Century*, 6 NW. J. TECH. & INTELL. PROP. 293, 298 (2008).

¹⁴ See *id.*

¹⁵ See *id.*

¹⁶ See *id.* at 295–98.

pany has been sued for patent infringement in Marshall, Texas, Madison, Wisconsin, or elsewhere.

Recently, however, the Federal Circuit granted mandamus petitions in several cases where district courts refused to transfer cases to another venue.¹⁷ This extraordinary remedy can be used by defendants to get a case out of an unfavorable forum and provide patent infringement defendants with advantages not previously thought possible. In the ideal world, the Federal Circuit's willingness to take this step would cause infringement plaintiffs to select a forum that is more convenient to the defendant so as to avoid inevitable district court motion practice and Federal Circuit mandamus briefing. However, in the practical world, these decisions will probably only affect those cases having a limited number of defendants. One can anticipate that to avoid a transfer or a successful mandamus petition, many future cases will involve multiple defendants from diverse areas and local plaintiffs.

1. Venue Principles Generally

In federal courts, venue is generally determined from the application of 28 U.S.C. § 1391.¹⁸ For cases that do not rest exclusively on diversity jurisdiction, venue is governed by § 1391(b), which provides for suit in:

(1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant may be found, if there is no district in which the action might otherwise be brought.¹⁹

If the defendant is a corporation, the corporation is deemed to reside, for purposes of § 1391(c), "in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced."²⁰ Finally, 28 U.S.C. § 1400(b) addresses proper venue in patent cases (i.e., "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").²¹ These sections are important because in 1990 the Federal Circuit concluded that § 1391(c) also applies to patent cases.²² Thus, venue considerations for patent matters, as applied to corporations, are co-extensive with personal jurisdiction requirements.²³

¹⁷ See, e.g., *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

¹⁸ See 28 U.S.C. § 1391 (2006).

¹⁹ § 1391(b).

²⁰ § 1391(c).

²¹ 28 U.S.C. § 1400(b) (2006).

²² *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1584 (Fed. Cir. 1990).

²³ See *Koh v. Microtek Int'l, Inc.*, 250 F. Supp. 2d 627, 631 (E.D. Va. 2003) ("[T]he tests for venue and personal jurisdiction are interchangeable for corporations.").

In order to ensure that the chosen venue is proper in any given case, 28 U.S.C. §§ 1404(a) and 1406(a) provide mechanisms for a party to challenge the venue.²⁴ Under § 1404(a), a court has discretion to transfer a case, brought in a proper venue, to any other district where it might have initially been brought if the convenience of the parties and witnesses and the interests of justice would be benefited by the transfer.²⁵ Section 1406(a) applies when a case is brought in a venue that is alleged to be improper.²⁶ Under that section, the court shall dismiss the case or transfer it if a transfer is in the interest of justice.²⁷ When deciding transfer motions under §§ 1404(a) or 1406(a), courts consider a variety of factors, such as:

- The relative ease of access to sources of proof, including the convenience of the witnesses and parties.
- The availability of process to compel attendance of witnesses.
- The cost of obtaining attendance of witnesses.
- The possibility of delay and prejudice if the case is transferred.
- The administrative difficulties relating to court congestion.
- The local interest in having localized interests decided where they are most felt.
- The familiarity of the forum with the law that will govern the case.
- The avoidance of problems with conflicts of laws or the application of foreign law.²⁸

2. Venue and Mandamus: The Federal Circuit's Approach in TS Tech

The Federal Circuit considered the application of these venue factors in *In re TS Tech USA Corp.*,²⁹ where the court concluded that a transfer of the case out of the Eastern District of Texas was warranted.³⁰ In *TS Tech*, the court confirmed that mandamus is available in extraordinary situations to correct a clear abuse of discretion by the district court.³¹ The court also reaffirmed that the party seeking mandamus has a heavy burden and is entitled to the writ only when its issuance is “clear and indisputable.”³² Finally, the court recognized that a petition seeking mandamus for venue purposes does not

²⁴ See 28 U.S.C. §§ 1404(a) (2006), 1406(a) (2006).

²⁵ See § 1404(a).

²⁶ See § 1406(a).

²⁷ § 1406(a).

²⁸ See *In re Volkswagen of Am., Inc. (Volkswagen I)*, 545 F.3d 304, 315 (5th Cir. 2008) (en banc), cert. denied, 129 S. Ct. 1336 (2009).

²⁹ 551 F.3d 1315 (Fed. Cir. 2008).

³⁰ *Id.* at 1321.

³¹ *Id.* at 1318.

³² *Id.* at 1318–19.

involve substantive patent law issues and is to be considered under the law of the regional circuit.³³ Because the underlying case, *Lear Corp. v. TS Tech USA Corp.*,³⁴ was filed in the Eastern District of Texas, the Federal Circuit looked to Fifth Circuit law.³⁵

The court's decision in *TS Tech* was foreshadowed by the Fifth Circuit's en banc opinion in *In re Volkswagen of America, Inc. (Volkswagen I)*,³⁶ decided two months earlier on October 10, 2008.³⁷ Indeed, the *TS Tech* case appears to be one of the few opportunities that the Federal Circuit has had to consider the use of mandamus in a venue transfer situation. As the Fifth Circuit noted in its *Volkswagen I* decision, all circuits that had considered the issue had concluded that mandamus is one way to test a district court's discretion in issuing or denying transfer orders.³⁸ The Fifth Circuit provided citations to the decisions of the other circuits, with the Federal Circuit being the only circuit not mentioned.³⁹

Because the Fifth Circuit's *Volkswagen I* decision played heavily in the venue treatment in *TS Tech*, it is instructive to consider the Fifth Circuit's rationale in some detail. In *Volkswagen I*, the Fifth Circuit concluded that the proper standard to be applied is that mandamus will be granted upon a determination that there has been a clear abuse of discretion.⁴⁰ Importantly, the Fifth Circuit noted that this standard is not simply an abuse of discretion; rather, mandamus relief requires a "clear" abuse, which means that relief only lies where the district court's exercise of its discretion produces "a patently erroneous result."⁴¹

After settling on the review standard, the Fifth Circuit noted the difference between the standards to be applied for a venue transfer and those for a forum non conveniens dismissal.⁴² The former requires the movant to show "good cause" for the transfer—that is, the movant must satisfy the § 1404(a) statutory requirements such that "[w]hen the movant demonstrates that the transferee venue is clearly more convenient, . . . it has shown good cause and the district court should therefore grant the transfer."⁴³ The latter requires the movant to

³³ *Id.* at 1319.

³⁴ No. 2:07-CV-406, 2008 U.S. Dist. LEXIS 105072 (E.D. Tex. Sept. 10, 2008), *mandamus granted sub nom. In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

³⁵ *TS Tech*, 551 F.3d at 1319.

³⁶ 545 F.3d 304 (5th Cir. 2008) (en banc), *cert. denied*, 129 S. Ct. 1336 (2009).

³⁷ *Id.* at 304.

³⁸ *Id.* at 309.

³⁹ *See id.* at 309 n.3.

⁴⁰ *Id.* at 310.

⁴¹ *Id.*

⁴² *Id.* at 313–15.

⁴³ *Id.* at 315.

meet a heavier burden because the outright dismissal of an action under forum non conveniens principles may result in the plaintiff being unable to bring the case in another venue through the running of the statute of limitations.⁴⁴ In practical terms this means that for a change of venue under § 1404(a), the movant is not required to show that the § 1404(a) factors substantially outweigh the plaintiff's choice of venue, and that plaintiff's choice of venue is not a separate factor to be considered in a venue change analysis.⁴⁵ This latter point is important because the common perception is that a plaintiff's choice of venue is a separate factor and should be accorded great weight. According to the Fifth Circuit, Supreme Court precedent informs that the plaintiff's choice simply places on the movant the burden to show good cause for the requested transfer.⁴⁶

When deciding *TS Tech*, the Federal Circuit evaluated the traditional venue factors as they applied to the case and ultimately concluded that a transfer was warranted.⁴⁷ In reaching this conclusion, the court noted that a number of the factors, such as the availability of service of process in the proposed transferee court; the relative delay or prejudice to the parties if the case is transferred; the docket and congestion of the respective courts; and both courts' familiarity of patent law, were neutral and neither favored or disfavored transfer.⁴⁸

As to the other factors, the Federal Circuit concluded that the district court had given inordinate weight to plaintiff's choice of venue and that plaintiff's choice should not have been treated as a separate § 1404(a) factor.⁴⁹ The court also stressed that all of the identified key witnesses lived in Ohio and surrounding areas and none were located in or near Marshall, Texas.⁵⁰ In this regard, the court applied the Fifth Circuit's "100 mile" rule to conclude that the witness cost factor "considerably" weighed in favor of transfer.⁵¹ The "100 mile" rule provides an easy metric for courts to use. It states as follows: "When the distance between an existing venue for trial of a matter and a proposed venue under § 1404(a) is more than 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to be traveled."⁵²

⁴⁴ *Id.* at 313–14 & n.8.

⁴⁵ *Id.* at 314 n.10.

⁴⁶ *Id.*

⁴⁷ See *In re TS Tech USA Corp.*, 551 F.3d 1315, 1319–21 (Fed. Cir. 2008).

⁴⁸ *Id.* at 1319–20.

⁴⁹ *Id.* at 1320.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *In re Volkswagen AG*, 371 F.3d 201, 204–05 (5th Cir. 2004).

Finally, the Federal Circuit addressed the localized interest factor.⁵³ Here, the Eastern District of Texas was home only to certain vehicles containing the alleged infringing product.⁵⁴ The parties had no offices in that district, no identified witnesses lived there, and no evidence (other than some of the alleged infringing units) was located there.⁵⁵ In light of these facts, the court easily concluded that the Eastern District of Texas did not have a substantial interest in hearing the case,⁵⁶ particularly because the units in question were also found throughout the United States.⁵⁷

At bottom, *TS Tech* presents patent infringement defendants with a detailed roadmap of the showing needed to meet the requirements of § 1404(a). Moreover, the case signals to district courts and litigants that the Federal Circuit will not hesitate to grant a mandamus petition when the transfer analysis produces a patently erroneous result. The case thus could go a long way to end the practice of filing infringement actions in venues that are favored for reasons other than § 1404(a). Or so practitioners thought after the court released the *TS Tech* decision.

3. Venue and Mandamus: Federal Circuit Cases Following TS Tech

Within several months of deciding *TS Tech*, the Federal Circuit considered other mandamus petitions seeking transfer of venue out of the Eastern District of Texas. In three cases, the court granted the mandamus petitions and ordered transfer; the court denied petitions in two cases.⁵⁸ These five cases will be discussed in the following pages.

The first case considered by the Federal Circuit was *In re Telular Corp.*⁵⁹ In that case, the Eastern District of Texas had refused defendant Telular's request to transfer venue to the Northern District of Illinois, holding that the following factors weighed against transfer: (i) the plaintiffs' choice of forum in the Eastern District; (ii) the convenience of the parties; and (iii) the local

⁵³ *TS Tech*, 551 F.3d at 1321.

⁵⁴ *See id.*

⁵⁵ *Id.*

⁵⁶ *See id.*

⁵⁷ *Id.* (“[V]ehicles containing TS Tech’s allegedly infringing headrest assemblies were sold throughout the United States . . .”).

⁵⁸ *See In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009) (granting petition); *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009) (granting petition); *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009) (granting petition); *In re Telular Corp.*, 319 F. App’x 909 (Fed. Cir. 2009) (unpublished table decision) (denying petition); *In re Volkswagen of Am., Inc. (Volkswagen II)*, 566 F.3d 1349 (Fed. Cir. 2009) (denying petition).

⁵⁹ 319 F. App’x 909 (Fed. Cir. 2009).

interest.⁶⁰ The district court noted that the plaintiffs' choice of forum is an important factor and will not be disturbed "unless clearly outweighed by other factors."⁶¹ The district court also commented that the plaintiff, as trustee of an estate, was a resident of Dallas but none of the defendants were located in Texas.⁶² The court viewed this as weighing slightly against transfer.⁶³ Finally, the district court noted Telular's accused products were sold in the Eastern District and thus the citizens of that district "have a substantial interest in whether acts of patent infringement have occurred" there.⁶⁴ Regarding the factors that the district court thought to be neutral, one stands out. The court concluded that although Telular's "key" fact witnesses were located mainly in Illinois, there were several in Georgia, and Telular did not adequately explain how witnesses located in Georgia would be more inconvenienced by attending a trial in Marshall, Texas than they would be by attending a trial in Chicago.⁶⁵ Additionally, the court noted that Telular had not specifically identified key non-party witnesses or outlined the substance of their testimony.⁶⁶

At the Federal Circuit, Telular sought a writ of mandamus asking that the district court be ordered to transfer the case to Illinois.⁶⁷ Writing for a unanimous panel consisting of Judges Mayer, Schall and Moore, Judge Moore primarily relied on an equitable point.⁶⁸ She noted that the mandamus petition was filed five months after the district court's ruling, thus giving rise to an "extraordinary burden" in the case.⁶⁹ However, even if Telular had acted with greater speed, Judge Moore indicated that the court nonetheless would have denied the petition.⁷⁰ In evaluating the petition, Judge Moore at

⁶⁰ Gellman v. ADT Sec. Servs., Inc., No. 2:07-CV-0282, 2008 U.S. Dist. LEXIS 70398, at *9–10, 13 (E.D. Tex. Sept. 10, 2008), *mandamus denied sub nom. Telular*, 319 F. App'x 909.

⁶¹ *Id.* at *9.

⁶² *Id.*

⁶³ *Id.* at *9–10. In the case, there were a number of defendants, having offices in Florida, Canada, Georgia, New York, and Illinois. However, only the Illinois defendant sought transfer. The district court made no mention of any judicial efficiency that may result by keeping the case in one district. *See generally id.*

⁶⁴ *Id.* at *13 ("The sale of allegedly infringing products in the Eastern District of Texas is an event that is significant and relevant to this action.").

⁶⁵ *Id.* at *10.

⁶⁶ *Id.* at *11.

⁶⁷ *In re Telular Corp.*, 319 F. App'x 909, 910 (Fed. Cir. 2009).

⁶⁸ *See id.* at 911.

⁶⁹ *Id.*

⁷⁰ *Id.* ("Even if Telular had acted diligently, mandamus relief in § 1404(a) cases is only permitted when the petitioner is able to demonstrate that the denial of transfer was a 'clear' abuse of discretion such that refusing transfer produced a 'patently erroneous result.'").

times cited *TS Tech*⁷¹ but then appears to have ignored the case. Specifically, in *TS Tech*, the court noted that the plaintiff's choice of forum is not a factor to be considered, stating: "Fifth Circuit precedent clearly forbids treating the plaintiff's choice of venue as a distinct factor in the § 1404(a) analysis."⁷² Although the *Telular* district court considered plaintiffs' choice of forum to be a "factor [that] weighs against transfer," Judge Moore did not attempt to correct this error.⁷³ In this respect, the Federal Circuit's decision in *Telular* is inconsistent with *TS Tech*.

The *Telular* panel attempted to explain its decision by noting that the facts in *TS Tech* and the underlying Fifth Circuit decision in *Volkswagen I* "overwhelmingly supported transfer" but those of *Telular* did not.⁷⁴ Just how the court reached that result, is unclear. The facts in *Volkswagen I*, *TS Tech*, and *Telular*, set out below show there are few differences among the cases, particularly when one recalls that in *Volkswagen I*, the case was transferred from the Eastern District of Texas to the Northern District of Texas⁷⁵ (about 150 miles).

***Volkswagen I* Facts**

- Plaintiff resided in Dallas⁷⁶ (N.D. Texas, not in the E.D. Texas).
- Defendants were foreign corporations residing in New Jersey and Germany and did not reside in or have offices in the E.D. Texas.⁷⁷
- None of the parties' documents and other sources of proofs were located in the E.D. Texas; all of the documents and proofs were located in Dallas.⁷⁸
- Cost of attendance for willing witnesses was less if the case was heard in Dallas.⁷⁹
- The accident occurred in Dallas; the E.D. Texas had no relevant factual connection to the case.⁸⁰
- Texas law governs.⁸¹

⁷¹ See generally *id.* (citing *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008)).

⁷² *TS Tech*, 551 F.3d at 1320.

⁷³ *Gellman v. ADT Sec. Servs., Inc.*, No. 2:07-CV-0282, 2008 U.S. Dist. LEXIS 70398, at *9 (E.D. Tex. Sept. 10, 2008), *mandamus denied sub nom. Telular*, 319 F. App'x 909.

⁷⁴ *Telular*, 319 F. App'x at 912.

⁷⁵ *In re Volkswagen of Am., Inc. (Volkswagen I)*, 545 F.3d 304, 307 (5th Cir. 2008) (en banc), *cert. denied*, 129 S. Ct. 1336 (2009).

⁷⁶ *Id.* at 317.

⁷⁷ *Volkswagen I*, 545 F.3d at 304, 307.

⁷⁸ *Volkswagen I*, 545 F.3d at 307–08.

⁷⁹ *Volkswagen I*, 545 F.3d at 315–17.

⁸⁰ *Volkswagen I*, 545 F.3d at 307–08.

⁸¹ See *Volkswagen I*, 545 F.3d at 307.

TS Tech Facts

- Plaintiff resided in Dallas (N.D. Texas, not in the E.D. Texas).⁸²
- Plaintiff resided in Michigan.⁸³
- The vast majority of the sources of proofs were located in Ohio, Michigan, Canada; none were located in Texas.⁸⁴
- Both parties have to travel to the E.D. Texas for trial from the same general geographic area (i.e., Michigan, Ohio).⁸⁵
- The accused products were sold in the E.D. Texas and elsewhere. According to the court: “[T]he citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue.”⁸⁶
- Federal patent law governs.⁸⁷

Telular Facts

- Defendants were foreign corporations residing in Ohio and Canada and did not reside in or have offices in the E.D. Texas.⁸⁸
- Defendant was a foreign corporation residing in Illinois and did not reside in or have an office in the E.D. Texas.⁸⁹
- The majority of Telular’s documents were located in Illinois; Telular’s key party witnesses were in Illinois and Georgia; plaintiff’s sources of proofs were located in Dallas.⁹⁰
- Both parties have to travel to the E.D. Texas for trial; defendants will incur more cost for witness attendance.⁹¹
- The accused products were sold in the E.D. Texas and elsewhere. According to the court: “The Eastern District of Texas may have no more of an interest in this case than any other district in which Telular’s systems are ultimately installed.”⁹²
- Federal patent law governs.⁹³

⁸² Telular, 319 F. App’x at 910.

⁸³ Lear Corp. v. TS Tech USA Corp., No. 2:07-CV-406, 2008 U.S. Dist. LEXIS 105072, at *4 (E.D. Tex. Sept. 10, 2008), *mandamus granted sub nom.* In re TS Tech USA Corp., 551 F.3d 1315 (Fed. Cir. 2008).

⁸⁴ TS Tech, 551 F.3d at 1318.

⁸⁵ See TS Tech, 551 F.3d at 1318, 1320–21.

⁸⁶ TS Tech, 551 F.3d at 1321.

⁸⁷ See TS Tech, 551 F.3d at 1318.

⁸⁸ TS Tech, 551 F.3d at 1318.

⁸⁹ See Telular, 319 F. App’x at 910, 912.

⁹⁰ Telular, 319 F. App’x at 910, 912.

⁹¹ See Telular, 319 F. App’x at 912.

⁹² Telular, 319 F. App’x at 912.

⁹³ See Telular, 319 F. App’x at 910.

This table highlights that in the Federal Circuit's first attempt at applying *TS Tech*, there was no clear-cut reason for denying the mandamus petition, other than perhaps the equitable issues noted above. Furthermore, if equitable concerns were the basis for the denial, the court could have better presented that reasoning. As it stood after the *Telular* decision, litigants and district courts still had no good rule to apply when addressing a possible change of venue.

Shortly after *Telular*, the Federal Circuit took up another mandamus petition in the case of *In re Genentech, Inc.*⁹⁴ There the court again reviewed the § 1404(a) factors, concluding, however, that transfer was warranted.⁹⁵ In that case, the plaintiff, Sanofi-Aventis Deutschland GmbH ("Sanofi"), a company headquartered in Germany, sued the petitioner-defendants in the Eastern District of Texas.⁹⁶ On the same day that Sanofi filed the case in Texas, the defendants filed a declaratory judgment ("DJ") action against Sanofi in the Northern District of California.⁹⁷ The defendants then moved the Texas court to transfer the action to California where it could have been brought.⁹⁸

It was undisputed that the Eastern District of Texas had no connection to any of the witnesses or evidence relevant to the case.⁹⁹ California was home to the defendants' headquarters and all of the defendants' witnesses and documents.¹⁰⁰ Sanofi's witnesses were located in Germany, although its patent prosecution counsel was located on the East Coast, and one possible prior art witness resided in Iowa.¹⁰¹ On these facts, the district court concluded that transfer to California was not warranted.¹⁰² The district court emphasized that although defendants had identified a number of witnesses residing in the Northern District of California, they did not identify these individuals as "key witnesses."¹⁰³ The court further noted that the Eastern District of Texas is a relatively geographically central location for the European witnesses and those located in the States.¹⁰⁴ The court also noted that in the past Genentech had filed an action as a plaintiff in the Eastern District of Texas and if that district was then convenient to Genentech as a plaintiff it was now equally convenient to Genentech as a defendant.¹⁰⁵ Finally, the district court stressed

⁹⁴ 566 F.3d 1338 (Fed. Cir. 2009).

⁹⁵ *Id.* at 1348.

⁹⁶ *Id.* at 1340.

⁹⁷ *Id.* at 1341.

⁹⁸ *Id.*

⁹⁹ *Id.* at 1340–41.

¹⁰⁰ *Id.*

¹⁰¹ *Id.* at 1341.

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

that there was a possibility that the Northern District of California lacked personal jurisdiction over Sanofi in relation to Genentech's DJ action and this weighed heavily against transfer.¹⁰⁶

The Federal Circuit addressed each of these points.¹⁰⁷ As to the "key witnesses" issue, the court concluded that the district court's focus was wrong.¹⁰⁸ At the motion to transfer stage of litigation, a court should simply assess the relevance and materiality of the information the identified witnesses may provide; there is no requirement that a defendant show that any one witness has more relevant or particular testimony than any other witness.¹⁰⁹

The court also concluded that the "centralized location" rationale of the district court was not supported.¹¹⁰ Witnesses from Germany will have to travel to the United States, irrespective of where the courthouse is located and, according to the Federal Circuit, they would be only slightly more inconvenienced by having to travel to San Francisco than Marshall, Texas.¹¹¹ The court further concluded that the relative costs for the witnesses to travel supported the transfer.¹¹² The foreign witnesses will have to travel in any event, while the ten or so defense witnesses could remain at home if the trial is held in California.¹¹³

The Federal Circuit took little time in dismissing the argument that it was appropriate to maintain venue in the present case just because Genentech had once filed suit in the Eastern District of Texas.¹¹⁴ The court noted that there was no evidence that the previous suit involved the same parties, witnesses, evidence, and facts.¹¹⁵ Thus, it was clear error to conclude that Genentech's prior suit weighed against transfer.¹¹⁶

Finally, the Federal Circuit dismissed the notion that jurisdictional issues surrounding Genentech's DJ complaint in California presented any

¹⁰⁶ *Id.*

¹⁰⁷ *See generally id.* at 1343–47.

¹⁰⁸ *Id.* at 1343–44.

¹⁰⁹ *Id.*

¹¹⁰ *Id.* at 1344.

¹¹¹ *Id.* Sanofi is headquartered in Frankfurt. Air mileage from Frankfurt to Dallas is 5,140 miles, followed by a 150 mile drive to Marshall. Air mileage from Frankfurt to Houston is 5,246 miles, followed by a 225 mile drive to Marshall. Air mileage from Frankfurt to San Francisco is 5,692 miles. Factoring in the drive time makes the trip to Marshall just about the same elapsed time as flying to San Francisco.

¹¹² *Id.* at 1345.

¹¹³ *Id.*

¹¹⁴ *Id.* at 1346.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

problem to transfer.¹¹⁷ According to the court, “[t]here is no requirement under § 1404(a) that a transferee court have jurisdiction over the plaintiff or that there be sufficient minimum contacts with the plaintiff; there is only a requirement that the transferee court have jurisdiction over the defendants in the transferred complaint.”¹¹⁸

After reviewing the other § 1404(a) factors, the Federal Circuit concluded that each of them supported transferring the case to California.¹¹⁹ At its core, the *Genentech* case highlights that the location of witnesses, and the inconvenience to them if they have to travel long distances, remains an important factor in any venue challenge. *Genetech* also confirms that a case filed in a forum having no substantive contacts with the parties or the dispute will be a likely candidate for transfer.

The same day that it decided the *Genentech* petition, the court denied a mandamus petition in the case of *In re Volkswagen of America, Inc. (Volkswagen II)*¹²⁰ Although that case seemed to have the makings of another mandamus-instituted transfer, the nature of it differed from the others. In the case, plaintiff MHL, Tek, L.L.C., was a small Texas company operating out of an office located in Michigan.¹²¹ It filed two actions in the Eastern District of Texas against a total of thirty foreign and U.S. automobile companies.¹²² Two of the defendants, Volkswagen AG, headquartered in Germany, and Volkswagen of America, Inc., headquartered in Virginia, had previously filed a declaratory judgment action in the Eastern District of Michigan against MHL.¹²³ That DJ action had been transferred to the Eastern District of Texas to avoid wasting judicial resources and the risk of inconsistent rulings on the same patents.¹²⁴ The Federal Circuit had also denied a mandamus petition seeking to vacate the Michigan court’s transfer order.¹²⁵

In MHL’s first action, it sued twenty-one companies who were located in such diverse areas as Germany, Japan, South Korea, Alabama, California, Indiana, Michigan, New Jersey, Tennessee, and Virginia.¹²⁶ In that action, Volkswagen AG and Volkswagen of America, Inc. moved to transfer the case to the Eastern District of Michigan, but the Texas court refused to do so on the grounds that having one court decide all of the related patent issues would

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.* at 1347–48.

¹²⁰ 566 F.3d 1349 (Fed. Cir. 2009).

¹²¹ *Id.* at 1350.

¹²² *Id.*

¹²³ *Id.* at 1350–51.

¹²⁴ *Id.* at 1351.

¹²⁵ *In re Volkswagen of Am., Inc. (Volkswagen III)*, 296 F. App’x 11, 14 (Fed. Cir. 2008).

¹²⁶ *Volkswagen II*, 566 F.3d at 1350.

promote judicial economy.¹²⁷ Volkswagen then filed a mandamus petition with the Federal Circuit, seeking an order directing the Texas court to transfer the action to Michigan.¹²⁸

The Federal Circuit's treatment of the issue focused entirely on the multiple lawsuits pending in the Eastern District of Texas involving the same patents and significant overlap of issues. The court concluded that the existence of such multiple suits "is a paramount consideration when determining whether a transfer is in the interest of justice."¹²⁹ The Federal Circuit agreed with the district court that maintaining the cases in the same district would promote judicial economy.¹³⁰ As discussed below, this judicial economy consideration may prove to be the deciding factor in future venue transfer motions for those cases having multiple defendants.

In late 2009, the Federal Circuit again considered rulings by the Eastern District of Texas that had denied motions to transfer in *In re Hoffmann-La Roche Inc.*¹³¹ and *In re Nintendo Co.*¹³²

In *Hoffmann-La Roche*, Novartis Vaccines and Diagnostics, Inc., brought a patent infringement action against Hoffmann-La Roche and Trimeris, Inc., in the Eastern District of Texas for their manufacture and sale of Fuzeon®, an HIV inhibitor drug.¹³³ After the parties exchanged initial disclosures, the defendants moved to transfer the case to the Eastern District of North Carolina.¹³⁴ They argued that: (i) there were no witnesses or sources of proof within 100 miles of the Texas court; (ii) the bulk of the key documents was located in the Eastern District of North Carolina; (iii) Fuzeon® was developed in North Carolina and research on it had been conducted at the Duke University Medical Center in North Carolina; (iv) the North Carolina court would be far more convenient for Trimeris' employee witnesses; and (v) four non-employee witnesses who reside within 100 miles of the North Carolina court stated they would be unlikely to attend trial in the Eastern District of Texas.¹³⁵

Novartis opposed the motion, contending that the Eastern District of Texas was an appropriate venue because the proofs in the case were spread throughout the country.¹³⁶ Novartis noted that the parties had identified eighteen non-party witnesses residing in six different states (four in North Carolina, five

¹²⁷ *Id.* at 1351.

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ 587 F.3d 1333 (Fed. Cir. 2009).

¹³² 589 F.3d 1194 (Fed. Cir. 2009).

¹³³ *Hoffmann-La Roche*, 587 F.3d at 1335.

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *Id.*

in California, three in Maryland, one in Missouri, two in Alabama) and in Europe (two witnesses);¹³⁷ only one witness was located in Texas.¹³⁸ In addition, the seven potential party witnesses identified by the parties were located in North Carolina, New Jersey and Colorado.¹³⁹ Finally, Novartis contended that about 75,000 pages of documents relating to the patent were stored in Novartis's counsel's office in the Eastern District of Texas.¹⁴⁰

The district court denied the transfer motion, holding that the case was "decentralized" given the locations of the witnesses.¹⁴¹ Any convenience to one group of witnesses would inconvenience others.¹⁴² The court also determined that the four non-party witnesses who resided near the North Carolina court did not constitute a substantial number of witnesses and thus the location of those witnesses did not weigh in favor of transfer.¹⁴³ Finally, the court noted that Novartis had transferred 75,000 pages of documents in electronic format to its counsel in the Texas district.¹⁴⁴

The Federal Circuit was not impressed with the district court's reasoning. The court cited its earlier mandamus decisions in *TS Tech*, *Volkswagen II* and *Genentech*, noting that, as in those cases, the district court's conclusions in *Hoffmann-La Roche* presented "a stark contrast in relevance, convenience and fairness between the two venues."¹⁴⁵ The court then compared the locations of witnesses and the North Carolina court's interest in the work and reputation of individuals residing in that district whose actions were called into question by Novartis's complaint, and concluded that the venue factors favored the North Carolina court.¹⁴⁶

As to the 75,000 pages of documents, the Federal Circuit viewed the assertion that the documents were "Texas" documents as a fiction created to manipulate venue.¹⁴⁷ In other words, shipping documents into a jurisdiction in anticipation of litigation and then contending that the sources of proof are in that jurisdiction will not be favorably received.

Finally, the Federal Circuit addressed the local interest factor that the district court had disregarded. According to the Federal Circuit, although the nationwide sale of an accused product does not give rise to a substantial

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.* at 1335–36.

¹⁴⁴ *Id.* at 1336.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 1337.

interest in any single venue,¹⁴⁸ “if there are significant connections between a particular venue and the events giving rise to [the] suit, this factor should [weigh] in that venue’s favor.”¹⁴⁹

Through *Hoffmann-La Roche*, the Federal Circuit continued to refine its venue analyses. The court reaffirmed that the venue factors must be appropriately weighed when present and concluded that the venue for a decentralized case should satisfy the traditional venue factors.¹⁵⁰

Several weeks after its decision in *Hoffmann-La Roche*, the Federal Circuit reviewed the mandamus petition filed in *Nintendo*. The petition sought an order requiring the Eastern District of Texas to transfer the case from that court to the Western District of Washington.¹⁵¹ In *Nintendo*, the district court determined that Nintendo’s extensive contacts with the Western District of Washington made the venue “indisputably” proper.¹⁵² Likewise, the district court concluded that the local interest of the Western District of Washington was high and that the Eastern District of Texas had “little relevant local interest in the dispute.”¹⁵³

Nonetheless, the district court denied the transfer motion.¹⁵⁴ According to the Federal Circuit, the district court misapplied a number of the venue factors. First, although none of the identified witnesses resided in Texas and instead lived in Washington, Japan, Ohio and New York, the district court concluded that the cost of attendance for willing witnesses only “slightly favors transfer.”¹⁵⁵ The Federal Circuit deemed this to be in error and a failure to apply correctly the Fifth Circuit’s 100 mile test.¹⁵⁶

Likewise, the Federal Circuit concluded that the district court did not properly analyze the access to sources of proof factor.¹⁵⁷ The district court believed that factor was neutral on the assumption that Nintendo’s documents were spread over numerous jurisdictions, including Japan, Washington, California and New York.¹⁵⁸ The district court approached the issue by thinking that the Eastern District of Texas could serve as a centralized location for the

¹⁴⁸ *Id.* at 1338 (citing *In re TS Tech USA Corp.*, 551 F.3d 1315, 1321 (Fed. Cir. 2008)).

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

¹⁵¹ *In re Nintendo Co.*, 589 F.3d 1194, 1196 (Fed. Cir. 2009).

¹⁵² *Id.* at 1198.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 1197.

¹⁵⁵ *Id.* at 1199.

¹⁵⁶ *Id.*; see also *In re Volkswagen of Am., Inc. (Volkswagen I)*, 545 F.3d 304, 317 (5th Cir. 2008) (en banc), *cert. denied*, 129 S. Ct. 1336 (2009).

¹⁵⁷ *Nintendo*, 589 F.3d at 1199.

¹⁵⁸ *Id.*

case.¹⁵⁹ But the Federal Circuit reiterated its statements in *Genentech* that it is improper to consider the centralized location of a court when no identified witness resides in that district.¹⁶⁰

4. Transfer Motion Practice in the Eastern District of Texas Post-TS Tech

This section summarizes those factors that the Eastern District of Texas now considers important in deciding transfer motions and specifically details two post-*TS Tech* opinions that the Federal Circuit has not reviewed. As noted, the *TS Tech* court determined that the case should be transferred out of the Eastern District of Texas.¹⁶¹ Because that district had become a venue of choice for patent plaintiffs, it is not surprising that shortly after the *TS Tech* decision was released, numerous venue transfer motions were filed there. Indeed, through June 2009, the district and magistrate judges of the Eastern District of Texas issued nineteen memorandum opinions deciding motions to transfer in patent cases.¹⁶² Of these, seven opinions granted the requested transfer and twelve denied it.¹⁶³ These district court opinions provide guidance as to what

¹⁵⁹ *Id.*

¹⁶⁰ *Id.* (citing *In re Genentech, Inc.*, 566 F.3d 1338, 1344 (Fed. Cir. 2009)).

¹⁶¹ *In re TS Tech USA Corp.*, 551 F.3d 1315, 1323 (Fed. Cir. 2008).

¹⁶² See case cited *infra* note 163.

¹⁶³ The following seven opinions granted the motion to transfer:

ATEN Int'l Co. v. Emine Tech. Co., 261 F.R.D. 112, 126 (E.D. Tex. 2009); Sanofi-Aventis Deutschland GmbH v. Novo Nordisk, Inc., 614 F. Supp. 2d 772, 782 (E.D. Tex. 2009); J Jackson v. Intel Corp., No. 2:08-CV-154, 2009 U.S. Dist. LEXIS 22117, at *14 (E.D. Tex. Mar. 19, 2009); Fifth Generation Computer Corp. v. IBM, Corp., No. 9:08-CV-205, 2009 U.S. Dist. LEXIS 12502, at *19 (E.D. Tex. Feb. 13, 2009); Invitrogen Corp. v. Gen. Elec. Co., No. 6:08-CV-112, 2009 U.S. Dist. LEXIS 9127, at *19 (E.D. Tex. Feb. 9, 2009); PartsRiver, Inc. v. Shopzilla, Inc., No. 2:07-CV-440, 2009 U.S. Dist. LEXIS 12482, at *8 (E.D. Tex. Jan. 30, 2009); Odom v. Microsoft Corp., 596 F. Supp. 2d 995, 1004 (E.D. Tex. 2009).

The following twelve opinions denied the motion to transfer:

Motiva L.L.C. v. Nintendo Co., No. 6:08-CV-429, 2009 U.S. Dist. LEXIS 55406, at *18 (E.D. Tex. June 30, 2009), *mandamus granted sub nom. In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009); ICHL, L.L.C. v. NEC Corp. of Am., No. 5:08-CV-65, 2009 U.S. Dist. LEXIS 51782, at *5–6 (E.D. Tex. June 19, 2009); Chirife Chirife v. St. Jude Med., Inc., No. 6:08-CV-480, 2009 U.S. Dist. LEXIS 50482, at *12 (E.D. Tex. June 16, 2009); Worldpak Int'l, L.L.C. v. Diablo Valley Packaging, Inc., No. 4:08-CV-469, 2009 U.S. Dist. LEXIS 50602, at *2 (E.D. Tex. June 16, 2009); Aloft Media, L.L.C. v. Yahoo!, Inc., No. 6:08-CV-509, 2009 U.S. Dist. LEXIS 48716, at *25 (E.D. Tex. June 10, 2009); Acceleron, L.L.C. v. Egenera, Inc., 634 F. Supp. 2d 758, 770 (E.D. Tex. 2009); Konami Digital Entm't Co. v. Harmonix Music Sys., Inc., No. 6:08-CV-286, 2009 U.S. Dist. LEXIS 24748, at *30 (E.D. Tex. Mar. 23, 2009); Sanofi-Aventis Deutschland GmbH v. Genentech, Inc., 607 F. Supp. 2d 769,

factors the Eastern District of Texas will deem particularly important. First, these opinions suggest that when a clear majority of the identified witnesses would be inconvenienced by a transfer, it is likely that this factor would favor a transfer.¹⁶⁴ Second, the location of documentary evidence is important and the volume of documents that needs to be shipped into the respective venues is considered.¹⁶⁵ Third, the availability of subpoena power by courts in the respective venues over witnesses is typically evaluated by a numerical comparison of the number of witnesses in each venue.¹⁶⁶ This factor, however, is influenced by any evidence showing that one or more witnesses remain unwilling to testify absent a subpoena and other evidence showing the availability of videotaped depositions for use at trial.¹⁶⁷ Fourth, court congestion is relatively neutral if the difference in the time to trial in the respective courts is less than one year; if the time to trial in the proposed transferee venue is greater than a year when compared to the Eastern District of Texas, this factor weighs against transfer.¹⁶⁸ Finally, the issue of judicial economy may be dispositive, and cases having multiple defendants are likely to remain in the chosen venue.¹⁶⁹ While all of these points apply particularly to the Eastern District of Texas, one can anticipate that other courts will apply the same line of reasoning when confronting transfer motions in the post-*TS Tech* era.

Examples of the application of these points appear in two Eastern District of Texas cases. In the first case, *Odom v. Microsoft Corp.*,¹⁷⁰ Magistrate Judge Love applied the *TS Tech* analysis when granting a motion to transfer a case from the Eastern District of Texas to the District of Oregon.¹⁷¹ In that case,

781 (E.D. Tex.), *mandamus granted sub nom. In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *MHL Tek, L.L.C. v. Nissan Motor Co.*, No. 2:07-CV-289, 2009 U.S. Dist. LEXIS 13676, at *34 (E.D. Tex. Feb. 23, 2009), *mandamus granted sub nom. In re Volkswagen of Am., Inc. (Volkswagen II)*, 566 F.3d 1349 (Fed. Cir. 2009); *J2 Global Commc'ns, Inc. v. Protus IP Solutions, Inc.*, No. 6:08-CV-211, 2009 U.S. Dist. LEXIS 13210, at *21 (E.D. Tex. Feb. 19, 2009); *Invitrogen Corp. v. Gen. Elec. Co.*, No. 6:08-CV-113, 2009 U.S. Dist. LEXIS 9113, at *14–15 (E.D. Tex. Feb. 9, 2009); *Novartis Vaccines & Diagnostics, Inc. v. Hoffman-La Roche Inc.*, 597 F. Supp. 2d 706, 716 (E.D. Tex.), *mandamus granted sub nom. In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009).

¹⁶⁴ See, e.g., *Odom*, 596 F. Supp. 2d at 1004.

¹⁶⁵ See, e.g., *id.* at 1000.

¹⁶⁶ See, e.g., *id.* at 1001.

¹⁶⁷ See, e.g., *Sanofi-Aventis*, 607 F. Supp. 2d at 777.

¹⁶⁸ See, e.g., *id.* at 780–81.

¹⁶⁹ See, e.g., *MHL Tek, L.L.C. v. Nissan Motor Co.*, No. 2:07-CV-289, 2009 U.S. Dist. LEXIS 13676, at *31–34 (E.D. Tex. Feb. 23, 2009), *mandamus granted sub nom. In re Volkswagen of Am., Inc. (Volkswagen II)*, 566 F.3d 1349 (Fed. Cir. 2009).

¹⁷⁰ 596 F. Supp. 2d. 995 (E.D. Tex. 2009).

¹⁷¹ *Id.* at 1004.

the plaintiff, Odom, resided in Oregon and operated an Oregon consulting company.¹⁷² He sued Microsoft in the Eastern District in 2008.¹⁷³ Prior to that suit, Odom was an employee of, and later a technical consultant to, an Oregon based law firm where he provided services to the firm in support of cases it was handling on behalf of Microsoft.¹⁷⁴ Thereafter, he was also a direct consultant to Microsoft.¹⁷⁵ During the period where he was working on behalf of Microsoft, he filed and prosecuted patent applications that ultimately led to the patent in suit.¹⁷⁶ The suit asserted that Microsoft infringed this patent by the manufacture and distribution of Office 2007 software.¹⁷⁷

Microsoft has its principal office in Washington and is incorporated there.¹⁷⁸ Microsoft alleged that the Office 2007 software was developed in Washington and all of the documents, witnesses, and source code relating to that product are likely located in Washington.¹⁷⁹ Additionally, Microsoft asserted that Odom and the Washington law firm were parties to an agreement, the effect of which required Odom to provide notice to the law firm before Odom filed any infringement lawsuit.¹⁸⁰ The agreement also contained a clause designating Oregon as the forum for any litigation arising out of the agreement.¹⁸¹ Microsoft thus contended that the agreement was relevant to its defenses of unclean hands and equitable estoppel and, consequently, the case should be transferred to Oregon.¹⁸²

In applying the *TS Tech* decision to these facts, Magistrate Judge Love first addressed the ease of access to sources of proof.¹⁸³ According to Microsoft, its documentary proofs were located in Washington and thus a forum closer to Washington should be favored.¹⁸⁴ Microsoft noted that in *TS Tech* the Federal Circuit concluded that the trial court erred in not weighing the physical location of the proofs as a factor favoring transfer.¹⁸⁵ Judge Love was not swayed; rather, he noted that because “electronic information can be accessed conveniently in any number of locations” it does not support the

¹⁷² *Id.* at 998.

¹⁷³ Complaint at 1, 4, *Odom*, 596 F. Supp. 2d 995 (No. 6:08-CV-331).

¹⁷⁴ *Odom*, 596 F. Supp. 2d at 998.

¹⁷⁵ *Id.*

¹⁷⁶ *Id.* at 998 & n.1.

¹⁷⁷ *Id.* at 997.

¹⁷⁸ *Id.* at 998.

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ See generally *id.* at 999–1002.

¹⁸⁴ *Id.* at 998.

¹⁸⁵ *Id.* at 1000.

notion that the venue where that information is stored on servers is more convenient than another venue.¹⁸⁶

The court also concluded that, per *TS Tech*, Microsoft was not required to provide a particularized identification of potential witnesses and the subject matter of their testimony.¹⁸⁷ The list Microsoft provided included the identity of witnesses residing in the Oregon and Washington area and the general nature of their involvement with Odom;¹⁸⁸ because these witnesses would address the unclean hands and equitable estoppel defenses, the court determined that Microsoft had disclosed sufficient information to be considered in weighing the cost of attendance for willing witnesses.¹⁸⁹ In addition, the court looked to the travel distance from Oregon to Tyler, Texas for Microsoft's witnesses.¹⁹⁰ On this point, the court noted that Odom would have to travel the same distance because he too resided in Oregon.¹⁹¹ Finally, the court concluded that the one potential witness identified by Odom who resided in Texas did not counter-balance the number of Microsoft witnesses who would have to make the 1,700 mile trek if the case were not transferred.¹⁹²

The court spent little time in reaching its conclusion regarding the public interest factors. First, the court found that the median time to trial in the proposed transferee court was twenty-seven months.¹⁹³ Although this time to trial was not limited to patent cases, the court deemed the factor to be neutral.¹⁹⁴ Second, Odom contended that because the Office 2007 product was sold in the Eastern District, that District has a strong local interest in the case.¹⁹⁵ The court, however, relied on *TS Tech*'s conclusion that where a product is sold throughout the country, one venue would have no more or no less interest in the case than another venue.¹⁹⁶ Weighing all of the factors, Magistrate Judge granted Microsoft's motion to transfer the case from the Eastern District of Texas to the District of Oregon.¹⁹⁷

¹⁸⁶ *Id.*

¹⁸⁷ *Id.* at 1001.

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* at 1002.

¹⁹¹ *Id.* at 1002 & n. 4.

¹⁹² *Id.* at 1002.

¹⁹³ *Id.* at 1003.

¹⁹⁴ *Id.* While the court did not state the median time to trial in the Eastern District, it did note that the time referred to in *TS Tech* was 17.7 months. *Id.*

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* at 1004.

In the second case, *Acceleron, L.L.C. v. Egenera, Inc.*,¹⁹⁸ Judge Davis considered a venue transfer motion that sought transfer from the Eastern District of Texas to the District of Delaware.¹⁹⁹ There, the court denied the motion primarily for four reasons: (1) unlike in *TS Tech*, in *Acceleron*, the plaintiff had an office in Tyler, Texas, the sole employee of the company lived there, and one of the defendants was incorporated in Delaware and had its principal office in Texas;²⁰⁰ (2) while six of the other defendants were incorporated in Delaware, their principal offices were closer to Texas than to Delaware;²⁰¹ (3) one of the defendants was incorporated in Washington and there was no evidence that it had sufficient contacts with Delaware to be subject to personal jurisdiction there;²⁰² and (4) the median time to trial in the Eastern District was eighteen months as compared to approximately thirty-eight months in Delaware and this weighed strongly against transfer.²⁰³ While the court did not explicitly state which of these factors was paramount, the opinion implies that the possible lack of jurisdiction over all defendants in the proposed transferee forum and the difference in median time to trial were more important factors in the overall analysis.

5. Conclusion

The Federal Circuit's application of mandamus principles to venue motions in the previously discussed cases highlights that the traditional § 1404(a) factors may provide increased opportunity to have cases transferred out of "unfavorable" jurisdictions. This, in turn, may ultimately result in plaintiffs taking a more cautious approach to their choice of forum when filing cases. Moreover, the recognized availability of mandamus may cause district courts to consider more carefully the factual underpinnings of any transfer motion to avoid a Federal Circuit mandamus order. Finally, note that all of these cases were decided under Fifth Circuit law, and it remains to be seen whether the Federal Circuit would deviate substantially from the same analytical framework when deciding matters under the law of other regional circuits. For example, the Fifth Circuit's pro-transfer position that the plaintiff's choice of venue is not separately weighted is contrary to the position of other regional circuits.²⁰⁴

¹⁹⁸ 634 F. Supp. 2d 758 (E.D. Tex. 2009).

¹⁹⁹ *Id.* at 763.

²⁰⁰ *Id.* at 763, 766.

²⁰¹ *Id.*

²⁰² *Id.* at 765.

²⁰³ *Id.* at 767.

²⁰⁴ See, e.g., *Terra Int'l, Inc. v. Miss. Chem. Corp.*, 119 F.3d 688, 695–96 (8th Cir. 1997) (plaintiff's chosen forum given "considerable deference"); *Scheidt v. Klein*, 956 F.2d 963, 965 (10th Cir. 1992) (plaintiff's chosen forum given "considerable weight").

Initially, some attorneys thought that these Federal Circuit decisions could spell the death-knell to the venue selection and preference approaches many plaintiffs have taken over the last five-plus years and perhaps end patent litigation as a “cottage industry” in the Eastern District of Texas and elsewhere.²⁰⁵ However, that view may have been overly optimistic. Indeed, the cases suggest that if a plaintiff files an action against multiple defendants in a particular venue, it is highly likely that the action would remain in that venue. In order to conserve judicial resources, these types of cases may not be candidates for transfer if a number of the defendants remain behind or if the proposed transferee court would not have personal jurisdiction over all defendants. However, in such an action, where numerous defendants are alleged to infringe the same patent, there may be issues as to whether that type of suit meets the joinder requirements of Federal Rule of Civil Procedure 20(a)(2). That Rule provides that defendants may be joined in the same suit if the asserted right to relief arises out of the same transaction, occurrence, or series of transactions or occurrences, and questions of law or fact common to all defendants will arise in the action.²⁰⁶ Certainly, in multiple defendant patent cases, there may be some common questions, such as claim construction and invalidity arguments based on the prior art being relied on by all defendants. On the other hand, the patent owner’s asserted right does not necessarily arise out of the same transactions or occurrences for all defendants because defendants’ products are often different and their proofs of noninfringement may vary. Thus, if Rule 20 is strictly enforced by the district courts, there is a possibility that even a multiple defendant case could be split apart for venue transfer purposes.²⁰⁷ It is also possible that a number of separate cases involving the same patent but naming different defendants, instead of one case naming all of the defendants, could be filed in the selected venue and this might defeat a venue transfer. This may actually support a Rule 20 argument because the

²⁰⁵ See Gene W. Lee et al., *Impact of In re TS Tech USA Corp. Decision*, INTELL. PROP. TODAY, Feb. 2009, <http://www.iptoday.com/articles/2009-2-lee.asp> (“In the wake of *TS Tech* and *Volkswagen*, potential litigants may be inclined to adjust their forum selection analysis . . .”).

²⁰⁶ FED. R. CIV. P. 20(a)(2).

²⁰⁷ On June 4, 2009, Judge Folsom of the Eastern District of Texas denied a motion by two defendants seeking to sever the action against them and transfer it to a more convenient forum where it could have been brought, thus leaving ten other defendants remaining in the case before the Texas court. *Sipco L.L.C. v. Amazon.com, Inc.*, No. 2:08-CV-359 (E.D. Tex. June 3, 2009). The court noted that if the motion were granted, there would be multiple suits involving the same issues pending in different courts and this would be wasteful of the resources of the court system. *Id.* at 2. There was no discussion of the application or effect of Rule 20. See generally *id.*

act of filing separate cases may give the impression that different transactions and occurrences exist under Rule 20.

There are several ways to skirt the venue transfer holdings of these cases. For example, a plaintiff who is a non-practicing entity in the patent licensing/litigation business could simply establish a local corporation (or more probably a limited liability company) in the chosen venue solely to hold the patent in suit and to act as the plaintiff. This approach would give more credence to the argument that localized interests would be served by keeping the case in the venue. Similarly, one action having multiple defendants from diverse locations would weigh in favor of denying a transfer so as to conserve judicial resources, particularly if the entire case, and all defendants, could not be transferred.

Nonetheless, these decisions do show that venue challenges can succeed, particularly in those instances where the parties consist of one plaintiff and one defendant (or several defendants who are corporate affiliates). These types of cases essentially boil down to an out-of-district plaintiff and an out-of-district defendant, with the selected venue having no substantial relation to the case; under this scenario, there is an increased likelihood that the case would be transferred. Indeed, even an in-district plaintiff may not be able to keep the case in the selected venue if the defendant shows there is a more convenient forum under the traditional transfer analysis. However, as one progresses along a continuum from an out-of-district plaintiff and out-of-district defendant case toward an in-district plaintiff and multiple out-of-district defendants case, the prospect of a transfer lessens significantly.

B. The Federal Circuit's Varying Approach to Jurisdiction

The second variety of Federal Circuit cases addressed in this Article involve those assessing jurisdiction over declaratory judgment complaints. Recent cases show that while the court is striving to refine jurisdictional guidelines, there is still no clear-cut approach. Indeed, in cases having seemingly the same set of facts, the Federal Circuit reached different jurisdictional answers. The court has struggled with this issue, as evidenced by pointed dissents from Judge Newman.

In 2007, the Supreme Court concluded that public policy favors declaratory judgment challenges to patents.²⁰⁸ In that case, the Court was asked to decide whether a patent licensee who was still paying royalties under the license could nonetheless seek a declaration that it did not owe the royalties because it did “not infringe any valid claim” of the patent.²⁰⁹ The Court thus had to determine if the declaratory judgment “case or controversy” standard applied where a licensee continued to enjoy the benefits of its license, albeit under

²⁰⁸ See generally *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

²⁰⁹ *Id.* at 123.

protest.²¹⁰ In addressing this issue, the Court reminded the parties that the phrase “case of actual controversy” found in the Declaratory Judgment Act merely refers to the types of cases and controversies that are justiciable under Article III of the Constitution.²¹¹ As to what the case or controversy requirement subsumes, the Court stated:

Our decisions have required that the dispute be “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.”²¹²

The Supreme Court ultimately concluded that a licensee need not repudiate the license, thereby risking an infringement suit, in order to seek declaratory relief.²¹³ Once adverse interests exist that are real and substantial, Article III jurisdiction is available to address them.²¹⁴

Given the Supreme Court’s view that policy favors deciding cases posing real and substantial adverse legal interests, a trio of cases from the Federal Circuit seems to have put the real and substantial business interests of U.S. companies at a distinct disadvantage vis-a-vis foreign companies holding U.S. patents. These decisions cannot easily, if at all, be squared with prior Federal Circuit cases addressing personal and declaratory judgment jurisdiction.

The first case, *Avocent Huntsville Corp. v. Aten International Co.*,²¹⁵ was decided by a split panel: Judges Linn and Schall were in the majority and Judge Newman dissented.²¹⁶ The case involved a Taiwanese company, Aten International Co., Ltd. (“Aten”) that owned two U.S. patents.²¹⁷ Aten conducted business in the United States through its U.S. subsidiary located in California and through distributors.²¹⁸ Declaratory judgment plaintiffs, Avocent Huntsville (“Huntsville”) and Avocent Redmond (“Redmond”) (collectively “Avocent”), were U.S. companies who developed and marketed computer hardware devices.²¹⁹ Both Aten and Avocent competed in the manufacture and sale of switches used in keyboards, computer mice, etc.²²⁰ Over a three-year period, Aten advised Avocent of Aten’s published patent

²¹⁰ *Id.* at 126–28.

²¹¹ *Id.* at 126–27; *see also* 28 U.S.C. § 2201(a) (2006).

²¹² *MedImmune*, 549 U.S. at 127 (alteration in original).

²¹³ *Id.* at 137.

²¹⁴ *Id.* at 127.

²¹⁵ 552 F.3d 1324 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 2796 (2009).

²¹⁶ *Id.* at 1324.

²¹⁷ *Id.* at 1326–27.

²¹⁸ *Id.* at 1327.

²¹⁹ *Id.* at 1326–27.

²²⁰ *Id.* at 1327.

application and later of its issued patents that were directed to these types of devices and asserted that the patents were infringed.²²¹ Avocent then filed a declaratory judgment action in the Northern District of Alabama.²²² In the district court, Aten moved to dismiss for lack of personal jurisdiction.²²³ In responding to that motion, Avocent alleged that Aten had the following contacts with Alabama specifically and the United States generally:

- Aten sent a letter to Avocent in Alabama advising of the published application;
- Aten products were available for purchase in Alabama including at Best Buy and CompUSA;
- Aten sold products into Alabama and elsewhere through a web site operated by Aten;
- Aten products were available through a government contractor located in Alabama;
- Aten sent a letter to Amazon in Washington asserting infringement by Amazon as a result of its sales of Avocent products;
- Aten sent a letter to counsel for Redmond in Virginia asserting infringement of Aten's patents. This letter was sent during the time that Aten and Redmond were in litigation over patents owned by Redmond;
- Aten products were available for purchase throughout the United States through nationwide and Internet retailers.²²⁴

With this background, the majority discussed the requirements for personal jurisdiction, noting that jurisdiction over an out-of-state defendant involves the separate inquiries of: (i) whether the forum state's long arm statute permits service of process, and (ii) whether the exercise of personal jurisdiction comports with Due Process considerations.²²⁵ Because Alabama's long arm statute stretches to the permissible limits of Due Process, the court concluded that the jurisdictional analysis starts and ends with a Due Process assessment.²²⁶ Following this, the majority then reviewed the cases from the Supreme Court that have set the benchmark for a Due Process personal jurisdiction analysis.²²⁷ The court concluded that these cases—*International Shoe Co. v. Washington*,²²⁸

²²¹ *Id.*

²²² *Id.* at 1328.

²²³ *Id.*

²²⁴ *Id.* at 1327–28.

²²⁵ *Id.* at 1329.

²²⁶ *Id.*

²²⁷ *Id.*

²²⁸ 326 U.S. 310 (1945).

Hanson v. Denckla,²²⁹ *Burger King Corp. v. Rudzewicz*,²³⁰ *Calder v. Jones*,²³¹ *Helicopteros Nacionales de Colombia, S.A. v. Hall*,²³² and *World-Wide Volkswagen Corp. v. Woodson*²³³—make it plain that the defendant’s contacts with the forum state are critical and that these contacts must be assessed individually, cautioning that even if a defendant foresees the possibility of causing some injury in that state, such foreseeability is not a “sufficient benchmark” for personal jurisdiction to attach.²³⁴ Rather, the defendant must foresee that its conduct in and connection with the forum state is of such a nature as to cause the defendant to “reasonably anticipate being haled into court there.”²³⁵

Having laid out the traditional due process approach and the standard list of Supreme Court authority, the majority next discussed the distinction between “specific” jurisdiction and “general” jurisdiction.²³⁶ Specific jurisdiction is established if the defendant has purposefully directed its activities at residents of the forum state and the litigation results from alleged injuries that arise out of or relate to those activities.²³⁷ On the other hand, for general jurisdiction to apply, the defendant’s contacts with the forum must be continuous and systematic general business contacts.²³⁸

The majority then treated the issue of stream of commerce jurisdiction.²³⁹ Under that theory, when a party who places articles into the stream of commerce, without evidence that the party attempted to exclude the forum in question, it is not unreasonable to subject that party to suit wherever injury might occur.²⁴⁰ The majority opinion recognized, however, that the stream of commerce approach is open to question, particularly in light of the Supreme Court’s splintered treatment of the issue in *Asahi Metal Industry Co. v. Superior Court*.²⁴¹

Finally turning to the case before it, the majority set the stage by noting that the specific jurisdiction analysis applicable to a declaratory judgment

²²⁹ 357 U.S. 235 (1958).

²³⁰ 471 U.S. 462 (1985).

²³¹ 465 U.S. 783 (1984).

²³² 466 U.S. 408 (1984).

²³³ 444 U.S. 286 (1980).

²³⁴ *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1330 (Fed. Cir. 2008) (quoting *Burger King*, 471 U.S. at 474), *cert. denied*, 129 S. Ct. 2796 (2009).

²³⁵ *Id.* (quoting *Burger King*, 471 U.S. at 474).

²³⁶ *See id.*

²³⁷ *Id.* (quoting *Burger King*, 471 U.S. at 472–73).

²³⁸ *Id.* (quoting *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 415–16 (1984)).

²³⁹ *Id.*

²⁴⁰ *Id.* (quoting *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297–98 (1980)).

²⁴¹ 480 U.S. 102 (1987) (plurality opinion).

action is different from the jurisdictional analysis applied to a traditional infringement case.²⁴² In the ordinary patent infringement action, the patentee asserts that some activity of the defendant is the root infringement.²⁴³ Thus, it is relatively simple to catalogue the nature and extent of the defendant's sales, offers for sale, and other activities occurring in the forum state.²⁴⁴ However, in the declaratory judgment specific jurisdiction analysis, the only appropriate focus is on the patentee's actions in enforcing or attempting to enforce its patent in the forum state and the extent to which the DJ claim arises out of those activities; the patentee's own sales of products, including the patented products, is irrelevant.²⁴⁵ Although the "arising out of or relating to" prong of the test may be difficult to assess in any given case, the majority acknowledged that there are some activities in which a defendant-patentee might engage that could arise out of or relate to enforcement of the patent.²⁴⁶ For example, the majority mentioned that if a defendant-patentee issues an exclusive license to a licensee headquartered or doing business in the forum, that might be sufficient to establish jurisdiction.²⁴⁷ Other examples could include initiating judicial enforcement of the same patent against other infringers or engaging in some type of self-help or extra-judicial enforcement in the forum.²⁴⁸ On the other hand, the majority reaffirmed that letters threatening suit for patent infringement sent to an alleged infringer are not by themselves sufficient to create personal jurisdiction.²⁴⁹

Even though it commented on these "other activities" and suggested that they might weigh in the specific jurisdiction calculus, the majority noted that precedent on the point is not without controversy.²⁵⁰ For example, according to the majority, some courts hold that the "arising out of or related to" language in any jurisdictional analysis incorporates a restrictive view that requires a showing akin to "proximate cause" or a "but for" test in order to conclude

²⁴² *Avocent*, 552 F.3d at 1332.

²⁴³ *See id.* ("In the ordinary patent infringement suit, the claim asserted by the patentee plaintiff is that some act of making, using, offering to sell, selling, or importing products or services by the defendant constitutes an infringement of the presumptively valid patent named in suit.").

²⁴⁴ *See id.*

²⁴⁵ *Id.*

²⁴⁶ *Id.* at 1334.

²⁴⁷ *Id.*

²⁴⁸ *Id.*

²⁴⁹ *Id.* at 1333 (quoting *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1202 (Fed. Cir. 2003)).

²⁵⁰ *Id.* at 1336.

that the alleged injury arose out of or was related to the DJ allegations.²⁵¹ However, the majority did not take the opportunity to clarify its precedents, simply noting that the Federal Circuit's interpretation of the "arise out of or related to" language is "far more permissive than either the 'proximate cause' or the 'but for' analyses."²⁵² On this point, the Federal Circuit is at odds with the First and the Ninth Circuits.²⁵³

The majority then addressed the jurisdictional facts alleged by Avocent. The opinion noted that Avocent was not asserting a continuous and systematic activity by Aten that would support general jurisdiction.²⁵⁴ Thus, the analysis focused on specific jurisdictional principles, i.e., that Aten purposefully directed its activities at Alabama residents and that Avocent's DJ action arises out of or relates to those activities.

As to the purposefully directed factor, the Due Process minimum contacts analysis required the majority to look to the specific contacts. Avocent asserted that Aten and its affiliates and agents engaged in sales in Alabama.²⁵⁵ The majority reiterated that the DJ defendant's own sales are insufficient to establish specific jurisdiction in a declaratory judgment suit relating to patent matters.²⁵⁶ To be clear, the majority set forth a reasonably bright line rule to be followed when assessing declaratory judgment specific jurisdiction, stating: "[T]he only contacts between [the declaratory judgment defendant] and [the forum state] that are relevant are those that relate in some material way to the enforcement or defense of the patents at issue."²⁵⁷ On this basis, the majority ignored Aten's contacts with Alabama. None of these contacts had any relation to the enforcement or defense of the patents.²⁵⁸ Importantly, the majority also ignored the activities of Aten's subsidiary and distributors, with respect to not only Alabama contacts but also U.S. contacts in general.²⁵⁹

In a final attempt to establish jurisdiction, Avocent contended that the letters Aten sent to Redmond and its customer, Amazon, had an effect on the sales of the allegedly infringing products.²⁶⁰ The majority deemed this allegation

²⁵¹ See *id.* at 1337 (citing *Harlow v. Children's Hosp.*, 432 F.3d 50, 61 (1st Cir. 2005) ("proximate cause" test); *Ballard v. Savage*, 65 F.3d 1495, 1500 (9th Cir. 1995) ("but for" test)).

²⁵² *Id.*

²⁵³ Compare *id.* (the Federal Circuit's more permissive interpretation), with *Harlow*, 432 F.3d at 61 (the First Circuit's "proximate cause" analysis), and *Ballard*, 65 F.3d at 1500 (Ninth Circuit's "but for" analysis).

²⁵⁴ *Avocent*, 552 F.3d at 1338.

²⁵⁵ See *id.*

²⁵⁶ See *id.*

²⁵⁷ *Id.*

²⁵⁸ See *id.*

²⁵⁹ See *id.* at 1339.

²⁶⁰ See *id.* at 1340.

to relate to Avocent's claim of unfair competition, which asserted that Aten sent the letters "knowing that each patent is invalid, unenforceable and/or not infringed."²⁶¹ The majority assessed this pendent claim under its own law regarding due process because the question of infringement is a critical factor in determining liability under the non-patent unfair competition claim.²⁶² Thus, the non-patent claim was intimately linked to patent law. Because the Federal Circuit has previously held that a patent owner may send cease and desist letters to a suspected infringer without being subject to personal jurisdiction in the forum into which the letters are sent (assuming that there were no enforcement-type activities), the majority summarily dismissed this final argument, as well as Avocent's complaint.²⁶³

At first blush, the majority opinion makes some sense if one only considers the activities of Aten, the named defendant, and ignores the activities of its subsidiary and distributors. However, in dissent, Judge Newman explained that this restrictive view does not comport with prior precedent.²⁶⁴ As she has done in the past, Judge Newman eloquently stated why the majority opinion cannot be rationalized. In her words:

[Alabama] is not merely the forum to which Aten International sent its notice of infringement; it is also the forum in which Aten International conducts regular retail sales of its products, and in direct competition with Avocent's products; the forum in which the accused infringing activities occur and in which Aten International's threatened suit would be brought; and the forum whose state and common laws apply to the complaint's counts of disparagement of Avocent's products and tortious interference with commercial relations.

* * * *

My colleagues on this panel state that the law is that a patentee that moves its goods into a forum through a licensee is subject to the jurisdiction of the forum, but a patentee that moves its goods into a forum through a subsidiary and distributors is not subject to the jurisdiction of the forum. No basis for this delicate distinction can be found in precedent. . . .

With all respect to the panel majority, they err in their analysis, for they simply take in isolation each factor that can contribute to jurisdiction and find such factor inadequate, occasionally finding that some other factor plucked from a prior ruling is also not present, and weave a tapestry that excludes this complaint from every court in the United States. It is the totality of factors, in combination and interrelationship, that must be considered, with a firm fix on the overarching considerations of personal jurisdiction: Due Process and fairness, to the plaintiff as well as the defendant.²⁶⁵

²⁶¹ *Id.*

²⁶² *See id.*

²⁶³ *Id.* at 1340–41.

²⁶⁴ *Id.* at 1341 (Newman, J., dissenting).

²⁶⁵ *Id.* at 1341–42.

Judge Newman's primary point in dissent was that Due Process is more than a one-way street; its application in arriving at a jurisdictional decision must weigh all of the relevant factors, including the interests of all parties, the state's interest and the collective interests subsumed by the traditional notions of Due Process and fundamental fairness.²⁶⁶ Indeed, *International Shoe* recognized this as a basic inquiry on "the quality and nature of the activity in relation to the fair and orderly administration of the laws."²⁶⁷ According to Judge Newman, approaching the Due Process analysis with a view toward fairness would demand that the exercise of personal jurisdiction over Aten in the case "is not only reasonable, but necessary."²⁶⁸ To support this conclusion, Judge Newman pointed to a number of factors involving the Alabama forum. The following presents some of those factors and a summary of her commentary on them:

- Aten's infringement letter was sent to Avocent in Alabama.²⁶⁹ While the letter, by itself, may not support jurisdiction, there were additional contacts with Alabama that tip the balance in favor of jurisdiction.²⁷⁰
- Aten's contacts with Alabama included the sale of Aten's products through distributors and at retail in Alabama.²⁷¹ The fact that Aten's products were placed into the stream of commerce and ended up in Alabama and that it conducts business through a subsidiary and distributors also support jurisdiction.²⁷² Indeed, the Federal Circuit had previously held that a foreign corporation/U.S. patent owner who sold its products in a forum and whose U.S. distributor sent an infringement threat letter into that forum was subject to personal jurisdiction in that forum.²⁷³ As Judge Newman stated: "Precedent is that when the patentee's products reach the forum through the stream of commerce initiated by the patentee, this contact, together with letters directed to the accused infringer in the forum, are sufficient to support personal jurisdiction of the patentee in the forum."²⁷⁴ Judge Newman further believed that the majority's consideration of Aten's sales of its own products was a "direct affront" to the court's precedent.²⁷⁵ For example, in *Beverly Hills Fan Co. v. Royal*

²⁶⁶ *Id.* at 1342–43.

²⁶⁷ *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945).

²⁶⁸ *Avocent*, 552 F.3d at 1343 (Newman, J., dissenting).

²⁶⁹ *Id.*

²⁷⁰ *Id.*

²⁷¹ *Id.* at 1343–44.

²⁷² *Id.* at 1344.

²⁷³ *Id.* at 1344–45.

²⁷⁴ *Id.* at 1345.

²⁷⁵ *Id.*

Sovereign Corp.,²⁷⁶ the court held that a non-resident manufacturer may be subject to personal jurisdiction if the manufacturer places the allegedly infringing goods into the stream of commerce with a reasonable expectation that they would reach that forum.²⁷⁷ Apparently, Judge Newman believes that if a stream of commerce analysis is sufficient to support jurisdiction over a defendant/infringer in a direct infringement case, it should also be sufficient to support jurisdiction over a defendant/patentee in a declaratory judgment action.²⁷⁸

- Aten's contacts with Avocent's customers are the focus of the commercial tort counts under Alabama law.²⁷⁹ According to Judge Newman, Avocent's common law counts assert that Aten's communications with Avocent's customers alleged an injury to Avocent that was felt in Alabama.²⁸⁰ Those allegations, which arise under Alabama law, provide further support for the exercise of jurisdiction.²⁸¹
- There is no clear alternative forum for Avocent's complaint. Judge Newman was also concerned that if there was no jurisdiction in the Alabama forum, Avocent may not be able to have its entire complaint heard in any court.²⁸² The majority opinion stated that under 35 U.S.C. § 293, the District Court for the District of Columbia would have jurisdiction over Aten, as a foreign patentee.²⁸³ That section provides that the District of Columbia "shall have the same jurisdiction to take any action respecting the patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the court."²⁸⁴ Judge Newman was not persuaded because the statute does not address pendent claims, such as of the type asserted by Avocent.²⁸⁵ Indeed, Judge Newman stated that both she and the majority have found no case in which the District of Columbia court resolved the state tort claims in a patent case whose jurisdiction was premised on § 293.²⁸⁶ More to the point, she referred to several cases from the District Court for the District of Columbia in which pendent claims that did not arise under the patent laws were

²⁷⁶ 21 F.3d 1558 (Fed. Cir. 1994).

²⁷⁷ *Avocent*, 552 F.3d at 1345 (Newman, J., dissenting) (citing *Beverly Hills Fan*, 21 F.3d at 1572).

²⁷⁸ *See id.*

²⁷⁹ *Id.* at 1346.

²⁸⁰ *Id.*

²⁸¹ *Id.* at 1346–47.

²⁸² *Id.* at 1348.

²⁸³ *Id.*

²⁸⁴ 35 U.S.C. § 293 (2006).

²⁸⁵ *Avocent*, 552 F.3d at 1348 (Newman, J., dissenting).

²⁸⁶ *Id.*

dismissed.²⁸⁷ This circumstance certainly suggests that the District Court for the District of Columbia would not be shy about dismissing Aten's pendent claims that do not implicate the patent laws.

This last factor presents troubling issues. If the majority opinion is understood as Judge Newman states, then foreign companies owning U.S. patents could insulate themselves from jurisdiction in all courts in the United States by the simple expedient of setting up a U.S. subsidiary and allowing that subsidiary to conduct whatever business it wants. While the U.S. subsidiary might be amenable to personal jurisdiction in various locations, the foreign parent who owns the U.S. patent and who threatens others with infringement would not. Instead, the majority says that suit against the foreign company could go forward in the District Court for the District of Columbia. Yet the District Court for the District of Columbia might refuse to hear any state or other pendent claims that the plaintiff may have. Additionally, suit in the District of Columbia would require the declaratory judgment plaintiff to travel there and litigate in a forum that may not have any, let alone substantial, interest in or contact with any of the parties or the causes of action. Thus, at the very least, the *Avocent* decision provides a good road map to foreign companies to allow them to escape declaratory judgment jurisdiction in all but, perhaps, one district court in the country.

Five months after the *Avocent* decision, the Federal Circuit took up another declaratory judgment case involving a foreign patent owner—*Autogenomics, Inc. v. Oxford Gene Technology Ltd.*²⁸⁸ Again, there was a split decision: Judges Moore and Gettleman (the latter sitting by designation from the Northern District of Illinois) were in the majority; Judge Newman again dissented.²⁸⁹ *Autogenomics* confirms that, in the Federal Circuit's application of the declaratory judgment jurisdictional factors, many of the traditional contact-with-the-forum factors are not that important if the defendant/patentee happens to be a foreign corporation.²⁹⁰ This decision again places U.S. companies at a disadvantage when they try to clear the air with a foreign company that charges patent infringement.

Oxford was an English company owning a U.S. patent relating to oligonucleotide microarrays.²⁹¹ It was undisputed that Oxford was not registered to do business in California and had no offices, assets, employees, or agents there.²⁹² *Autogenomics* was a California company doing business

²⁸⁷ See *id.* at 1349.

²⁸⁸ 566 F.3d 1012 (Fed. Cir. 2009).

²⁸⁹ *Id.* at 1014.

²⁹⁰ See generally *id.* 1014–24.

²⁹¹ *Id.* at 1014.

²⁹² *Id.*

in that state.²⁹³ Oxford asserted that Autogenomics infringed the patent and Autogenomics filed a declaratory judgment action in the Central District of California in 2007.²⁹⁴ Oxford moved to dismiss for lack of general and specific personal jurisdiction and that motion was granted.²⁹⁵

On appeal, the Federal Circuit assessed the correctness of the dismissal.²⁹⁶ In doing so, the majority first catalogued the factual predicates addressing the personal jurisdiction issue. These facts, which were either alleged by Autogenomics or not disputed, included:

- Oxford sent communications to Autogenomics in California regarding the patent, asserted infringement of the patent, and offered to commence license negotiations;
- Oxford had entered into about ten non-exclusive licenses with California-based companies relating to microarray technology, including at least one license for the patent in question;
- Oxford entered into a purchase agreement with a company having offices in California whereby Oxford purchased arrays for its use and its resale;
- Oxford attended four conferences/trade shows in California over a five year period;
- Oxford sold \$7,600 worth of microarrays to a California based company; these sales were about 1% of Oxford's total revenues for the year in question; and
- Oxford published a product description on a third party globally-accessible web site which Autogenomics characterized as an advertisement to California businesses.²⁹⁷

Although the majority recognized that it had to construe the alleged jurisdictional facts in the light most favorable to Autogenomics, the majority agreed with the district court that neither general nor specific jurisdiction existed.²⁹⁸ Regarding general jurisdiction, the majority deemed Oxford's contacts with California to represent the classic case of insubstantial contacts that are insufficient to establish general jurisdiction.²⁹⁹ The majority was not persuaded that attending a few conferences over a five year period, even if Oxford met potential customers at them, was continuous contact with the forum.³⁰⁰ In addition, the purchase agreement did not evidence any type of

²⁹³ *Id.*

²⁹⁴ *Id.* at 1016.

²⁹⁵ *Id.*

²⁹⁶ *See id.* at 1014–16.

²⁹⁷ *Id.*

²⁹⁸ *Id.* at 1024.

²⁹⁹ *Id.* at 1017.

³⁰⁰ *Id.* at 1018.

systematic and continuous contact with California, even if the purchases themselves were at “regular intervals.”³⁰¹

In addressing specific jurisdiction, the majority took the opportunity to reiterate the holding in *Avocent* that it is only the patentee’s enforcement activities related to the patent in question that count in the declaratory judgment jurisdiction equation.³⁰² As the majority stated:

Avocent explained that the contacts material to the specific jurisdiction analysis in a declaratory judgment action are not just any activities related to the patent-at-issue. Rather, the relevant activities are those that the defendant “purposefully directs . . . at the forum which relate in some material way to the enforcement or defense of the patent.”³⁰³

* * * *

Our holding in *Avocent* was that only enforcement or defense efforts related to the patent rather than the patentee’s own commercialization efforts are to be considered for establishing specific personal jurisdiction in a declaratory judgment action against the patentee.³⁰⁴

On the alleged jurisdictional facts, the majority limited its discussion to the purchase agreement and the licenses because the other facts related to Oxford’s own commercialization activities and therefore were irrelevant.³⁰⁵ As to the purchase agreement, there was no record evidence that it involved the patent at issue.³⁰⁶ The same held true for one of the licenses; while Autogenomics contended that one license was an exclusive license under the patent, there was no evidence to support that view.³⁰⁷ Indeed, the majority noted that an exclusive license under the patent was inconsistent with the non-exclusive licenses that had undisputedly been granted under that patent.³⁰⁸ The majority’s treatment of the licenses demonstrates that when the majority referred to the patentee’s actions in enforcing the patent in *Avocent*, it meant litigating or exclusively licensing. Apparently, negotiating a series of non-exclusive licenses under the patent does not equate to the type of activity that relates in some material way to the enforcement or defense of the patent for jurisdictional purposes.

Most surprisingly, the majority opinion seemed to adopt Judge Newman’s understanding of *Avocent*, where she expressed concern that the *Avocent*

³⁰¹ *Id.* at 1018 (quoting *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 418 (1984)).

³⁰² *Id.* at 1019–20.

³⁰³ *Id.* (alteration in original) (quoting *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1336 (Fed. Cir. 2008)).

³⁰⁴ *Id.* at 1020.

³⁰⁵ *Id.* at 1020–21.

³⁰⁶ *Id.* at 1021.

³⁰⁷ *Id.*

³⁰⁸ *Id.*

decision could shield foreign patent owners from declaratory judgment litigation in the United States. Indeed, the majority characterized *Avocent* as follows: “Although we too are concerned that foreign patentees like Oxford may engage in significant commercialization and licensing efforts in a state *while benefiting from the shelter of the Avocent rule*, we are nonetheless bound by *Avocent*.”³⁰⁹

Having concluded that *Avocent* provides a “shelter” for foreign entities owning U.S. patents, the majority does nothing to try to correct or limit that imbalance, other than pointing to the availability of the District Court in the District of Columbia.³¹⁰ But, as noted above, the use of that court could require a U.S. business to travel many miles just to have the case heard (presupposing that the entire case, including any pendent claims, would be heard). There is nothing in either *Avocent* or *Autogenomics* that suggests the majority in either case recognized this issue.

As it did in *Avocent*, Judge Newman’s dissent in *Autogenomics* takes the majority to task. The jurisdictional facts, as Judge Newman summarized, seem to cry out for exercising jurisdiction; she wrote:

The Federal Circuit again restricts United States parties from access to our courts when a United States patent is owned by a foreign entity. The court rules that the foreign patent owner is not subject to suit in California despite its commercial presence in California including the grant of at least ten patent licenses to companies in California; despite a manufacturing venture of the patent owner with a California-based company to produce and sell microarrays designed by the patent owner; despite participation by the patent owner with respect to the patented technology in trade shows and scientific meetings in California; and despite the patent owner’s threats of infringement against Autogenomics, a California company whose accused activities are conducted in California.³¹¹

Judge Newman pointed out that not only is *Avocent* at odds with prior Federal Circuit precedent, the present decision is too. This incompatibility exists at two levels. For example, Judge Newman pointed out that in *Campbell Pet Co. v. Miale*,³¹² the Federal Circuit concluded that a California corporation was subject to personal jurisdiction in the state of Washington for having attended a trade show in that state, complaining about the plaintiff’s display at the show, and then writing a letter to the plaintiff in Washington charging infringement.³¹³ Autogenomics engaged in the same type of conduct but

³⁰⁹ *Id.* (emphasis added).

³¹⁰ *Id.*

³¹¹ *Id.* at 1024 (Newman, J., dissenting).

³¹² 542 F.3d 879 (Fed. Cir. 2008).

³¹³ *Autogenomics*, 566 F.3d at 1025 (Newman, J., dissenting) (citing *Campbell*, 542 F.3d at 886).

with no jurisdictional consequences.³¹⁴ Similarly, Judge Newman noted that *Autogenomics* could not be squared with *Viam Corp. v. Iowa Export-Import Trading Co.*³¹⁵ In that case, the Federal Circuit held that the Central District of California had personal jurisdiction over an Italian corporation, which owned a U.S. patent, in a declaratory judgment action seeking a declaration of non-infringement and invalidity.³¹⁶ That foreign entity had no U.S. presence, although it had an exclusive licensee located in Iowa.³¹⁷ Its only activity involving California was importing and selling the patented goods there through its licensee; the licensee also advertised the goods in California.³¹⁸ Additionally, Judge Newman explained that the majority opinion in *Autogenomics* also did not square with the court's decision in *Synthes (U.S.A.) v. G.M. Dos Reis Jr. Ind. Com. de Equip. Medico*,³¹⁹ a case decided just one month prior.³²⁰ That case resembled a traditional patent infringement case. There, a U.S. patent owner filed suit against a Brazilian company whose products were offered for sale at trade shows in the United States; however, no actual sales of the allegedly infringing products were made in the United States.³²¹ The Brazilian company had no presence in the United States, although it purchased products from the United States for use or resale in Brazil.³²² In that decision, the Federal Circuit stressed that the jurisdictional predicates were met because of the company's attendance at trade shows in the United States at which displays of allegedly infringing products were made.³²³ In each of these cases, jurisdiction was found on contacts that were less numerous, and perhaps less substantial, than those presented in *Autogenomics*.

On the second level of incompatibility, Judge Newman disagreed with the majority who distinguished the *Synthes* case on the reasoning that it was a case where the foreign party was the accused infringer and not the owner of a U.S. patent.³²⁴ Judge Newman pointed out that the *Viam* decision should have put that distinction firmly to rest.³²⁵ In *Viam*, the court relied on the stream of commerce to establish personal jurisdiction.³²⁶ Indeed, *Viam* expressly

³¹⁴ *Id.* at 1026.

³¹⁵ 84 F.3d 424 (Fed. Cir. 1996).

³¹⁶ *Id.* at 426–27.

³¹⁷ *Autogenomics*, 566 F.3d at 1025 (Newman, J., dissenting).

³¹⁸ *Id.* at 1025–26.

³¹⁹ 563 F.3d 1285 (Fed. Cir. 2009).

³²⁰ *Autogenomics*, 566 F.3d at 1026 (Newman, J., dissenting).

³²¹ *Id.*

³²² *Id.*

³²³ *Id.*

³²⁴ *Id.*

³²⁵ *Id.*

³²⁶ *Viam Corp. v. Iowa Exp.-Imp. Trading Co.*, 84 F.3d 424, 427 (Fed. Cir. 1996).

approved the stream of commerce jurisdictional analysis set forth in *Beverly Hills Fan*.³²⁷ Among other things, *Beverly Hills Fan* stood for the proposition that when an infringement defendant purposefully places infringing devices into the stream of commerce, Due Process concerns are satisfied in those locations where the infringing devices are ultimately sold.³²⁸ The *Viam* court thus could see no difference in the analysis if the case was one for declaratory judgment. As the *Viam* majority stated:

All the reasons for adopting and applying the stream of commerce theory to the question of personal jurisdiction over an out-of-state alleged infringer as defendant, fully explored in *Beverly Hills Fan*, are equally applicable to the same question regarding an out-of-state patentee as defendant. When the patentee sues the alleged infringing tortfeasor who is the out-of-state defendant, it is easy to see why the defendant should be held to respond if there have been sufficient contacts with the forum State. It may at first blush seem strange in a declaratory judgment action to apply the same standard to the patentee, when it is the infringer, the putative tortfeasor, who is suing the (presumably) innocent patentee.

But the question of personal jurisdiction is not a function of wrongdoing. Rather it is a question of the power of a judicial forum to decide the issues brought before it. A patentee who seeks to enforce its patent may bring an infringement action in a proper forum, and issues regarding the validity and enforceability of the patent may be raised by the defendant. Under our law, a potential defendant in an infringement suit may, in a proper case, preempt the patentee and initiate a suit challenging the enforcement of the patent. The issues on the merits are essentially the same in either situation; the test for personal jurisdiction, for the forum's power to hear the issues, should be the same.³²⁹

Judge Newman hit the nail on the head. Logically, there should be no difference in the tests for personal jurisdiction based solely on the nature of the action. And, as a final matter, Judge Newman commented on the majority's fall-back that the district court of the District of Columbia would have jurisdiction under 35 U.S.C. § 293. She pointed to the lack of any explanation as to "why a California plaintiff should have to resort to a distant forum, which is not alleged to have meaningful contacts with either party, to resolve a dispute that centers upon actions by both the plaintiff and the foreign patentee in the state of California."³³⁰

This observation plainly undercuts the rationale of both *Avocent* and *Autogenomics*. Indeed, these cases show the disparate treatment being accorded parties based solely on the nature of the suit and their principle locations. There is no reason, or Due Process requirement, for such disparity. The

³²⁷ *Id.* at 427–28.

³²⁸ *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1565–66 (Fed. Cir. 1994).

³²⁹ *Viam*, 84 F.3d at 428.

³³⁰ *Autogenomics*, 566 F.3d at 1028 (Newman, J., dissenting).

Federal Circuit should revisit this issue and ensure that all parties, foreign and domestic, are treated equally in any jurisdictional dispute.

II. Licenses: Say What You Mean and Mean What You Say or the Federal Circuit May Surprise You

In 2009, the Federal Circuit decided three cases that broadened the scope of patent agreements by implying rights not expressly found in them.³³¹ These cases have the potential to affect existing agreements and alter the negotiation dynamics for patent licenses.

A. A Covenant Not to Sue Is a Non-Exclusive License

In the first case, *TransCore, L.P. v. Electronic Transaction Consultants Corp.*, the court held that a covenant not to sue was equivalent to a non-exclusive patent license that applied not only to the patents listed expressly in the covenant but also to another patent that appeared to have been expressly excluded.³³² As a result, the patentee's exclusive rights were exhausted by the "license."³³³

The heart of the *TransCore* case involved activities relating to an earlier infringement case filed by TransCore in 2000 against one of its competitors, Mark IV Industries.³³⁴ The parties settled that action when Mark IV agreed to pay \$4.5 million in exchange for a covenant not to sue and a release from existing claims.³³⁵ The covenant and release stated:

3. In exchange for the payment set forth in paragraph 1, TCI [i.e., TransCore] hereby agrees and covenants not to bring any demand, claim, lawsuit, or action against Mark IV for future infringement of any of United States Patent Nos. 5,805,082; 5,289,183; 5,406,275; 5,144,553; 5,086,389; 5,751,973; 5,347,274; 5,351,187; 5,253,162; and 4,303,904, or any foreign counterparts of the aforesaid United States Patents, for the entire remainder of the terms of the respective United States Patents and their foreign counterparts. *This Covenant Not To Sue shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future.*

* * *

8. TCI [and its related companies] for themselves and their respective predecessors, successors, heirs and assigns, fully and forever release, discharge and dismiss all claims, demands, actions, causes of action, liens and rights, in law or in equity (known, unknown, contingent, accrued, inchoate or otherwise), existing as of June 26, 2001,

³³¹ See *Imation Corp. v. Koninklijke Philips Elecs. N.V.*, 586 F.3d 980 (Fed. Cir. 2009); *CoreBrace L.L.C. v. Star Seismic L.L.C.*, 566 F.3d 1069 (Fed. Cir. 2009); *TransCore, L.P. v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009).

³³² *TransCore*, 563 F.3d at 1275, 1278.

³³³ *Id.* at 1277.

³³⁴ *Id.* at 1273.

³³⁵ *Id.*

that they have against MARK IV, and its officers, directors, employees, representatives and attorneys of MARK IV, but excluding any claims for breach of this Agreement. *No express or implied license or future release whatsoever is granted to MARK IV or to any third party by this Release.*³³⁶

The patents referred to in the Mark IV settlement related to systems for the automated collection of tolls, such as highway tolls.³³⁷ Some time after the Mark IV settlement, Electronic Transaction Consultants (“ETC”) was the successful bidder for a contract from the Illinois State Toll Highway Authority (“the Authority”) to install and test an open-road toll collection system.³³⁸ As part of its contract, ETC agreed to test toll collections systems purchased by the Authority from Mark IV.³³⁹ TransCore then sued ETC in the Northern District of Texas alleging infringement of three of the patents that were in suit against Mark IV and one other patent (“the ‘946 patent”) that issued after the Mark IV settlement, the application for which was not identified in the settlement agreement.³⁴⁰ ETC defended on the basis of patent exhaustion, implied license, and legal estoppel.³⁴¹ The district court ultimately granted summary judgment in favor of ETC on these theories.³⁴²

On appeal, the Federal Circuit had to decide whether a covenant not to sue provided the covenantee with any patent “rights” and, if so, the scope of those rights.³⁴³ The court commenced its analysis of this issue by noting that in *Quanta Computer, Inc. v. LG Electronics, Inc.*,³⁴⁴ the Supreme Court reaffirmed that the doctrine of patent exhaustion “provides that the initial authorized sale of a patented item terminates all patent rights to that item” and that exhaustion is “triggered only by a sale authorized by the patent holder.”³⁴⁵ The court considered the question before it to be: “[W]hether an unconditional covenant not to sue authorizes sales by the covenantee for purposes of patent exhaustion.”³⁴⁶

³³⁶ *Id.* (emphasis added).

³³⁷ *Id.*

³³⁸ *Id.*

³³⁹ *Id.* Readers from the Illinois area may recognize this type of system as the “I-Pass” toll collection system; it is called EZ-Pass elsewhere. Illinois Tollway, Welcome to I-Pass, http://www.illinoistollway.com/portal/page?_pageid=133,1392734&_dad=portal&_schema=PORTAL (last visited Mar. 23, 2010).

³⁴⁰ *TransCore*, 563 F.3d at 1273–74.

³⁴¹ *Id.* at 1274.

³⁴² *Id.*

³⁴³ *Id.*

³⁴⁴ 128 S. Ct. 2109 (2008).

³⁴⁵ *TransCore*, 563 F.3d at 1274 (quoting *Quanta*, 128 S. Ct. at 2115, 2121).

³⁴⁶ *Id.*

The Federal Circuit analyzed this question by noting that the patent law does not give a patent owner the right to make, use or sell anything.³⁴⁷ Rather, the law provides only the right to exclude others from making, using, selling, offering for sale, or importing the thing covered by the patent's claims.³⁴⁸ Given this, the only thing that a patent owner can convey in relation to a patent is a freedom from suit.³⁴⁹ According to the Federal Circuit, numerous cases have deemed a non-exclusive patent license to be nothing more than a promise, or covenant, not to sue on the licensed patent and therefore protects the licensee from a claim of infringement.³⁵⁰ The court then concluded that if a non-exclusive license is really a covenant not to sue, then a covenant not to sue is really a non-exclusive license.³⁵¹

In reaching this conclusion, the court determined that there is no difference in substance between a non-exclusive license and a covenant not to sue.³⁵² Both "are properly viewed as 'authorizations.'"³⁵³ However, this is the exact opposite of what the Federal Circuit had said on the immediately preceding page of its opinion. There, the court noted that a license "cannot convey an affirmative right to practice a patented invention by way of making, using, selling, etc.; the patentee can only convey a freedom from suit."³⁵⁴ How then can a license which conveys nothing be deemed to be an "authorization" to do anything?

Without acknowledging this philosophical dichotomy, the court then focused on the language of the covenant and concluded that it authorized Mark IV to make sales.³⁵⁵ In particular, the court noted the broad nature of the covenant, which stated: "[TransCore] agrees and covenants not to bring any demand, claim, lawsuit, or action against Mark IV for future infringement . . ."³⁵⁶ Because the covenant referred to "future infringement," the court concluded that this phrase permitted Mark IV to take all actions

³⁴⁷ *Id.* at 1275.

³⁴⁸ 35 U.S.C. § 154(a)(1) (2006).

³⁴⁹ *TransCore*, 563 F.3d at 1275.

³⁵⁰ *Id.*

³⁵¹ *Id.* at 1276.

³⁵² *Id.*

³⁵³ *Id.*

³⁵⁴ *Id.* at 1275. The court's analysis is also logically flawed. The court derived its formulation from the axiom that a patent does not give the patent holder the right to practice; it merely conveys the right to exclude. Therefore, the court reasoned that a licensee could not receive a right to practice because he would receive more than the licensor owned. However, the licensee does receive a "right to practice," albeit a limited right to practice relative only to the licensor.

³⁵⁵ *Id.* at 1276.

³⁵⁶ *Id.* (alterations in original).

that would otherwise be classified as an infringement—that is, Mark IV could make, use, sell, offer for sale, and import the claimed invention free from any suit by TransCore.³⁵⁷

Having concluded that Mark IV had received a license under the patents, the court then had to assess the scope of that license and whether it could form the basis for patent exhaustion. The court noted the Supreme Court’s explanation in *Quanta* that the parties’ intent with respect to downstream customers is “of no moment” in a patent exhaustion analysis.³⁵⁸ Thus, because the *TransCore* case involved the Authority and ETC as the “downstream customers,” the Federal Circuit believed it could simply disregard the intent of the parties to the Mark IV covenant, at least in relation to the scope of that covenant.³⁵⁹ Accordingly, the court took it upon itself to construe the covenant without any consideration of that intent. In particular, because TransCore had clearly “authorized” Mark IV to make sales of the patented invention, any sales once made were subject to the patent exhaustion doctrine.³⁶⁰ Thus, the Transit Authority’s purchases of the systems from Mark IV were shielded by that doctrine.³⁶¹

Throughout the case, TransCore argued that the parties had not intended to provide downstream rights to any of Mark IV’s customers.³⁶² The court, however, neatly sidestepped this issue. First, the court looked to *Quanta*’s statement that when downstream rights are based on exhaustion principles, the scope of those rights depends on the seller’s license to sell the products that are covered by the patent in suit.³⁶³ Because the Federal Circuit deemed the covenant to be a license and had concluded that Mark IV’s sales were authorized, i.e., licensed, the court reasoned that the “parties’ intent not to provide downstream rights to Mark IV’s customers is, therefore, irrelevant.”³⁶⁴

Second, the Federal Circuit concluded that the district court correctly viewed the settlement agreement as unambiguous.³⁶⁵ Consequently, parol evidence could not be admitted to change the meaning of that agreement.³⁶⁶ Here, the court seemed to ignore that the covenant itself is limited solely to TransCore’s agreement not to sue Mark IV; it says nothing about any third

³⁵⁷ *Id.*

³⁵⁸ *Id.* at 1275 (citing *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2122 (2008)).

³⁵⁹ *See id.*

³⁶⁰ *See id.* at 1276–77.

³⁶¹ *Id.* at 1277.

³⁶² *See id.*

³⁶³ *Id.* at 1275 (quoting *Quanta*, 128 S. Ct. at 2122).

³⁶⁴ *Id.* at 1277.

³⁶⁵ *Id.*

³⁶⁶ *Id.*

party. On this basis alone, both the district court and the Federal Circuit could have viewed the covenant as ambiguous.

The court also referred to the language in the Release of paragraph 8 of the settlement agreement, which stated: “No express or implied license or future release whatsoever is granted to MARK IV or to any third party by this Release.”³⁶⁷ The court concluded that the provision only addressed the effect of the Release and did not alter the covenant not to sue.³⁶⁸ As such, the provision was of no moment.³⁶⁹

Finally, the court looked to the matter surrounding the ’946 patent. That patent had not issued at the time the parties signed the Mark IV settlement³⁷⁰ and the settlement agreement made no reference to its application. As to this patent, ETC argued that the rights in it were exhausted as a result of Mark IV’s authorized sales under an implied license theory by virtue of legal estoppel.³⁷¹

In the district court, ETC contended that the ’946 patent was broader than, and necessary to practice, at least one of the patents expressly included in the Mark IV covenant not to sue, and TransCore did not dispute this view.³⁷² According to the Federal Circuit, this situation estopped TransCore from asserting the ’946 patent against Mark IV because if it could do so, then Mark IV could not practice at least some of the patents identified in the covenant.³⁷³ Indeed, if Mark IV could not practice these patents because of the ’946 patent, then Mark IV would not receive the full scope of its bargain with TransCore.³⁷⁴ This conclusion meant that Mark IV had an implied license under the ’946 patent and any sales it made would necessarily exhaust TransCore’s rights in that patent.³⁷⁵

The Federal Circuit’s conclusion in this regard seems to be directly contrary to the last sentence of the paragraph 3, the covenant not to sue, which stated: “This Covenant Not To Sue shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future.”³⁷⁶ The court was simply not swayed by this unambiguous provision, stating: “This language may protect TransCore against broad claims that future patents generally are impliedly licensed, but it does not permit TransCore to derogate from the rights it has expressly granted and thus does not preclude a finding

³⁶⁷ *Id.* at 1273.

³⁶⁸ *Id.* at 1277.

³⁶⁹ *Id.*

³⁷⁰ *Id.* at 1278.

³⁷¹ *See id.*

³⁷² *Id.* at 1279.

³⁷³ *Id.*

³⁷⁴ *Id.*

³⁷⁵ *Id.* at 1279–80.

³⁷⁶ *Id.* at 1273.

of estoppel.”³⁷⁷ The court does not address how the language would protect TransCore in the future when it was ineffective as applied to ETC in the *TransCore* case.

The *TransCore* decision has numerous implications for the drafters of and parties to license agreements. For example, in the pre-*TransCore* days, many companies, such as those in the electronics and computer industries, included a “defensive suspension” provision in license agreements.³⁷⁸ That type of provision would come into play in the following scenario: Assume that Company A makes a product that contains a component that is patented and that Company A owns the patent. Assume that Company A licenses the patent to Company Y so that Company Y can make, use, and sell the patented component. Company Y sells the component it makes to Company Z who incorporates the component into a product that is sold in direct competition with Company A’s product. The license between Company A (the patent holder) and Company Y contains a provision stating that if Company A is sued by any of its competitors (e.g., Company Z) for any reason, then the license to Company Y is converted to a covenant not to sue and all future sales of the patented component by Company Y do not carry an implied license that would flow to the suing competitor or anyone else.

Under this approach, it was believed, pre-*TransCore*, that Company A could sue Company Z because Company Z was not authorized to use the patented component that it acquired from Company Y. *TransCore* has changed that view and calls into question how these presently existing license agreements will be handled.

Under the rationale of *TransCore*, to reach the same ends that the defensive suspension provisions had attempted in the past, the license would have to be converted to a make and use license only with a specific carve out precluding those in the position of Company Y from selling the patented component. Of course, in the electronics and computer fields this would be highly impractical given the vast number of component-only manufacturers. Indeed, the only way this would work would be in those situations where Company Y is able to incorporate the component into the final end product.

In fact, the *TransCore* court recognized that a covenant not to sue could be restricted in just this way. When commenting on the broad authorization found in the Mark IV covenant, which authorized “all acts that would otherwise be infringement,” the court noted that TransCore could have limited “this authorization to, for example, ‘making’ or ‘using.’”³⁷⁹ Here, the court is right

³⁷⁷ *Id.* at 1279.

³⁷⁸ COMM. ON TECHNICAL STANDARDIZATION, AM. BAR ASS’N, STANDARDS DEVELOPMENT PATENT POLICY MANUAL 62 (Jorge L. Contreras ed., 2007).

³⁷⁹ *TransCore*, 563 F.3d at 1276.

that the provision could be limited, but the court failed to grasp that in the real world of manufacturing such a limitation may be totally impractical.

In addition to these concerns, future drafters of covenants and licenses will be well-served to keep in mind that there is, according to the Federal Circuit, no difference between a non-exclusive license and a covenant not to sue. Attorneys will have to craft the provisions with the understanding that there may be unwanted effects on downstream markets. Likewise, drafters will have to clearly state which patents are included and which are excluded. Ideally, these types of agreements should include provisions containing some language evidencing the intent of the respective parties to ensure that a parol evidence problem, like that in *TransCore*, does not upset the entire agreement. Moreover, drafters will need to determine whether a covenant not to sue will run with the title to the patent and hence be binding on future owners or whether the covenant will “evaporate” once title to the patent changes hands. Unfortunately, the Federal Circuit fails to address these and other points in *TransCore*, and the answers to the questions that these issues raise are far from clear. If future agreements are drafted differently in order to address these matters, agreements could become more cumbersome and wordy than in the past simply to avoid an unintended interpretation of the agreement.

B. A License to Make Is a License to Have Made

Slightly over a month after it held that a covenant not to sue is a non-exclusive license, the Federal Circuit concluded that a license permitting the licensee to make a patented product allows the licensee to have someone else make the product for it.³⁸⁰

In 2007, Star Seismic L.L.C. (“Star”) obtained a license under the patent at issue, granting it the nonexclusive right to “make, use, and sell” licensed products.³⁸¹ The license prohibited Star from assigning, sublicensing or otherwise transferring any of its rights to any party other than an affiliate.³⁸² Finally, the license reserved to CoreBrace “all rights not expressly granted to [Star]” and provided that Star would own any technical improvements made “by a third party whose services have been contracted by [Star].”³⁸³

Star had a third party make the patented product for Star’s own use.³⁸⁴ As a result, CoreBrace sent a notice of termination of the license due to this

³⁸⁰ *CoreBrace L.L.C. v. Star Seismic L.L.C.*, 566 F.3d 1069, 1075 (Fed. Cir. 2009).

³⁸¹ *Id.* at 1070. Interestingly, the court did not comment on the notion that a patentee has nothing to convey, as was noted in the *TransCore* case. See *TransCore*, 563 F.3d at 1275.

³⁸² *CoreBrace*, 566 F.3d at 1070.

³⁸³ *Id.* (alteration in original) (internal quotation marks omitted).

³⁸⁴ *Id.*

alleged breach.³⁸⁵ CoreBrace also sued Star for infringement because it was using products after the license had been terminated.³⁸⁶ The district court dismissed the suit, concluding that the license had not been breached and, in any event, CoreBrace did not follow the agreement's termination steps.³⁸⁷ In its ruling, the district court held that unless a license expressly prohibits the use of a third party to make the licensed product, then the so-called "have made" rights are included within the license.³⁸⁸

The Federal Circuit affirmed, holding that the "right to 'make, use, and sell' a product inherently includes the right to have it made by a third party, absent a clear indication of intent to the contrary."³⁸⁹ In support of its holding, the court relied primarily on *Carey v. United States*,³⁹⁰ which initially involved a March 26, 1934 license between inventor Kroll and a German corporation, Siemens & Halske ("S&H").³⁹¹ The license provided that technology developed by Kroll was licensed to S&H on an exclusive basis, with an express right to grant non-exclusive sublicenses.³⁹² In 1936, Kroll developed a process for producing titanium that was within the scope of the license and, in 1940, the USPTO issued Kroll a patent on the process.³⁹³ Ultimately, the U.S. government succeeded to the license rights of S&H under the Trading with the Enemy Act, with Kroll retaining title to his U.S. patent.³⁹⁴ In 1951, the United States entered into a series of contracts with private manufacturers permitting them to produce titanium using the Kroll process.³⁹⁵ The case came before the Court of Claims as a result of a dispute over the amount of royalties the United States was required to pay the then owners of the patent.³⁹⁶ The royalty provision had two different payment schemes: one scheme was for product made by or for the United States; the second was for product made and sold by the sublicensees.³⁹⁷ When addressing this issue, the Court of Claims had to parse the production between that for the account of the United States and that for the account of the sublicensees.³⁹⁸

³⁸⁵ *Id.*

³⁸⁶ *Id.*

³⁸⁷ *Id.* at 1071.

³⁸⁸ *Id.*

³⁸⁹ *Id.* at 1072–73.

³⁹⁰ 326 F.2d 976 (Ct. Cl. 1964).

³⁹¹ *Id.* at 976.

³⁹² *Id.*

³⁹³ *Id.*

³⁹⁴ *Id.* at 977.

³⁹⁵ *Id.* at 978.

³⁹⁶ *Id.* at 976.

³⁹⁷ *Id.* at 980.

³⁹⁸ *Id.*

According to the Federal Circuit, the *Carey* decision stands for the proposition that:

[A] license to “produce, use, and sell” a product inherently includes the right to have it made by a third party. The [Court of Claims] stated that a license to produce, use, and sell “is not restricted to production by the licensee personally or use by him personally or sales by him personally. It permits him to employ others to assist him in the production, and in the use and in the sale of the invention. Nor need he take any personal part in the production.” Thus, “his license permits him to engage others to do all the work connected with the production of the article for him.”³⁹⁹

On this basis, the Federal Circuit held that a license to make, use, and sell carries with it the implied right to have a third party make the patented product for the holder of the license.⁴⁰⁰ Unfortunately, the *Carey* court did not substantively analyze the effect that the exclusive license held by the United States had on its analysis. An exclusive licensor gives up the ability to practice the patent itself. Thus, if the licensor’s business requires the products covered by the patent, those products must be obtained from the exclusive licensee. The situation is different for a nonexclusive license, where the patentee-licensor can continue to practice the patent even after granting the license. Because an exclusive license traditionally grants all rights under a patent, except ownership rights, there is no reason to doubt that the exclusive licensee could have the product made for it under its exclusive rights (the “have made” rights). However, that conclusion is not nearly as clear cut for a non-exclusive license, where traditionally the non-exclusive rights are only those that are expressly granted. Moreover, the license in *Carey* actually provided for a sublicense to third parties and could be read as an express grant of the right to have the product made for the United States by others. Finally, *Carey* is a poor vehicle for supporting the law established in *CoreBrace*. *Carey* was a royalty dispute case, not one involving substantive license issues.

The Federal Circuit’s *CoreBrace* decision had three important take-away points. First, the opinion reminds practitioners of the important, yet sometimes overlooked, point that decisions of the Federal Circuit’s predecessor courts are binding on the Federal Circuit unless overruled en banc.⁴⁰¹ Second, drafters must craft non-exclusive license agreements even more carefully to ensure that “have made” rights are expressly excluded, if the parties do not intend for them to be encompassed in the license. And, in keeping with the Federal Circuit’s view that the parties’ intent need not always be considered, it could be important to include several introductory provisions in a license that expresses the parties’ intentions. Third, care should be exercised in drafting

³⁹⁹ *CoreBrace L.L.C. v. Star Seismic L.L.C.*, 566 F.3d 1069, 1073 (Fed. Cir. 2009) (citation omitted) (quoting *Carey*, 326 F.2d at 979).

⁴⁰⁰ *Id.* at 1073.

⁴⁰¹ *See South Corp. v. United States*, 690 F.2d 1368, 1370–71 (Fed. Cir. 1982) (en banc).

a non-exclusive patent license that is combined with a trade secret license, particularly where use of some of the trade secrets is necessary to practice under the patent license. Such hybrid agreements may result in the unintended consequence of permitting the licensee to disclose the trade secrets to third parties so they can make the item that is the subject of the licensed patent.

C. A License May Extend to Subsidiaries Who Did Not Exist at the Time the License Expired

The third licensing case recently decided by the Federal Circuit presents the anomaly that a patent license may extend to the licensee's subsidiaries that did not exist at the time the license expired.⁴⁰² This situation resulted from the court's interpretation of several common phrases found in many licenses.⁴⁰³ In this case, Imation Corporation ("Imation") had licensed a number of patents from Philips.⁴⁰⁴ The relevant provisions of the license were:⁴⁰⁵

Article 2—License grant	Philips "agrees to grant and does hereby grant to [Imation] and its Subsidiaries a personal, non-exclusive . . . license under the Philips Licensed Patents."
Article 1, Section 12— definition of Licensed Patents	Licensed Patents include those patents having "a filing date, or claim priority from a date, or are or were entitled to claim priority from a date, on or before the expiration date of this Agreement as set forth in Article 4, herein."
Article 1, Section 13— definition of Subsidiary	A "Subsidiary" is "any . . . form of business organization as to which [Imation] now or hereafter has more than a fifty percent (50%) ownership interest."
Article 3—Term of the License	The term of the licenses granted under Article 2 "shall commence on the effective date of this Agreement and shall continue as to each Licensed Patent for its life."
Article 4—Term of the Agreement	"[T]he term of this Agreement shall expire on March 1, 2000, except that any patent license which has been granted under Article 2 shall continue thereafter for the term provided in Article 3."

At first blush, these provisions appear straight-forward. Under Article 2, Imation obtained a license to the Licensed Patents, with those patents being any that had a filing or priority date of on or before March 1, 2000 (the Agreement's expiration date).⁴⁰⁶ Under Article 3, the license continues until

⁴⁰² Imation Corp. v. Koninklijke Philips Elecs. N.V., 586 F.3d 980, 990 (Fed. Cir. 2009).

⁴⁰³ *Id.*

⁴⁰⁴ *Id.* at 982. The license was actually a cross-license, but for present purposes we need only focus on the license from Philips to Imation.

⁴⁰⁵ *Id.* at 983 (first and third alteration in original).

⁴⁰⁶ *Id.*

the expiration of the last patent to expire.⁴⁰⁷ The Agreement itself was to expire on March 1, 2000; however, any license granted under the Agreement would continue to the expiration of the relevant patent.⁴⁰⁸ Finally, the definition of Subsidiaries seemed clear. A subsidiary was defined as any company as to which Imation “now or hereafter” had at least a 50% ownership interest.⁴⁰⁹

At some time after the March 1, 2000, the Agreement’s expiration date, Imation formed or acquired two additional subsidiaries.⁴¹⁰ Ultimately, Imation contended that those “after-expiration” subsidiaries were licensed under the unexpired Philips’ patents and sought a declaratory judgment to that effect, among other things.⁴¹¹ The district court was not persuaded and held that because the subsidiaries did not come into being until after the Agreement had expired, they could not have been granted a license as of the expiration date.⁴¹² The court based this conclusion on its interpretation of Article 2 as granting multiple licenses over time, each of which springs into being when a subsidiary is formed.⁴¹³ The court also determined that the definition of Subsidiaries in Article 1, Section 13, supported this conclusion because the definition excluded any company that was not an Imation subsidiary as of the expiration date;⁴¹⁴ the expiration applies to the Agreement as a whole (unless there are exceptions, such as provided in the term of the Agreement in Article 3).⁴¹⁵ The court then entered partial final judgment against Imation and certified for appeal the question of whether the subsidiaries were licensees.⁴¹⁶

The Federal Circuit reversed.⁴¹⁷ The Federal Circuit first concluded that the license grant language (“agrees to grant and does hereby grant”) in Article 2 was a present grant of a single license of the Licensed Patents to a class of entities composed of Imation and its Subsidiaries and that this license was fully vested immediately on the effective date of the agreement.⁴¹⁸

The Federal Circuit then turned to the definition of “Subsidiaries” and concluded that use of the phrase “now or hereafter” connotes that Subsidiaries may come into existence at some unspecified future time.⁴¹⁹ That phrase thus

⁴⁰⁷ *See id.*

⁴⁰⁸ *Id.*

⁴⁰⁹ *Id.*

⁴¹⁰ *Id.*

⁴¹¹ *See id.*

⁴¹² *Id.* at 983–84.

⁴¹³ *See id.* at 984.

⁴¹⁴ *Id.*

⁴¹⁵ *See id.*

⁴¹⁶ *See id.*

⁴¹⁷ *Id.* at 982.

⁴¹⁸ *Id.* at 986.

⁴¹⁹ *Id.* at 988.

did not place a temporal limitation on the formation of the subsidiary.⁴²⁰ Indeed, the court noted that the parties could have deleted the “or hereafter” wording or simply listed the subsidiaries that were in existence as of the effective date had they desired to limit the subsidiaries to a definite group of entities.⁴²¹ Because the license was fully vested and there was no limitation on when any subsidiary had to be in existence, the court concluded that the license was available to any subsidiary formed at any time prior to the expiration of the last patent.⁴²²

As a result of the Federal Circuit’s view of the license terms, Imation can now set up or acquire any number of Subsidiaries that will be licensed under the Licensed Patents until the last patent expires. In light of this decision, practitioners need to consider carefully when, or if, it is advisable to couch a license grant with the words “agrees to grant and does hereby grant,” if there is the prospect that patents will issue in the future from pending applications, because that phrasing will result in a fully vested license as to those later issued patents. Practitioners will also have to decide whether using wording such as “now or hereafter” when defining terms is appropriate, given that this phrase does not connote a temporal limitation and could give rise to rights and obligations that come into existence after the expiration of the relevant agreement.

III. The Federal Circuit May Have Inadvertently Changed Opinion Practice

On Christmas Eve, 2008, the Federal Circuit issued a decision in *Sundance, Inc. v. DeMonte Fabricating Ltd.*⁴²³ The court’s decision is fairly unremarkable on the one hand but fraught with potential difficulties on the other. The opinion may have inadvertently changed the way patent opinion practice will be conducted in the future; at the least, the decision confuses the issue. Events occurring in the trial court formed the primary basis for the Federal Circuit’s decision and it is these events and the court’s handling of them that make the *Sundance* case one to keep firmly in mind.

Sundance started as a garden variety patent infringement case involving allegations that the defendants (collectively “DeMonte”) infringed a patent for a retractable segment used as a cover system for truck trailers.⁴²⁴ The jury concluded that the asserted claim was infringed but invalid.⁴²⁵ Thereafter,

⁴²⁰ *Id.*

⁴²¹ *Id.*

⁴²² *See id.* at 991.

⁴²³ 550 F.3d 1356 (Fed. Cir. 2008).

⁴²⁴ *See id.* at 1358.

⁴²⁵ *Id.*

Sundance sought judgment as a matter of law (“JMOL”) that the patent was not invalid and DeMonte sought JMOL that there was no infringement.⁴²⁶ The district court granted Sundance’s motion, holding the patent not invalid and denied DeMonte’s motion.⁴²⁷ As a result, the patent was deemed valid and infringed.⁴²⁸

Pre-trial, DeMonte advised that it would rely on its patent law expert to testify as to: USPTO practices and procedures; claim construction; noninfringement; invalidity, including anticipation and obviousness; and inequitable conduct.⁴²⁹ Sundance duly objected and filed a motion in limine arguing that the attorney “lacks appropriate technical background in the field of the invention” and that he was not qualified to testify about “his interpretation of the law governing invalidity, infringement, or ultimate legal conclusions.”⁴³⁰ DeMonte countered by contending that the witness is “a patent attorney with extensive experience in patent law and procedure” and that he should be allowed to testify because courts may permit patent law experts to testify on the general procedures involved in the patent prosecution process.⁴³¹ DeMonte further suggested that if there were questions concerning the attorney’s qualifications, that would be an appropriate subject for cross-examination.⁴³² The district court ultimately denied the in limine motion in its entirety and permitted the attorney to testify.⁴³³

Notwithstanding DeMonte’s representation about the subject matter of the attorney’s testimony, at trial, the attorney was not asked to testify about patent office practices and procedures.⁴³⁴ Rather, his testimony was directed to the issues of noninfringement and invalidity and the factual bases for application of obviousness, including his view that the claim was obvious.⁴³⁵

On appeal, Sundance contended that the district court erred in admitting the attorney’s testimony because he had no experience in the pertinent art and was not qualified at trial as a technical expert.⁴³⁶ The Federal Circuit readily agreed and held that the trial court abused its discretion in admitting the

⁴²⁶ *Id.*

⁴²⁷ *Id.*

⁴²⁸ *See id.*

⁴²⁹ *Id.* at 1360.

⁴³⁰ *Id.* (internal quotation marks omitted).

⁴³¹ *Id.* (internal quotation marks omitted).

⁴³² *Id.*

⁴³³ *Id.* at 1361.

⁴³⁴ *Id.*

⁴³⁵ *Id.*

⁴³⁶ *Id.*

testimony.⁴³⁷ Had the court stopped here, the *Sundance* case would be entirely unremarkable; however, the court did not stop.

The court reminded practitioners that many patent-related issues must be considered from the perspective of one of ordinary skill in the pertinent art.⁴³⁸ These include: (i) claim construction; (ii) identification of claim elements for a doctrine of equivalents analysis; (iii) application of the doctrine of equivalents for an infringement determination; (iv) the teachings of and the disclosure in prior art references; and (v) obviousness.⁴³⁹ The court's opinion here is what makes the *Sundance* decision important. The court plainly held that a person who lacks the relevant technical expertise cannot testify on matters involving analyses from the perspective of one of ordinary skill.⁴⁴⁰ As the court stated:

Indeed, where an issue calls for consideration of evidence from the perspective of one of ordinary skill in the art, it is contradictory to Rule 702 to allow a witness to testify on the issue who is not qualified as a technical expert in the art. We understand that patent lawyers are often qualified to testify as technical experts, but such a qualification must derive from a lawyer's technical qualifications in the pertinent art.

* * * *

With regard to invalidity, for example, a witness not qualified in the pertinent art may not testify as an expert as to anticipation, or any of the underlying questions, such as the nature of the claimed invention, what a prior art references [sic] discloses, or whether the asserted claims read on the prior art reference.

Nor may a witness not qualified in the pertinent art testify as an expert on obviousness, or any of the underlying technical questions, such as the nature of the claimed invention, the scope and content of the prior art, the differences between the claimed invention and the prior art, or the motivation of one of ordinary skill in the art to combine these references to achieve the claimed invention.⁴⁴¹

While the court couched its discussion as concerning expert witness testimony, its reference to consideration of evidence from the perspective of one of ordinary skill in the art and the need to have technical qualifications to meet that level of skill makes the decision potentially broader in scope. Indeed, the court's treatment can apply equally to patent opinion practice.

A. How *Sundance* May Affect Opinion Practice

Patent practitioners routinely prepare various types of legal opinions. These include opinions directed to freedom to operate, noninfringement, validity or invalidity, and inequitable conduct. For an opinion to be useful

⁴³⁷ *Id.*

⁴³⁸ *Id.* at 1361 & n.3.

⁴³⁹ *Id.* at 1361 n.3.

⁴⁴⁰ *Id.* at 1363–64.

⁴⁴¹ *Id.* (citations omitted) (footnote omitted).

to a client and admissible in court, the Federal Circuit's view has been that the opinion must be competent and must have been prepared by competent counsel.⁴⁴² A competent opinion would, for example, review the patent's specification and prosecution history, describe the relevant law, assess the patent claims and provide a construction of them, describe and analyze the prior art, apply the construed claims to the prior art in light of current law, and assess the concerned device and apply the construed claims to that device for infringement/noninfringement purposes.⁴⁴³ The premise surrounding an opinion is that it needs to be a competent one. In other words, a patent opinion should be "self-sustaining," meaning that the opinion should consider all of the matters mentioned above and arrive at a reasonable and supportable conclusion.⁴⁴⁴ There should be nothing left for the authoring attorney to fill in later.⁴⁴⁵ Under this approach, the opinion could then be used in litigation; testimony from opinion counsel could be presented simply to confirm what was done and the conclusions reached.

The major purpose behind these opinions is that they are useful in defending a charge of willful infringement.⁴⁴⁶ In the Federal Circuit's landmark *Seagate* decision, the court established a two-part test for proving willful infringement, which requires a patentee to show that: (i) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (ii) the objectively-defined risk was either known to or so obvious that it should have been known to the accused infringer.⁴⁴⁷ Legal opinions can address each of these factors. First, the act of seeking and obtaining a competent opinion by competent counsel, coupled with demonstrable reliance on such opinion, suggests that the conduct was not objectively reckless. Second, a competent opinion that concludes there is no infringement or that the subject patent claims are invalid would militate against an "objectively-defined risk."

Over the years, the general practice in opinion preparation has been for the patent attorney to review all of the materials (i.e., the patent, the prosecution history, the prior art, the law, and the concerned device) and, based on that review, prepare a detailed written opinion. In some instances, for example where the technology is exceedingly complex or beyond the comprehension

⁴⁴² See *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983), *overruled by In re Seagate Tech.*, L.L.C., 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

⁴⁴³ See *id.*

⁴⁴⁴ See *id.*

⁴⁴⁵ See *id.*

⁴⁴⁶ See *Seagate*, 497 F.3d at 1369. Of course, patent opinions are oftentimes prepared as part of a pre-suit investigation, where the opinions address validity and/or infringement issues, and occasionally inequitable conduct, in keeping with Rule 11 obligations. See FED. R. CIV. P. 11. The *Sundance* decision can also be applied to these types of opinions.

⁴⁴⁷ *Seagate*, 497 F.3d at 1371.

of the attorney, the client may have been asked to provide assistance in the review of these materials. In other situations, the client may have authorized the attorney to retain an independent consultant to provide this review and assistance. In most past situations, however, opinions have been prepared by the attorney without substantial technical input from clients or independent consultants.

The *Sundance* decision calls into question whether this approach to opinion drafting is proper and should continue or should be scrapped or modified. *Sundance* confirms that virtually all substantive aspects of a patent opinion must be considered from the perspective of one of ordinary skill. If opinion counsel does not have that level of skill or does not have technical expertise in the subject matter of the patent, then there can be serious questions as to whether the opinion reaches the necessary level of competency. Additionally, if opinion counsel is presented as a witness to describe the opinion to a jury, counsel could be open to a withering cross-examination over his qualifications, thus further calling into question the competency of the opinion and opinion counsel and biasing the jury against his client's entire position.

The *Sundance* opinion gives rise to an additional issue. Now that the court has plainly determined that "where an issue calls for consideration of evidence from the perspective of one of ordinary skill in the art, it is contradictory to Rule 702 to allow a witness to testify on the issue who is not qualified as a technical expert in the art,"⁴⁴⁸ it seems prudent for counsel to advise clients of the decision and of the need to have a person of ordinary skill in the art who is qualified as a technical expert to assist in the opinion activities. If counsel is not such a person, then client personnel or an independent consultant may have to be utilized. Such a person could assist by providing, among other things, a definition of the level of skill and advise about how the person of ordinary skill would construe claim terms and understand the prior art. All of this could then be included within the legal opinion as background information upon which counsel relies when making the legal analysis.

Obviously, such an approach adds a level of complexity and cost to opinion practice that was not present pre-*Sundance*. For example, if the attorney enlists client personnel as persons of ordinary skill, then it might behoove him or her to review their files and other materials before writing the opinion to ensure that nothing could be uncovered in discovery that would undercut the opinion. Attorneys would also need to perform this type of due diligence in relation to independent consultants. In essence, this approach is very similar to the use of an expert witness in litigation. Surely, the Federal Circuit did not intend this when it decided *Sundance*; however, a fair reading of the decision leads to this conclusion.

⁴⁴⁸ *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356, 1363 (Fed. Cir. 2008).

Moreover, a client's reliance on any opinion that is not fully premised on and supported by the understanding of one of ordinary skill in the art may fall into the objectively reckless category of actions under *Seagate*. If that holds, then the opinion is not serving its purpose at all.

The court's approach does not seem to appreciate the difficulty of actually identifying a person having ordinary skill in the art. *Sundance*, like many cases, envisions the person having skill in the art as an actual person. However, Federal Circuit law is legion that "[t]he person of ordinary skill is a *hypothetical* person who is presumed to be aware of all the pertinent prior art."⁴⁴⁹ At least one post-*Sundance* case illustrates the challenge of finding a real person to fill that role. In *Rothman v. Target Corp.*,⁴⁵⁰ the Federal Circuit criticized an expert for giving his personal opinion as to an invention's obviousness, saying it was irrelevant to what the "hypothetical" person having ordinary skill in the art might have thought.⁴⁵¹ Somewhat inconsistently, the court dismissed the personal opinions of industry veterans in the field of the invention for the same reason *and* because they had not been offered as experts.⁴⁵² It is clear that outside counsel is presented with a difficult predicament post-*Sundance*. Counsel must be qualified to opine on the technical matters for which the opinion of a person having ordinary skill in the art matters, but those opinions cannot be his own. Instead, the attorney must speculate as to what a hypothetical person would believe and there is precious little guidance on how to do so.

Additionally, there is a risk that any opinion that is not based on information supplied by a person of ordinary skill could give rise to risk management concerns. That is, if counsel does not have the qualifications to be considered a person of ordinary skill (or cannot provide adequate grounds for his speculation as to what that person might say) and, as a result, the competency of the opinion is successfully challenged, counsel may be setting the stage for another form of highly unpleasant litigation.

B. If the Federal Circuit Had Constrained Itself to the Critical Issues in *Sundance*, It May Have Avoided Creating Opinion Practice Concerns

The most striking aspect of *Sundance* is that the Federal Circuit did not have to delve into the area of witness qualifications at all. Although the court held that the testimony of DeMonte's patent attorney should have been excluded

⁴⁴⁹ *E.g.*, *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*, 807 F.2d 955, 962 (Fed. Cir. 1986) (emphasis added).

⁴⁵⁰ 556 F.3d 1310 (Fed. Cir.), *cert. denied*, 130 S. Ct. 626 (2009).

⁴⁵¹ *Id.* at 1318.

⁴⁵² *Id.* at 1318–19.

by the trial court, the Federal Circuit concluded that no expert “testimony was required because there are no underlying factual issues in dispute as to obviousness. The technology is simple and neither party claims that expert testimony is required to support [a holding of obviousness].”⁴⁵³ Based on the record, excluding whatever the patent attorney said, the court readily concluded that a combination of the prior art satisfied every limitation of the asserted claim.⁴⁵⁴

The court further concluded that the segmented truck cover claimed in the patent represents the “mere application of a known technique to a piece of prior art ready for the improvement.”⁴⁵⁵ Because the court determined that combining the prior art “would have been inescapably obvious to a person of ordinary skill in the art at the time of the invention,” the court concluded that the claim was invalid and reversed the district court.⁴⁵⁶

Sundance shows how the court’s unneeded treatment of an issue—that is, the qualifications of a patent attorney as an expert—can give rise to unintended consequences and possibly change the way practitioners both prepare and attack patent opinions. Nothing in the court’s opinion evidences any awareness of this possible result. Perhaps the court should take the opportunity, when it is next presented, to proclaim that *Sundance* does not affect patent opinion practice. Until then, practitioners should firmly bear in mind the court’s pronouncements.

Conclusion

The above cases appear to reflect a schizophrenic court. On the one hand, the Federal Circuit seems remarkably aware when it clarifies and extends the law to meet evolving needs.⁴⁵⁷ On the other hand, the court appears remarkably unaware that certain of its decisions impact established real-world practice.⁴⁵⁸ With increased attention being paid to the value of intellectual property assets and the recognized need for a strong, efficient patent system, the court would serve the business and legal community well by focusing not only on the evolution of the law but also on its practical application. Thus, Chief Judge Michel’s suggestion that future Federal Circuit judges have hands-on experience in patent litigation and other relevant areas might, if followed, provide the seasoned “in-the-trenches” perspective that is the hallmark of

⁴⁵³ *Sundance*, 550 F.3d at 1365.

⁴⁵⁴ *Id.* at 1366.

⁴⁵⁵ *Id.* at 1367 (quoting *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1740 (2007)) (internal quotation marks omitted).

⁴⁵⁶ *Id.* at 1367–68.

⁴⁵⁷ See, e.g., *supra* Part I.A.

⁴⁵⁸ See, e.g., *supra* Parts II–III.

a robust and evolving legal landscape. After nearly thirty years of Federal Circuit jurisprudence, it may now be time for Congress to take the Chief Judge's suggestion to heart.