

The presence of a telecommuting employee in a judicial district, by itself, is not enough to establish proper venue in patent litigation, the U.S. Court of Appeals for the Federal Circuit held recently. This was the first Federal Circuit decision regarding patent venue since the Supreme Court significantly narrowed available venue in infringement cases last year.

Federal Circuit says telecommuting employee not enough to establish patent venue

In *TC Heartland v. Kraft Foods Group Brands*, the Supreme Court limited patent venue to either the defendant's state of incorporation, or where the alleged acts of infringement occurred and the defendant maintained "a regular and established place of business."

The Federal Circuit's *In re Cray* decision provides helpful, but not definitive, guidance on what constitutes a "regular and established place of business" and how defendants can limit their exposure in unwelcome venues when they have employees who work from home, says John Augustyn, a member in Leydig's Chicago office.

"After *Cray*, courts will take a fact-intensive look at several areas, including the nature of a telecommuting employee's arrangement, and the defendant's material investment in and benefit from that arrangement to determine whether venue is proper based on where the employee resides and works," Augustyn says.

In *Cray*, that fact-intensive analysis involved a Cray salesman who worked from his home in the Eastern District of Texas, where the suit was filed. Cray is incorporated in Washington, where it maintains its principal place of business. Cray does not rent or own an office or any property in the Eastern District of Texas.

The salesman worked out of the home he owned, but his sales territory was actually outside of the Eastern District of Texas. While Cray reimbursed the salesman for his business-related cell phone usage, internet fees, and business travel costs, it never paid for the use of his home, paid his mortgage, or publicly advertised or otherwise indicated that his residence was a Cray place of business. Cray provided the salesman with "administrative support" from its office in Minnesota, but the salesman kept no product or sales literature at his home.

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Based on these facts, as well as the finding that the district court judge applied an inappropriate venue test that was "not sufficiently tethered" to the venue statute's language, the Federal Circuit reversed the district court's denial of Cray's motion to transfer.

The court held that a "regular" and "established" place of business requires a fixed, physical presence belonging *to the defendant* in the district.

"The fact that Cray allowed its employees to work from the Eastern District of Texas is insufficient," Judge Alan Lourie wrote for the court. "The statute clearly requires that venue be laid where 'the defendant has a regular and established place of business,' not where the defendant's employee owns a home in which he carries on some of the work that he does for the defendant."

While the decision provides guidance as to how courts will look at this aspect of patent venue going forward, patent owners should not view the *Cray* decision as a definitive road map for how to avoid venue based on telecommuting employees, cautions Michael Brandt, an associate in Leydig's Chicago office.

"While the court discussed facts it deemed relevant to the 'regular and established' analysis, it noted there is no precise rule for determining what that means," Brandt says. "There are many other circumstances involving telecommuters – such as the number of employees a defendant has, who made the decision to work from home, and who benefits from it – that could sway a court one way or the other."

En banc Federal Circuit shifts burden of proof for IPR claim amendments

A recent *en banc* decision by the U.S. Court of Appeals for the Federal Circuit has the potential to upend the claim amendment process in inter partes review (IPR) proceedings. In *In re Aqua Products, Inc.*, the court reversed a previous panel decision and held that the petitioner bears the burden of proof in establishing the unpatentability of proposed amended claims.

Previously, the Patent Trial and Appeal Board (PTAB) had placed the burden of proving patentability on patent owners who sought to amend claims pursuant to 35 U.S.C. 316(d). In general, the ability to amend claims in an IPR offsets the impact of the broadest reasonable interpretation (BRI) standard PTAB uses to determine claim validity. The low rate at which motions to amend were granted, and use of the BRI standard, led many patent holders to complain that the deck was stacked against them in IPR proceedings. Now, the playing field may become more level, says David Airan, a member in Leydig's Chicago office.

"This decision is unquestionably a positive development for patent holders," Airan says. "In the short term, at least, the shifting of the burden to the petitioner gives PTAB more flexibility to grant amended claims."

According to PTAB, only 6.6 percent of all motions to amend filed through April 2016 were granted in-whole or in-part.

In re Aqua involved a robotic self-propelled swimming pool cleaner. After PTAB rejected the patentee's proposed amendments, a Federal

Circuit panel affirmed the U.S. Patent and Trademark Office's (PTO) strict approach to claim amendment practice during IPR proceedings, including PTO rules that require a patent holder to prove that its proposed amendments would make the claims-at-issue patentable over the known prior art.

In October, the divided *en banc* Federal Circuit issued multiple opinions addressing the burden of proof in IPR proceedings, none of which garnered a full majority in all respects. However, the leading opinion, written by Judge Kathleen O'Malley, rejected the rule established by the PTO, which put the burden on patent owners when amending claims, holding that "Congress explicitly placed the burden of persuasion to prove propositions of unpatentability on the petitioner for all claims, including amended claims."

Since the applicable statute was unambiguous in the court's eyes, no deference to the PTO's interpretation and approach was required under *Chevron* and "in the absence of any required deference, the most reasonable reading of [35 U.S.C. 316] is one that places the burden of persuasion with respect to the patentability of amended claims on the petitioner."

Judge O'Malley acknowledged that the ruling was "narrow" and that "[t]he only legal conclusions that support and define the judgment of the court are: (1) the PTO has not adopted a rule placing the burden of persuasion with respect to the patentability of amended claims on the patent owner that is entitled to deference; and (2) in the absence of anything

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that might be entitled deference, the PTO may not place that burden on the patentee."

While good news for patent holders, the court's various decisions in *In re Aqua* leave open the possibility that this positive development could be short-lived, says Elias Soupos, a member in Leydig's Chicago office.

"The court decided that the PTO had not enacted a proper rule about the burden of proof that was entitled to deference, which means the burden of proof could still be thrown back on patent owners' shoulders if the PTO adopts such a rule in the future," Soupos says.

Additionally, placing the burden of proof on petitioners may not be as big a deal as it appears, cautions Airan.

"The court left open the possibility that PTAB could make *sua sponte* decisions about patentability regardless of what arguments and proof have been presented," Airan notes. "If PTAB has the authority to essentially do what it wants in this regard, who bears the burden of proof becomes something of an esoteric point."

PTAB tightens the screws on follow-on IPR petitions

Patent challengers who file follow-on inter partes review (IPR) petitions better have a compelling argument as to why they should get a second bite at the prior art apple if they want those petitions to be granted.

The September decision from an expanded panel of the Patent and Trial Appeal Board (PTAB) in *General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha* makes it imperative that patent challengers thoroughly research and vet prior art before filing initial IPR petitions,

says Aaron Feigelson, a member in Leydig's Chicago office.

"You better have a darn good reason why the new prior art and arguments you rely on in a follow-on petition weren't available when you filed your initial petition," Feigelson says. "This decision reinforces the importance of doing your homework upfront because you may not get another chance."

After the Board denied General Plastic's two initial IPR petitions, General Plastic filed

five follow-on petitions against the same patents using new art and arguments. The Board then denied all five petitions based on several factors it established in its 2016 decision in *NVIDIA Corp. v. Samsung Elec. Co.* Those factors include:

- whether the petitioner knew or should have known of the prior art asserted in the second petition at the time it filed its first petition;

continued...

PTAB tightens the screws on follow-on IPR petitions *cont.*

- whether the petitioner already received the patent owner's preliminary response to the first petition before filing the follow-on petition; and
- the finite resources of the Board.

In its recent decision, the PTAB panel found that General Plastic "provided no explanation why it could not have found [the] new prior art earlier – prior to filing the first-filed petitions – through the exercise of reasonable diligence."

The Board also noted that the filing and review of multiple petitions was "an inefficient use of the inter partes review process and the Board's resources." This was the Board's way of saying it will not bear the burden of a petitioner's failure to find new prior art initially, says Christopher Gass, a member in Leydig's Chicago office.

"Before the Board invests the substantial time and effort involved in evaluating multiple follow-on petitions, it needs to know that the petitioner invested the substantial time and effort upfront that would have spared the need for such petitions" Gass says.

Additionally, General Plastic filed its follow-on petitions after the patent owner filed its preliminary response to the initial petition. Feigelson says the Board recognized that allowing a petitioner to study an owner's arguments before filing a follow-up petition could significantly prejudice patentees.

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all Board members will now be bound by the *NVIDIA* factors when evaluating follow-on IPR petitions.

Court and Congress criticize Allergan's use of sovereign immunity to avoid IPRs

Patent owners generally want to avoid inter partes review (IPR) proceedings whenever possible, but a recent court opinion, as well as congressional reaction, suggests that using a Native American tribe's sovereign immunity may not be the best way to do it.

The controversy surrounds Allergan's attempts to protect its patents for Restasis, its \$1.5 billion dry-eye drug, by transferring the patents to New York's St. Regis Mohawk Tribe. The goal in doing so was to have the challenger's IPR dismissed based on the tribe's sovereign immunity.

Judge William Bryson of the U.S. District Court for the Eastern District of Texas invalidated the Restasis patents for unrelated reasons, and neither the courts nor the Patent Trial and Appeal Board (PTAB) has made a definitive decision as to the validity of Allergan's efforts. The courts of public and congressional opinion weighed in, but that may not matter given the dollars at stake, says Steven Sklar, a member in Leydig's Chicago office.

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to look at ways to prevent patent owners from following suit in what it sees as a scam," Sklar says. "But when the potential upside is the protection of billions of dollars in revenue, a few months of bad publicity seems pretty inconsequential."

Judge Bryson invalidated the Restasis patents due to obviousness, but he also expressed his "serious concerns about the legitimacy of the tactic that Allergan and the Tribe have employed."

He noted that Allergan "has invoked the benefits of the patent system and has obtained valuable patent protection for its product, Restasis." With its sovereign immunity gambit, "What Allergan seeks is the right to continue to enjoy the considerable benefits of the U.S. patent system without accepting the limits that Congress has placed on those benefits. ..."

Bryson concluded that sovereign immunity "should not be treated as a monetizable commodity that can be purchased by private entities as part of a scheme to evade their legal responsibility."

The judge's rebuke notwithstanding, other patent holders may attempt the same strategy, says Shoshana Marvin, an associate in Leydig's Washington, D.C., office.

"Since neither the courts nor the PTAB has decided the issue, the use of sovereign immunity to avoid an IPR proceeding remains a potentially viable, though risky, approach," Marvin says. "Given the uproar on Capitol Hill about Allergan's move, however, it is possible that Congress may close the door on this tactic before more patent owners have the chance to do so."

Leydig Announces

Leydig welcomes to its Chicago office:

- Associate **Laura Schaefer** holds a law degree from Loyola University Chicago School of Law and a bachelor's degree in economics from the University of Iowa.

The Leydig, Voit & Mayer newsletter is going digital. Email newsletter@leydig.com to make sure you are on the list for the first online issue.

Leydig Awards

- U.S. News & World Report has awarded Leydig National and Metropolitan Tier-1 rankings in Patent Law and Trademark Law in its 2018 list of "Best Law Firms."

- LMG Life Sciences has recommended Leydig in the fields of patent prosecution, strategy and management. It has also recognized **Bruce Gagala, Salim Hasan and John Kilyk, Jr.** as "Life Science Stars."

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