

# Intellectual Property

2010 SUMMER BULLETIN

## Business Methods Dodge a Bullet—Method Patents Survive for Now

BY STUART P. MEYER

A unanimous decision is not always what it seems. On June 28, the U.S. Supreme Court upheld without dissent the U.S. Court of Appeals for the Federal Circuit's ruling that a patent application for hedging against price changes was not patentable. *Bilski v. Kappos*, No. 08-964, 2010 U.S. LEXIS 5521 (2010). This high-level description of the *Bilski* decision is accurate, but belies the true import of the case and the impact it will have for years to come.

Just under the surface, the more important ramifications of the decision are wide-ranging. As has become typical for recent Supreme Court patent cases, the Court chided the Federal Circuit for attempting to apply a single, mandatory test to determine a complex and nuanced issue – here, the types of methods that are eligible for patenting. The Federal Circuit was erroneous, the Court held, in thinking that the so-called machine-or-transformation test was the only way to determine whether a method is the type of invention that fits within our statutory scheme for patenting. It is helpful to a patentability analysis to consider whether a method is used in connection with a particular machine or if it transforms something from one state to another; a checkmark in either of those boxes almost ensures that the invention qualifies for patent protection. But the Federal Circuit was being too rigid in the Court's estimation in holding that no other type of analysis ever could be used, particularly where Information Age inventions rather than Industrial Age inventions are at issue.

While this wrist-slapping of the Federal Circuit may be amusing to patent lawyers, it provides only a limited practical take-away to their clients: Do not assume that an issue is settled just because the Federal Circuit rules on it. We will soon see the Federal Circuit's take on all of this. The day after announcing the *Bilski* decision, the Supreme Court vacated and remanded to the Federal Circuit two other decisions for further consideration in light of *Bilski*: *Classen Immunotherapies, Inc. v. Biogen Idec*, 08-1509, 2010 U.S. LEXIS 5533 (June 29, 2010) and *Mayo Collaborative Servs. v. Prometheus Labs.*, 09-490, 2010 U.S. LEXIS 5537 (June 29, 2010). One or both of those cases may well percolate back up to the Supreme Court after the Federal Circuit's decisions on remand.

So if the Federal Circuit is not capable of providing us with lasting guidance, what is it that the Supreme Court now teaches us about patentability? Ultimately, the primary teaching of the *Bilski* case is that uncertainty remains about one of the most fundamental issues of patent law: what types of inventions are patentable. A concurring opinion, the swan song of Justice Stevens, was a concurrence in name only and read much more like a strong dissent. Justice Stevens, joined by Justices Ginsburg, Breyer, and Sotomayor, stated bluntly that, "business methods are not patentable." They would have decided the case on this basis alone.

The majority opinion was much narrower and held the *Bilski* patent application to be unpatentable because it attempted to claim abstract ideas (*i.e.*, the concept of hedging risk and its application to energy markets). The Court rejected a categorical

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prohibition on business method patents at the same time it rejected a singular test for patentability, saying that “a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting.” However, it would be wrong to think that the majority opinion provided any sort of broad endorsement of patents for such methods. The modern rush to patent business methods was ushered in by the Federal Circuit’s 1998 *State Street* decision. The majority opinion took issue with that ruling, which was based on whether an invention produces a “useful, concrete and tangible result.” The language used by the Court to ensure its holding would remain limited was telling: “Nothing in today’s opinion should be read as endorsing the Federal Circuit’s past interpretations of § 101.” (citing *State Street*)

The majority opinion warned that “business method patents raise special problems” and cautioned that, “if a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change.” At most, the tepid acceptance of business method patents in the majority opinion left tremendous room for argument that specific non-physical inventions in future cases might not qualify for patenting.

Nonetheless, Justices Stevens, Ginsburg, Breyer, and Sotomayor did not think the majority went far enough. The Stevens concurrence was an extremely detailed discussion that ranged from English legal history to modern social policy. The concurrence dismissed the 17<sup>th</sup> and 18<sup>th</sup> century English patents directed to banking and life insurance as perhaps representing “little more than the whim—or error—of a single patent clerk,” who, as one scholar of a bygone age put it, “perhaps ... was in a very good humour that day, or perhaps he had forgotten the wording of the statute,” or even was concerned more with the increase in public revenue that came by granting the patent.

Justice Stevens took serious issue with the Court’s analytical framework, stating that the opinion was “less than pellucid in more than one respect” and saying as to one part, “if this portion of the Court’s opinion were taken literally, the results would be absurd.” Justice Stevens further opined that the Court provided insufficient explanation of its analysis regarding how the claims of the *Bilski* application were directed to “abstract ideas.” Justice Stevens concluded his writings on this point by saying, “This mode of analysis (or lack thereof) may have led to the correct outcome in this case, but it also means that the Court’s musings on this issue stand for very little.”

What is so important about this concurrence is that it illustrates that the Supreme Court does not have a ready, uniform answer to a fundamental issue about what a constitutionally mandated statute covers, even though the language of the statute in this area has changed little in over 200 years. A cynic might dismiss this basic uncertainty as showing a foundational weakness in our system of government, but another more reasonable interpretation is that intellectual property simply presents some very difficult issues. At its core, the patent system was intended to provide a delicate balance of public and private rights. Anytime that there is a change in technology, in the players who can apply for patents, or in the prevalence of a market for patent rights, there is a risk that this balance can be upset.

Where the Court might find the tipping point to be in future cases is very difficult to predict. Justice Stevens led the charge against business method patentability, but is leaving the Court. Even though his presumptive replacement is Solicitor General Kagan, it is unclear the extent to which the government’s arguments in *Bilski* were influenced by her personal views. Justice Breyer also wrote a separate concurrence, primarily to “highlight the substantial *agreement* among many Members of the Court on many of the fundamental issues of patent law raised by this case.” Justice Scalia did not write a separate opinion, but joined only a portion of the majority opinion and a portion of Justice Breyer’s concurrence.

The discussion concerning *Bilski* has centered largely on the primary focus of the opinions – business methods. However, other methods that do not readily pass the machine-or-transformation test are just as likely to be touched by interpretation of this ruling as well. The majority opinion specifically acknowledges the impact of the case on “the patentability of software, advanced diagnostic medicine techniques and inventions based on linear programming, data compression, and the manipulation of digital signals.” We will collect the reactions of the Federal Circuit, the USPTO, and the district courts as they come in and suggest how businesses in various areas may develop appropriate strategies in light of the ruling.

## Protection or Preemption? The Ninth Circuit Rules on California Contract Law Claims

BY KATHARINE BARRY AND PATRICK E. PREMO

In decisions released within one week of each other, the U.S. Court of Appeals for the Ninth Circuit has affirmed that contractual protections for literary and artistic

works can be upheld even if the requirements for a federal copyright claim are not met. *Benay v. Warner Bros. Entertainment, Inc.*, 2010 U.S. App. Lexis 11707 (9th Cir. Jun. 9, 2010). In order to trigger the greater protections available by contract, literary and artistic works must be offered for the purpose of a sale, not just for the purpose of partnership. *Montz v. Pilgrim Films & TV, Inc.*, No. 08-56954, 2010 U.S. App. LEXIS 11255 (9th Cir. Jun. 3, 2010).

In *Benay*, the court held that plaintiffs who pitch completed, copyrighted screenplays for purposes of sale are able to pursue a California state law breach of contract claim even if the requirements for a federal copyright claim are not met.

This is consistent with the Ninth Circuit's ruling in *Pilgrim Films* that federal copyright law preempts state law claims when plaintiff seeks to retain control over his or her work by seeking a partnership or a similar ongoing arrangement with the defendant involving sharing of profits and credit. California state law protections apply only when the party is prepared to relinquish control of the work.

#### **No Protection Under State Law Without an "Extra Element"**

In *Pilgrim Films*, plaintiffs conceived of a concept for a new reality television program featuring a team of "paranormal investigators" in 1981. Between 1996 and 2003, plaintiffs presented screenplays, videos, and other materials relating to their proposed reality show to representatives of NBC Universal for the express purpose of offering to partner in the production of this television concept. Subsequently, NBC Universal partnered with Pilgrim Films, to the exclusion of plaintiffs, to produce a series on the Sci-Fi Channel called *Ghost Hunters*.

Plaintiffs asserted federal copyright claims as well as state law claims alleging (1) breach of an implied agreement not to disclose, divulge, or exploit plaintiffs' ideas and concepts without plaintiffs' express consent; and (2) breach of confidence by taking plaintiffs' novel ideas and concepts and profiting to plaintiffs' exclusion. The U.S. District Court for the Central District of California dismissed the state law claims under a preemption analysis. The California Court of Appeal for the Second District affirmed.

Section 301(a) of the Copyright Act sets forth two conditions for federal preemption: (1) the right asserted must be for a work of authorship fixed in a tangible medium of expression and come within the subject matter of copyright as specified by §§ 102 and 103;

and (2) the right asserted under state law must be equivalent to the exclusive rights of copyright owners specified under the Copyright Act. If plaintiffs seek protection of literary and artistic works under California state law claims, they must "allege an 'extra element' that changes the nature of the action." *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 968 (9th Cir. 2004).

In this case, the court determined that the core allegations of the breach of confidence and breach of contract claims stem from plaintiffs' exclusive right to use and authorize use of the underlying works, which is expressly protected by § 106 of the Copyright Act. The court clarified that it is the right to "payment on a sale" that triggers state law claims. Since there was not an offer for sale, the breach of contract and breach of confidence claims were preempted.

Plaintiffs argued that under *Grosso* they could assert a *Desny* claim for protection of ideas embodied in copyrighted works. A *Desny* claim under California law requires plaintiff to plead that he or she (1) prepared the work; (2) disclosed the work to the offeree for sale; and (3) did so under circumstances from which it could be concluded that the offeree voluntarily accepted the disclosure knowing the conditions on which it was tendered and the reasonable value of the work. *Desny v. Wilder*, 46 Cal. 2d 715, 733 (1956). While *Desny* claims are still available under California law, offers of partnership in which plaintiffs attempt to retain control over use and future profits do not constitute an "offer for sale" and therefore implicate no additional rights beyond those already protected by federal copyright law.

#### **State Law Protection Available with an Offer for Sale**

The extra element, an offer for partnership and shared profits in *Pilgrim Films*, did not change the nature of the rights protected and therefore the state law claim was preempted by federal copyright law. However, if a plaintiff does attempt to sell a completed, copyrighted work, he or she is able to bring a claim under California state law to protect not only the copyrighted elements of the work, but also the ideas underlying the work.

In *Benay*, plaintiffs pitched and then submitted a copyrighted screenplay entitled "The Last Samurai" to Bedford Falls Productions. After receiving the screenplay, Bedford decided to pass because it already had a similar project in development and subsequently produced a film entitled "The Last Samurai."

Plaintiffs alleged both a copyright infringement claim under federal law and a breach of contract claim under California law in a complaint to the U.S. District Court

for the Central District of California. The district court granted summary judgment to the defendants on both claims. The Court of Appeal affirmed on the federal copyright claim and then reversed and remanded to the district court on the state law claim.

The Ninth Circuit's decision centered on the different analyses of "substantial similarity" required for a breach of contract claim and a copyright claim. In a federal copyright claim, plaintiff must demonstrate "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." On a motion for summary judgment, the Ninth Circuit applies an extrinsic test to determine if one work is substantially similar to another.

This test examines whether the protectable elements, standing alone, are substantially similar. The extrinsic test is "an objective test based on specific expressive elements: the test focuses on articulable similarities between the plot, themes, dialogue, mood, setting, pace, characters, and sequence of events in two works." Historical facts, familiar stock scenes, and themes are not protected by federal copyright law. The *Benay* court determined that, although the film and the screenplay shared the same premise, themes, and historical facts, the differences between the *protectable* elements ultimately enabled them to find as a matter of law that the works were not substantially similar under federal copyright law.

Though plaintiffs were unable to demonstrate "substantial similarity" between their screenplay and a completed film for the purposes of bringing a federal copyright claim, this did not preclude the possibility that they might prevail under a state law breach of contract claim. The court stipulated that even when the work is fully protected by copyright, the contract claim is still analyzed separately from the copyright claim.

Plaintiffs establish an implied-in-fact contract by demonstrating that: (1) plaintiff submitted the work for sale to defendants; (2) plaintiff conditioned use of the screenplay on payment; (3) defendant knew or should have known of the condition; (4) defendant voluntarily accepted the screenplay; (5) defendant actually used the screenplay; and (6) the screenplay had value. Since the producer obligated himself to pay for an idea in an implied-in-fact contract, the entire idea is protected by the contract.

Though the parties disputed the fifth element, contract law permits an inference of actual use of copying through evidence of access and similarity that the defendant must rebut. In breach of contract claims, the level of similarity depends on the nature of the

agreement between the parties. If the contract is implied-in-fact, no precise standard is agreed upon, and the courts have determined the common law standard is "substantial similarity."

However, the court applies "substantial similarity" differently for a state law breach of contract claim by allowing the court to consider the whole work, not just the copyrightable elements. Therefore, the court may examine the elements of a work that are *not* protected under federal copyright law in addition to those elements that are protected by federal copyright law. Under its separate analysis, the court concluded that the similarities between the work such as the title, the historical figure on which the film and screenplay is based, the historical setting, and general plot outline were substantial for purposes of an implied-in-fact contract under California law.

## Conclusion

Despite its decision in *Pilgrim Films* that narrowed its *Grosso* ruling, the Ninth Circuit stated in *Benay* that "contract law . . . is the most significant remaining state-law protection for literary or artistic ideas." As long as plaintiffs have offered their works for sale, the broader protections available under California contract law will continue to apply to both the copyrighted works and the ideas underlying them.

## Quick Updates

### Substantial Consequences for Discovery Failures in a Trade Secrets Case

In a controversial and ongoing trade secrets misappropriation battle between Lockheed Martin and L-3 Communications in the Northern District of Georgia, one party faced substantial consequences due to its discovery failures that were uncovered after trial.

According to the relevant case history, Lockheed created a line of anti-submarine warfare P-3 aircraft under a contract with the U.S. Navy in the 1950s. In the 1990s, L-3 used some of Lockheed's P-3 drawings, labeled as proprietary, to refurbish certain P-3 aircraft under a \$427 million contract awarded to L-3. In 2005, Lockheed sued L-3 for trade secret misappropriation, arguing that L-3 had improperly used proprietary P-3 drawings to beat out Lockheed for this contract.

In *Lockheed Martin Corp. v. L-3 Communications Corp.*, No. 05-CV-902-CAP, 2008 U.S. Dist. LEXIS 109615 (N.D. Ga. Sept. 30, 2008), L-3 moved for summary judgment regarding the misappropriation claim. L-3 asserted that Lockheed had no trade secret interest

in the P-3 drawings, arguing Lockheed had failed to maintain secrecy of the drawings, as is required under the Georgia Trade Secret Act. Lockheed had allegedly allowed other entities to use the P-3 data, including the Brazilian company, CASA. However, Lockheed produced correspondence from CASA to Lockheed assuring that the proprietary P-3 data was not used. The court thus denied L-3's motion for summary judgment based on this and other evidence.

On May 21, 2009, the jury issued a verdict finding L-3 had misappropriated Lockheed's P-3 trade secrets, awarding Lockheed \$37 million in damages. However, prior to entry of judgment, L-3 filed an emergency motion accusing Lockheed of intentionally withholding critical email evidence regarding the trade secret issue, of which L-3 subsequently became aware through discovery being conducted in another case involving Lockheed. L-3 moved for dismissal of the case or, alternatively, for a new trial.

In a March 31, 2010 order, the court found that Lockheed had improperly failed to turn over the emails. The emails allegedly showed that (1) Lockheed knowingly allowed CASA to use its proprietary data; and (2) Lockheed had actually itself written the very correspondence that it had said was written by CASA, which it used in trial to buttress its trade secret misappropriation claim. The court denied L-3's motion to dismiss the case, since the court was hesitant to find that Lockheed had intentionally withheld the emails given the voluminous documents in the case (though the court was "puzzled" as to why Lockheed provided other emails in the same email chain, but left out these particular emails). Yet, the court found it "more than possible, even probable" that this new evidence would have changed the outcome of the case and granted L-3's request for a new trial, vacating the \$37 million verdict for Lockheed.

On April 13, 2010, in response to a media inquiry about the surprising vacating of the \$37 million verdict, the court took another noteworthy action by unsealing all briefs and exhibits related to Lockheed's alleged withholding of documents. These documents originally had been filed under seal and hence held confidential, however the court found that the content of these documents was not confidential and released them to the public. However, neither L-3 nor Lockheed objected to unsealing the pleadings. The content of the unsealed documents included allegations by L-3 lawyers that Lockheed intentionally withheld evidence critical to L-3's defense, as well as U.S. District Judge Charles A. Pannell Jr.'s instructions to the jury that "once trade secret status is lost, it is lost forever."

Also included were L-3's allegations that the withheld evidence would have "undoubtedly changed the outcome of the trial." Whether this statement is correct will play out in the new trial.

### ***Miller v. Facebook, Inc.: Copyright Infringement Claim Dismissed***

In March, the U.S. District Court for the Northern District of California granted Facebook's motion to dismiss a copyright infringement claim brought by Daniel M. Miller, the creator of an online video game called *Boomshine*. Plaintiff alleged that Facebook and Yao Wei Yeo "reproduced and distributed" Yeo's video game, *ChainRxn*, as an online game in Facebook's Application Directory, and that *ChainRxn* copied the look and feel of *Boomshine*. Under Fed. R. Civ. P. 12(b)(6), a court may dismiss a case if it fails to state a claim upon which relief can be granted. In applying this rule, the court held that Miller's claim failed to state claims for either direct or indirect copyright infringement. *Miller v. Facebook, Inc.*, 3:10-cv-00264-WHA (N.D.Cal. March 31, 2010)

The decision is notable for its refusal – in the context of a motion to dismiss – to accept bare bones allegations of copyright infringement that nonetheless arguably asserted the necessary elements of a claim. Yet, faced with somewhat ambiguous assertions regarding Facebook's role in the alleged infringement, the court granted Facebook's motion to dismiss, holding that Miller's allegations were merely disguised legal conclusions.

The complaint alleged the following, which the court accepted as true for purposes of the motion: In early 2007, Miller created the video game *Boomshine* and subsequently published it on his website K2xL.com; thereafter, he registered the copyrights in the game. In 2009, Yeo and his company Zwiggler Apps published *ChainRxn* on Facebook's website. Facebook included the game in its Application Directory, which according to the complaint "allow[ed] every Facebook user to search and view the application from within the directory."

Miller filed suit in U.S. District Court for the Northern District of Georgia in October 2009, asserting that *ChainRxn* infringed Miller's copyrights because "*ChainRxn* copies the look and feel of *Boomshine* by incorporating almost every visual element of the game." The case was later transferred to California.

After the case landed in California, Facebook moved to dismiss for failure to state a claim and District Judge William Alsup granted the motion. The court noted that plaintiff failed to specify whether his single copyright claim alleged direct or indirect copyright infringement, and dismissed as to both possible claims.

In reasoning that a direct infringement claim did not exist, the court stated that Miller's complaint did not satisfy one of the two requisite parts for such a claim. Although Miller owned the allegedly infringed material, there were insufficient factual allegations illustrating Facebook's violation of at least one of the exclusive rights under Section 106 of the Copyright Act, including copying, displaying, or distributing copies of *Boomshine*. "As the complaint currently reads, it is unclear whether defendant Facebook published a copy of the game on its application directory, published a link to the game, included a place for Facebook users to blog about the game, or published a combination of these and/or other things," the court observed in dismissing.

The court next considered the indirect infringement claim. To prove such, a plaintiff must allege that a third party directly infringed plaintiff's copyright and that the alleged indirect infringer engaged in acts constituting contributory or vicarious infringement. The court found the first requirement met in Miller's allegations that Yeo published a video game that copied *Boomshine's* look and feel. However, the same ambiguities that defeated the direct infringement claim against Facebook marked the secondary liability claim as defective. Insofar as the complaint alleged that Facebook induced, caused, or materially contributed to the infringement by refusing to remove *ChainRxn* from its website, this allegation was not enough because the complaint did not allege just what Facebook published on its website, making it impossible to determine what should be removed. Similarly, the court held the vicarious infringement allegations insufficient because the same ambiguous allegations did not show how Facebook had the right and ability to supervise the allegedly infringing conduct.

The court left the possibility open for Miller to amend his claims. This case serves as a reminder to potential plaintiffs that factual allegations must be clearly presented in a complaint in order to have a chance at success in a copyright infringement claim, regardless of whether or not the claim has merit.

### **Web-Based Specimens of Use for Goods Must Be More Than Mere Advertising**

The Trademark Trial and Appeal Board (TTAB) recently issued a precedential ruling involving web-based specimens of use. In *In re Quantum Foods, Inc.*, 94 USPQ2d 1375 (TTAB 2010), the TTAB found the applicant's specimens invalid for failing to display information sufficient to lead a consumer to purchase the goods at issue. While this ruling is not a vast departure from well-accepted trademark principals

or practice, it does serve to clarify that web-based specimens used to support registrations for goods, as opposed to those submitted in relation to services, must be more than mere advertising. Specifically, in addition to bearing the mark sufficiently near a picture or description of the goods, the specimens must include information necessary to order the goods.

In *Quantum Foods* the applicant filed an intent-to-use application for the mark Providing Protein and Menu Solutions™ ("Protein" disclaimed), for "processed meats, beef, pork, poultry, and seafood sold in portions; fully cooked entrees consisting primarily of meat, beef, pork, poultry or seafood."

Upon receiving a notice of allowance and having its initial specimen refused by the examiner, the applicant submitted an image of a page from its website as a substitute specimen. The image shows the Quantum Foods logo prominently displayed in the top left corner. The top right corner of the page – just to the right of the Quantum Foods logo – contains four links, labeled, "About Us," "For Restaurants," "For Consumers," and "For Foodservice." Each of these links appears within a small picture of a meat dish. Below, in the main section of the page, the phrase "Providing Protein and Menu Solutions™" appears above three pictures of meat dishes. Immediately below the three pictures appears the following description: "We believe you shouldn't have to settle for a product or a 'me too' menu. That's why we work with you to create truly custom beef, pork and poultry solutions that perform in your kitchen and on your menu. Because at Quantum Foods, your success is our first priority."

The examiner refused the substitute specimen, on the grounds that it was merely an advertisement. The applicant appealed. In affirming the examiner's refusal, the TTAB held that "if there is no way for a consumer, when visiting a webpage, to order the goods being promoted, then the use of a proposed mark in connection with the goods on the webpage is nothing more than advertising." The TTAB did acknowledge the validity of web-based specimens, likening their use and necessity in e-commerce to that of point-of-sale displays in the brick and mortar space. However, like a brick and mortar point-of-sale display, a web-based specimen "must contain adequate information for placing orders for the goods." Accordingly, the TTAB rejected the applicant's argument that customers can access a "customer service page" deeper within the website, which contains an email address and toll-free number, and at which orders can be placed. In this case, the TTAB stated that based on the specimen at issue, "it is not even clear what goods, if any, can be ordered from applicant."

In order to avoid similar run-ins with the trademark office or the TTAB, trademark owners should ensure that any web-based specimen submitted in support of the registration of goods (1) includes a picture or detailed description of the goods; (2) shows the mark sufficiently near the picture or description; and (3) includes information necessary to order the goods.

### **Changing Standards in Transferring Cases out of the Eastern District of Texas**

The U.S. District Court for the Eastern District of Texas lately has been a favorite venue for plaintiffs in patent infringement cases. Recent decisions, including *In re Apple Inc.*, Misc. Dkt. No. 932, 2010 U.S. App. LEXIS 9686 (Fed. Cir. May 12, 2010), give defendants a viable option for transferring patent cases to more friendly districts.

Plaintiffs are allowed to file suit in any district where the defendant resides or where the defendant has both (1) committed acts of infringement; and (2) has a regular and established place of business. See 28 U.S.C. § 1400(b). In the age of nationwide commerce and Internet presences, plaintiffs have wide latitude to file patent lawsuits in almost any district in the country. Perceived as a plaintiff-friendly venue, and with a reputation for resolving cases quickly, plaintiffs, especially nonpracticing entities, have filed over 1,500 patent infringement lawsuits in the Eastern District of Texas since 2000.

Defendants can bring a motion to transfer for the convenience of parties and witnesses, or in the interests of justice. See 28 U.S.C. § 1404(a). Unsurprisingly, many defendants have sought to have their cases transferred to venues they perceive as being more friendly toward defendants. Prior to 2008, these attempts often failed, as the U.S. Court of Appeals for the Federal Circuit, applying Fifth Circuit Court of Appeals law, was reluctant to override plaintiff's decision about where to file its lawsuit.

Defendants' losing streak ended in 2008 because of the products liability case *In re Volkswagen*. In that case, the Fifth Circuit ordered the Eastern District of Texas to transfer a case to another district. See *In re Volkswagen*, 545 F.3d 304, 319 (5th Cir. 2008). In doing so, the Fifth Circuit stated the district court erred by giving "inordinate weight to plaintiffs' choice of venue."

In the two years since *In re Volkswagen*, defendants in patent cases have sought transfer numerous times. The Federal Circuit, again applying Fifth Circuit law, has begun to flesh out the contours of when a patent case is appropriate for transfer outside of the Eastern District of Texas. The primary question asked by courts is whether the venue proposed by the defendant is "clearly more

convenient" than the Eastern District of Texas. Courts will examine a number of factors in determining whether the transfer is clearly more convenient. Based on a number of cases, the primary factors courts examine include the location of witnesses, the location of evidence, where the parties are headquartered, and how long the defendant delayed in bringing the motion.

The first factor, location of witnesses, weighs heavily in courts' analyses. If the majority of the witnesses are in a single district, then a court is more inclined to grant transfer to that district. The further the witnesses are from the Eastern District of Texas, the stronger this argument is for defendants.

The location of evidence, particularly the location of the defendant's documents and accused products or devices, is the second factor. In patent cases, the bulk of the evidence comes from the defendant's documents. Furthermore, courts often will ignore a plaintiff's attempt to weigh this factor in its favor by moving its documents to the Eastern District of Texas. See *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333, 1336-37 (Fed. Cir. 2009).

Where the parties are headquartered plays a significant role in a court's decision to transfer the case. If none of the parties is headquartered in the Eastern District of Texas, a defendant's request to transfer to its home venue is generally stronger than to a district where none of the parties is based. Courts look unfavorably on a plaintiff suing additional defendants solely because those defendants are based in the Eastern District of Texas. See *Balthasar Online, Inc. v. Network Solutions, LLC*, No. 2:08-cv-430 (E.D. Tex. Sept. 15, 2009) (order granting partial transfer). Although courts have never directly addressed a nonpracticing plaintiff's attempt to get around this factor by moving its headquarters to the Eastern District of Texas, the court in *In re Apple* was skeptical of plaintiff's "recent and ephemeral" existence in the Eastern District of Texas. Finally, the longer a defendant waits to make a motion to transfer, the less likely that a court will grant the motion. Courts are reluctant to waste time. The more time an Eastern District of Texas court has invested in the case, the stronger the argument that the defendant has waived its right to obtain a transfer. See *In re VTech Commc'ns., Inc.*, Misc. Dkt. No. 909, 2010 U.S. App. LEXIS 372 (Fed. Cir. Jan. 6, 2010).

While transferring out of the Eastern District of Texas was exceedingly difficult before *In re Volkswagen*, defendants now have a viable option for moving the case to other districts. As the courts clarify the standards for a transfer to occur, defendants can expect to see more transfers and, perhaps, fewer new cases in the Eastern District of Texas.



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