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IP NEWS

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Federal Circuit: Texas Court Abused Its Discretion By Delaying On Venue Transfer Motion While Proceeding With The Merits of the Case

A district court has broad discretion to manage its docket and decide venue transfer motions. The ongoing proceedings in *Netlist, Inc. v. SK Hynix Inc.*, Nos. 6:20-CV-00194-ADA, 6:20-cv-00525-ADA (W.D. Tex.) provide an unusual and informative example of the scope and bounds of that discretion.

On March 17, 2020, Plaintiff Netlist filed a first action in the Western District of Texas alleging that Defendant SK Hynix infringes two related patents. A few months later, on June 15, 2020, it filed a second action in the same court alleging infringement of a third, unrelated patent. District Court Judge Alan Albright consolidated the cases, setting a *Markman* hearing for March 19, 2021 and trial for Dec. 6, 2021. *See, e.g.*, -194 case, Dkt. No. 73 at 3, 5.

On May 4, 2020, SK Hynix moved to transfer the first case to the Central District of California, where Netlist is headquartered, the two inventors of the patents reside, and two lawsuits were pending between the parties alleging that the same accused products infringed related patents. As a basis for transfer, SK Hynix relied on both the "first-to-file" rule (which provides for transfer when another district court is already hearing a case addressing overlapping issues) and 28 U.S.C. §1404(a) (which provides for transfer based on the convenience of parties and witnesses and the interest of justice). The parties then stipulated that the transfer motion would also apply in the second case.

Seven months passed without a decision on the motion. Accordingly, SK Hynix moved on Dec. 15, 2020 to stay litigation of the substantive issues in the Texas cases pending the court's decision on venue transfer. The court effectively denied that motion in early January 2021 by indicating it intended to resolve the venue issue in parallel with the merits of the case. On Jan. 22, 2021, SK Hynix filed a petition for a writ of mandamus asking the Court of Appeals for the Federal Circuit to either transfer the cases or compel the district court to decide the transfer motion.

On Feb. 1, 2021, the day that the Federal Circuit ordered Netlist to respond to SK Hynix's mandamus petition, the Federal Circuit granted that petition and ordered the district court to "stay all proceedings concerning the substantive issues in the case until such time that it has issued a ruling on the transfer motion capable of providing meaningful appellate review of the reasons for its decision." *See, In re SK Hynix Inc.*, No. 2021-113, 2021 WL 321071 (Fed. Cir. Feb. 1, 2021). The district court held a hearing on the following day, and a few hours later issued a 17-page opinion denying SK Hynix's motion.

The district court's opinion ruled that the first-to-file rule did not apply and that transfer was not warranted under Section 1404(a). In support of both holdings, the court noted that "the parties have not meaningfully and substantively litigated the [California] actions" because those actions were stayed pending (successful) *inter partes* reviews of the asserted patents. In contrast, the court found that the Texas cases have been "actively and substantively litigated

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in this Court," and that a transfer would improperly "obviate all the resources expended by the parties and the Court to prepare this case." The court then *sua sponte* and without explanation further accelerated the litigation of those substantive issues by moving the trial date from December 6, 2021 to July 6, 2021, moving the *Markman* hearing from March 19, 2021 to March 1, 2021, and (to meet those deadlines) eliminating SK Hynix's right to file a claim construction sur-reply brief.

Not surprisingly, on Feb. 8, 2021 SK Hynix filed a second petition for mandamus challenging the district court's rulings. The Federal Circuit's decision on that petition will likely shed new light on the scope of a district court's discretion to manage its docket in connection with venue transfer motions.

Federal Circuit: PTAB Violates the APA When It *Sua Sponte* Adopts a New Claim Construction to Support New Theory of Invalidity for First Time

The Administrative Procedure Act (APA) imposes certain procedural requirements on the Patent Trial and Appeal Board (PTAB or the Board) in a contested proceeding such as an *inter partes* review, including the requirements that the Board timely inform the patent owner of the asserted matters of fact and law, and provide the parties the opportunity to submit and consider the facts and arguments. In *M & K Holdings, Inc. v. Samsung Elecs. Co.*, No. 2020-1160, 2021 WL 317218 (Fed. Cir. Feb. 1, 2021), the Federal Circuit considered whether the Board had violated those requirements when it *sua sponte* adopted a new claim construction, in support of a new theory of invalidity, for the first time in its final written decision.

In 2018, Samsung filed a petition for *inter partes* review of M & K Holdings's U.S. Patent No. 9,113,163 (the "'163 patent"). The petition alleged that claims 1, 2, 5, and 6 of the '163 patent were anticipated by the prior-art "WD4-v3" working draft standard, while claims 2, 3, and 4 were obvious over the WD4-v3 standard in combination with the "Park" and/or "Zhou" prior-art references. The Board instituted an IPR proceeding on each of these challenged grounds.

In its final written decision, the Board found that claims 1, 2, 5, and 6 were anticipated, and that claim 4 was obvious, for the reasons described in Samsung's petition. The Board also found that claim 3 was "obvious over WD4-v3, Park, and Zhou" (as described in the petition) because "WD4-v3 anticipates claim 3" and "'anticipation is the epitome of obviousness.'" (quoting *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983)).

On appeal, M & K Holdings argued, *inter alia*, that the Board violated the procedural notice requirements of the APA when it found claim 3 to be anticipated by the WD4-v3 standard in view of the fact that Samsung's petition only alleged obviousness as to that claim. The Federal Circuit found that it did. The APA's notice requirements are violated when "'the Board depart[s] markedly from the evidence and theories presented by the petition or institution decision, creating unfair surprise.'" (quoting *Arthrex, Inc. v. Smith & Nephew, Inc.*, 935 F.3d 1319, 1328 (Fed. Cir. 2019)). The court found that "[a]lthough M&K was aware of the prior art used to invalidate claim 3 given the obviousness combination asserted against that claim, M&K was not put on notice that the Board might find that WD4-v3 disclosed all of the limitations in claim 3 and might invalidate claim 3 based on anticipation." It also reasoned that the Board's anticipation finding was "based on a claim interpretation that was not offered by either party and was not disclosed until the Board's decision." Because M & K Holdings had no notice of the Board's claim construction or anticipation theories prior to the final written decision, the procedural requirements of the APA were not satisfied. Accordingly, the Federal Circuit vacated the Board's holding that claim 3 is unpatentable and remanded for the Board to further analyze the patentability of that claim.