

EXHIBIT B

FILED 13

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MAY 11 2004
CLERK'S OFFICE
U.S. DISTRICT COURT
EASTERN MICHIGAN

VERVE L.L.C.,

Plaintiff,

vs.

Case No. 03-CV-73481
HON. GEORGE CARAM STEEH

VERIFONE, INC. et al.,

Defendants.

_____/

OPINION AND ORDER
DENYING DEFENDANT HYPERCOM'S MOTION TO DISMISS,
GRANTING DEFENDANT HYPERCOM'S MOTION TO SEVER AND
TRANSFER VENUE OF THE SEVERED CLAIMS TO THE DISTRICT OF ARIZONA
AND ORDERING PLAINTIFF VERVE TO SHOW CAUSE ON OR
BEFORE JUNE 3, 2004 WHY THE CLAIMS ALLEGED AGAINST
THE REMAINING DEFENDANTS SHOULD NOT BE SEVERED FOR MISJOINDER

Defendant Hypercom Corporation moves to dismiss plaintiff Verve, L.L.C.'s patent infringement claims without prejudice for failure to serve process within 120 days as required under Federal Rule of Civil Procedure 4(m), or to sever plaintiff Verve's claims as alleged against Hypercom and transfer the case to the United States District Court for the District of Arizona pursuant to 28 U.S.C. § 1404(a). A hearing on the motion was held on May 3, 2004.

I. Background

Plaintiff Verve filed a Complaint on September 11, 2003, and a First Amended Complaint on October 10, 2003, alleging infringement of U.S. Patent No. 4,678,895 "System for Making Payments for Transactions" ("895 Patent") against eight separate defendants: Hypercom; Verifone, Inc.; Lipman USA, Inc.; Ingenico Corp. USA; Thales e-Transactions, Inc.; Telecheck Services, Inc.; Link Point International, Inc., and;

Schlumberger Limited. Plaintiff alleges Hypercom's "T7 Series Terminal" infringes the '895 Patent, and that the "[d]efendants sell and offer to sell their infringing products in this judicial district and elsewhere in the United States." Plaintiff Verve alleges that it is a Texas limited liability company "having its places of business" in Northville, Michigan, and Austin, Texas. Defendant Hypercom is an alleged Delaware corporation with its principal place of business in Arizona. Verve asked Hypercom to waive service of process on January 2, 2004, with Hypercom thereafter executing and returning a waiver of service on January 23, 2004. Following a show cause order, the court extended the summons' expiration dates to March 26, 2004.

Verve filed another patent infringement lawsuit in the United States District Court for the Western District of Texas on February 4, 2004 against Hypercom, three of the other defendants named here, and four additional defendants, alleging infringement of U.S. Patent No. 4,562,341 "Electronic Cash Register" ("341 Patent"). Verve alleges Hypercom's "ICE 6000 terminals" infringe the '341 Patent. Verve further alleges in the Texas lawsuit that its "principal place of business" is Austin, Texas.

Hypercom filed its own declaratory judgment action against Verve in the United States District Court for the District of Arizona on February 25, 2004 relative to the '895 Patent, the '341 Patent, and U.S. Patent No. 4,562,340. Hypercom asserts it filed the Arizona lawsuit for the purpose of consolidating the Michigan and Texas lawsuits.

**I. Hypercom's Motion to Dismiss for Failure to Serve Process
Within 120 Days**

Hypercom moves to dismiss Verve's claims arguing that the summons and complaint were not served within 120 days as required by Federal Rule of Civil Procedure 4(m), and that Verve misrepresented its asserted pre-suit settlement efforts to establish

good cause for extending the summons. Federal Rule of Civil Procedure 4(m) provides:

Time Limit for Service. If service of the summons and complaint is not made upon a defendant within 120 days after the filing of the complaint, the court, upon motion or on its own initiative after notice to the plaintiff, shall dismiss the action without prejudice as to that defendant or direct that service be effected within a specified time; provided that if the plaintiff shows good cause for the failure, the court shall extend the time for service for an appropriate period. This subdivision does not apply to service in a foreign country pursuant to subdivision (f) or (j)(1).

With its amendment in 1993, Rule 4(m) granted district courts discretion to enlarge the 120-day time period even without a showing of good cause. Henderson v. United States, 317 U.S. 654, 662 (1996) (citing Advisory Committee's Notes on Fed. R. Civ. P. 4 1993 Amendments). "The new subdivision [4(m)] provides that the court shall allow additional time if there is good cause for the plaintiff's failure to effect service in the prescribed 120 days, and authorizes the court to relieve a party of the consequences of an application of this subdivision even if there is no good cause shown." Advisory Committee's Notes on Fed. R. Civ. P. 4 1993 Amendments. In exercising its discretion in deciding whether to extend the 120-day time period, a district should consider whether the parties would be unduly prejudiced by an extension, whether the plaintiff had attempted service, and whether the court was made aware of service of process problems in a timely fashion. See Pigrum v. Jordan, No. 01-1361, 2002 WL 1477204, at *2 (W.D. Tenn. 2002).

Hypercom was named as a defendant in the initial Complaint filed on September 11, 2003, requiring the summons and Complaint to be served on Hypercom on or before January 9, 2004. Hypercom does not dispute that it received Verve's request for waiver of service on January 2, 2004, 7 days before the 120-day period expired. Hypercom also does not dispute that it executed and returned the waiver of service to Verve on January 23, 2004, only 14 days after the 120-day period expired. Absent a showing of undue

prejudice inuring to Hypercom as a result of the court's nunc pro tunc extension of the summons to March 26, 2004, the court is not persuaded that Verve's claims against Hypercom should be dismissed based on Verve's 14 day delay in securing a waiver of service even in the absence of good cause shown. See Horn v. Dept. of Defense, No. C-3-97-550, 1999 WL 33117271, at *5 (S.D. Ohio 1999) (reasoning that delay of less than a month in securing and filing appropriate returns of service did not constitute a "significant delay"). Hypercom's argument that dismissal is mandated under the instant circumstances is without merit. Henderson, 317 U.S. at 662. Hypercom's motion to dismiss will be denied.

II. Hypercom's Motion to Sever and Transfer Venue to District of Arizona

A. Sever

The viability of Hypercom's motion to transfer is premised initially on its motion to sever the claims alleged against the other seven defendants. "All persons may be joined in one action as defendants if there is asserted against them jointly, severally, or in the alternative, any right to relief in respect of or arising out of the same transaction or occurrences and if any question of law or fact common to all defendants will arise in the action." Fed. R. Civ. P. 20(a). If there is misjoinder of a party, "[a]ny claim against a party may be severed and proceeded with separately." Fed. R. Civ. P. 21.

The United States District Court for the Southern District of New York ruled upon a similar motion to sever in a case where patent infringement claims arising out of the same patent were filed by the plaintiff against three separate defendants, the Berry defendants, Shaw Industries, Inc. ("Shaw"), and Witex USA, Inc. ("Witex")¹:

¹ The Pergo plaintiffs consisted of Pergo, Inc. and Pergo (Europe), while the Berry defendants consisted of Alloc, Inc., Armstrong World Industries, and Berry Finance NV.

The Berry defendants are competitors of Shaw and Witex and there are no allegations of any cooperative or collusive relationship between the two sets of defendants. All Pergo has alleged is that the Berry defendants manufacture and sell flooring tiles that infringe the '547 and '970 patents and that Shaw and Witex also sell and manufacture other flooring tiles that infringe those same patents owned by Pergo. The only connection between the two sets of defendants is that they may have infringed the same patents owned by Pergo. However, the fact that two parties may manufacture or sell similar products, and that these sales or production may have infringed the identical patent owned by the plaintiffs is not sufficient to join unrelated parties as defendants in the same lawsuit pursuant to Rule 20(a). See, e.g., Androphy v. Smith & Nephew, Inc., 31 F.Supp.2d 620, 623 (N.D.Ill.1998) (finding joinder of defendant companies selling different products in competition with each other impermissible, notwithstanding alleged infringement of same patents); Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 564 F.Supp. 1358, 1370-71 (D.Del.1983) ("Allegations of infringement against two unrelated parties based on different acts do not arise from the same transaction."); New Jersey Machine, Inc. v. Alford Indus. Inc., No. 89 Civ. 1879, 1991 WL 340196, at *1 (D.N.J. Oct. 7, 1991)("Infringement of the same patent by different machines and parties does not constitute the same transaction or occurrence to justify joinder..."), aff'd, 983 F.2d 1087 (Fed.Cir.1992). Consequently, Pergo has failed to satisfy either of the tests for permissive joinder under the Rule 20(a) for the claims asserted against the two sets of defendants in this action, and the claims against the Berry defendants are severed from the claims against Shaw and Witex. See United States of Am. ex rel. North Santiam Watershed Council v. Kinross Gold USA, Inc., No. 96 Civ. 3673, 1998 WL 118176, at *2 (N.D.Cal.1998).

Pergo, Inc. v. Alloc, Inc., 262 F.Supp.2d 122, 128 (S.D.N.Y. 2003).

In the case at bar, each of the eight separate defendants is alleged to be making, using, selling, and offering for sale its own alleged infringing product: Hypercom's "T7 Series Terminals"; Verifone, Inc.'s "3200 and 3350 Terminals"; Lipman USA, Inc.'s "Nurit Series Terminals"; Ingenico Corp. USA's "5300 Terminals"; Thales e-Transactions, Inc.'s "Talento terminals"; Telecheck Services, Inc.'s "Eclipse terminals"; Link Point International, Inc.'s "3000 terminals", and; Schlumberger Limited's² "MagIC 5100 terminals." October 10,

Pergo, Inc. v. Alloc, Inc., 262 F.Supp.2d 122, 123 (S.D.N.Y. 2003).

² Verve filed a Rule 41(a)(1) "Notice of Dismissal" with respect to defendant Schlumberger Limited on February 3, 2004.

2003 First Amended Complaint, ¶ 5, at 4. As in Pergo, Inc., there are no allegations of any cooperative or collusive business relationships among the eight defendants. Verve's argument that severing the claims against Hypercom will likely lead to possible conflicting claim constructions for the '895 Patent is not well taken, particularly in the absence of any showing that the same '895 Patent claims and claim language will be at issue with respect to each of the separate defendants and their respective alleged infringing devices. Rule 20(a) poses a dual requirement, claims against multiple defendants "arising out of the same transaction or occurrences" *and* a "question of law or fact common to all defendants" Fed. R. Civ. P. 20(a). Analogous to the reasoning in Pergo, Inc., Verve's claims alleged against defendant Hypercom do not arise out of the same transactions or occurrences of the remaining non-Hypercom defendants simply because all of the defendants' devices may have infringed the same '895 Patent. Pergo, Inc., 262 F.Supp.2d at 128. Hypercom's motion to sever will be granted. Id., Fed. R. Civ. P. 20(a), 21.

A district court may transfer severed claims alleged against one defendant to another district where venue is appropriate. Pergo, Inc., 262 F.Supp.2d at 133-134; Rappoport v. Steven Spielberg, Inc., 16 F.Supp.2d 481, 496 (D.N.J. 1998) (quoting Cottman Transmission Systems, Inc. v. Martino, 36 F.3d 291, 296 (3rd. Cir. 1994), and severing copyright infringement claims that did not arise out of the same transaction, occurrence, or series of transactions or occurrences as to each defendant). The court proceeds to address the issue of whether venue should be transferred to the District of Arizona.

B. Transfer Venue

i. Michigan as a Proper Venue

Venue in patent infringement cases is governed by 28 U.S.C. § 1391(b) :

(b) A civil action wherein jurisdiction is not founded solely on diversity of citizenship may, except as otherwise provided by law, be brought only 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 may otherwise be brought.

A defendant corporation "is deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced." 28 U.S.C. § 1391(c). Plaintiff relies on § 1391(b)(1) for venue purposes, arguing that, under Michigan's long-arm statute, Hypercom does business in Michigan by selling or offering to sell its allegedly infringing T7 Series Terminals in Michigan. Hypercom argues that it lacks the requisite "minimum contacts" necessary for this court to lawfully exercise personal jurisdiction, and that Verve's proffer of proof regarding Hypercom devices being used in Michigan falls short of establishing that Hypercom purposefully availed itself of doing business in Michigan by making sales or offers of sales of the alleged infringing device to Michigan residents.

The Federal District has rejected a pure state "tort" minimum contacts analysis in patent cases, and instead holds that a patent infringer is subject to personal jurisdiction in any state of an infringing sale, North American Phillips Corp. v. American Vending Sales, Inc., 35 F.3d 1576, 1579-80 (Fed.Cir. 1994), or any state where an offer of an infringing sale is made. 3D Systems, Inc. v. Aarotech Laboratories, Inc., 160 F.3d 1373, 1380 (Fed.Cir. 1998). In that neither discovery nor an evidentiary hearing has taken place, the court must construe the pleadings and affidavits in a light most favorable to plaintiff Verve. See Bird v. Parsons, 289 F.3d 865, 872 (6th Cir. 2002) (citing CompuServe, Inc. v. Patterson, 89 F.3d 1257, 1261-62 (6th Cir. 1996)). Verve alleges in its Amended Complaint that Hypercom sells and offers to sell their alleged infringing products in

Michigan. Although Hypercom's Michael Rafford attests that "Hypercom does not have any authorized resellers, distributors or repair centers in Michigan," Aff. ¶ 9, Rafford does not attest that Hypercom does not sell or offer to sell its alleged infringing product in Michigan. Applying the appropriate evidentiary standard, the court finds that venue is proper in Michigan under 28 U.S.C. § 1391(b)(1). Bird, 289 F.3d at 872.

ii. Transfer to Arizona as a Proper Venue

Pursuant to 28 U.S.C. § 1404(a):

(a) For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.

The process of adjudicating a motion for a transfer of venue under § 1404(a) is succinctly set forth in Grand Kensington, L.L.C. v. Burger King Corp., 81 F.Supp.2d 834 (E.D. Mich. 2000):

"District courts have wide discretion to transfer an action under 28 U.S.C. § 1404(a) in order to prevent waste of time, energy and money, and to protect litigants, witnesses and the public against unnecessary inconvenience and expense." Helder v. Hitachi Power Tools, USA Ltd., 764 F.Supp. 93, 95-96 (E.D.Mich.1991). However, a court "should give deference to a plaintiff's choice of venue." General Motors Corp. v. Ignacio Lopez de Arriortua, 948 F.Supp. 656, 668 (E.D.Mich.1996). "When a defendant moves to change the forum, he must overcome the presumption that the plaintiff has chosen the proper forum." Id.

The first question for a court when considering a motion under § 1404(a) is whether "the transferred action could have been brought in the transferee court." MCNIC Oil & Gas Co. v. IBEX Resources Co., L.L.C., 23 F.Supp.2d 729 (E.D.Mich.1998) (quoting In re Air Crash Disaster at Detroit Metropolitan Airport on August 16, 1987, 737 F.Supp. 391, 393 (E.D.Mich.1989)). If answered in the affirmative, then a court should consider the following factors when ruling on a motion under § 1404(a):

- (1) the convenience of the parties;
- (2) the convenience of the witnesses;
- (3) the relative ease of access to sources of proof;
- (4) the availability of process to compel attendance of unwilling witnesses;
- (5) the cost of obtaining willing witnesses;
- (6) the practical problems associated with trying the case most expeditiously and inexpensively; and
- (7) the interest of justice.

Helder, 764 F.Supp. at 96. Further, a court may also consider: (1) administrative difficulties caused by the litigation; (2) burdening members of a community unrelated to the litigation with jury duty; (3) the interest of having local disputes resolved locally; and (4) the appropriateness of having a diversity case "in a forum that is at home with the state law that must govern the case." Gulf Oil Corp. v. Gilbert, 330 U.S. 501, 508-09, 67 S.Ct. 839, 91 L.Ed. 1055 (1947). Basically, a court may consider any factor that may make a trial "easy, expeditious, and inexpensive." Helder, 764 F.Supp. at 96 (quoting Gulf Oil Corp., 330 U.S. 501, 67 S.Ct. 839, 91 L.Ed. 1055).

Id., at 836.

The moving party bears the burden of demonstrating that, in light of these factors, "fairness and practicality strongly favor the forum to which transfer is sought." Rowe v. Chrysler Corp., 520 F.Supp. 15, 16 (E.D.Mich.1981). The movant must make this showing by a preponderance of the evidence. International Union, U.A.W. v. Aluminum Co. of Am., 875 F.Supp. 430, 433 (N.D.Ohio 1995).

Thomas v. Home Depot, U.S.A., Inc., 131 F. Supp.2d 934, 936 (E.D. Mich. 2001).

Verve does not dispute that Hypercom sells and offers its alleged infringing product for sale in Arizona, where Hypercom's principal place of business is located. Accordingly, this lawsuit could have been brought in Arizona. North American Phillips Corp., 35 F.3d at 1579-80; 3D Systems, Inc., 160 F.3d at 1380.

Hypercom has demonstrated that the convenience of the parties and witnesses strongly favors transfer to Arizona. Verve's principal place of business is in Austin, Texas, and, according to Verve's Counsel at the May 3, 2004 hearing, Verve merely maintains a post office box in Michigan. Verve itself is not a manufacturer or designer. The location of counsel in Michigan is irrelevant. Hite v. Norwegian Caribbean Lines, 551 F.Supp. 390, 395 (E.D. Mich. 1982). In contrast, Hypercom's principal place of business is in Phoenix, Arizona, where design and manufacturing facilities are located. The co-inventors of the subject '895 Patent are residents of neither Michigan nor Arizona, but Japan, as is the original '895 Patent owner Omron Tateisi Electronics Company. Hypercom attests to eight

witnesses and their expected testimony (William Dowlin, Chris Henry, Enrique Perez, George Wallner, Robert Martin, Paul Walters, Clint Jones, Jairo Gonzalez), all of whom are allegedly residents of Arizona. Verve's argument that the Arizona residence of these current or former Hypercom employees should be given little or no weight because it is expected that they will voluntarily appear as witnesses is without merit. See Thomas, 131 F. Supp.2d at 939 (reasoning that "[i]t may be no less convenient for a witness who happens to work for a defendant corporation to travel hundreds of miles for judicial proceedings than it would for any other witness to do so"). Even if, as Verve asserts, former Hypercom owner George Wallner is a resident of Florida, such does not displace that seven witnesses reside in Arizona; at best, it would be just as inconvenient for Wallner to appear in Michigan as it would Arizona. Verve on the other hand identifies only one Michigan witness, Diane Parisi, who is prepared to testify that: (1) she saw Hypercom point-of-sale terminals being used in nine retail stores in Michigan, three of which were the alleged infringing "T7 point-of-sale" terminals, and; (2) the unidentified owner of a Michigan retail establishment told her over the phone that he sells and services "Hypercom products." Unlike the identified expected testimony of Hypercom's witnesses, Parisi's expected testimony speaks only to the limited issue of whether Hypercom sells, or offers for sale, the alleged infringing product in Michigan. The expected testimony of Hypercom's Arizona witnesses is much more significant than the expected testimony of Parisi. See Thomas, 131 F. Supp.2d at 937. Verve's reliance on the non-Hypercom defendants' unidentified potential witnesses is misplaced in light of the court's ruling that Hypercom is entitled to severance. See Pergo, Inc., 262 F.Supp.2d at 128. "Witness convenience is one of the most important factors in determining whether to grant a motion for change of venue under § 1404(a)." Thomas, 131 F. Supp.2d at 937.

The relative ease of access to sources of proof also strongly favors Arizona. Verve does not dispute that all records relevant to the alleged infringing device are located in Arizona, as is Hypercom's manufacturing and engineering centers. Verve has failed to identify a significant source of proof of patent infringement located in Michigan. Although records could be copied and transferred to Michigan, such inconvenience and expense appears unnecessary absent other factors favoring Michigan as the more convenient venue.

Neither of the parties has established that the availability of process to compel attendance of unwilling witnesses, the cost of obtaining willing witnesses, practical problems associated with trying the case, or administrative difficulties caused by the litigation not otherwise identified weigh in favor of either Michigan or Arizona. Plaintiff was the "first to file" a lawsuit involving the '895 Patent.

It is generally agreed that when there are two competing lawsuits, the first filed has priority. See, e.g., Plough, Inc. v. Allergan, Inc., 741 F.Supp. 144, 147 (W.D.Tenn.1990); SW Industries, Inc. v. Aetna Cas. & Sur. Co., 653 F.Supp. 631, 634 (D.R.I.1987). The applicability of the first-filed rule turns on two equitable considerations: whether any special circumstances require deference to the later-filed action or whether the balance of convenience favors the later-filed action. Plough, 741 F.Supp. at 147; SW Industries, 653 F.Supp. at 634.

L. Perrigio Co. v. Warner-Lambert Co., 810 F.Supp. 897, 900 (W.D. Mich. 1992).

Here, the equitable balance of convenience factors and the interests of justice strongly favor transfer to Arizona. The "first to file" rule does not per se override the transfer of provisions of § 1404(a) simply because a second lawsuit was filed. In the case at bar, there are no significant witnesses or proofs located in Michigan. Verve's principal place of business is not in Michigan. Hypercom's manufacturing and engineering facilities are located in Arizona. At least seven of eight potential witnesses having substantial

testimony reside in Arizona. The inventors and patent owners are not located in Michigan. Verve does not design, manufacture, or sell the '895 Patent device in Michigan. Hypercom has overcome by a preponderance of the evidence the presumption that Michigan is the appropriate forum for Verve's patent infringement suit against Hypercom. Even if Hypercom had not filed the second Arizona lawsuit, the convenience of the parties and witnesses, and the interests of justice, warrant transfer of venue to Arizona. Whether the Arizona District Court chooses to consolidate the actions is for the Arizona District Court to decide; this court does not rely upon the second Arizona lawsuit as a factor weighing in favor of transfer. Verve has failed to come forward with evidence to support its alternative position that venue should be transferred to Texas.

Fairness and practicality strongly favor transfer of Verve's claims against Hypercom to the Federal District Court for the District of Arizona. Thomas, 131 F. Supp.2d at 936. Hypercom's motion to transfer the severed action to Arizona will be granted.

III. Show Cause Why Severance Should Not Be Ordered As to Each Defendant

As set forth in Section II, A, the alleged infringement of the same patent by different unrelated parties does not constitute the same transaction or occurrence to justify joinder under Rule 20(a). Pergo, Inc., 262 F.Supp.2d at 128. A district court may sua sponte exercise its discretion under Federal Rule of Civil Procedure 21 to sever any claims filed against misjoined parties, and to drop misjoined parties from a lawsuit. See Letherer v. Alger Group, 328 F.3d 262, 266 (6th Cir. 2003). Verve will be ordered to show cause why its claims as alleged against the current six non-Hypercom defendants should not be severed. Id.

IV. Conclusion

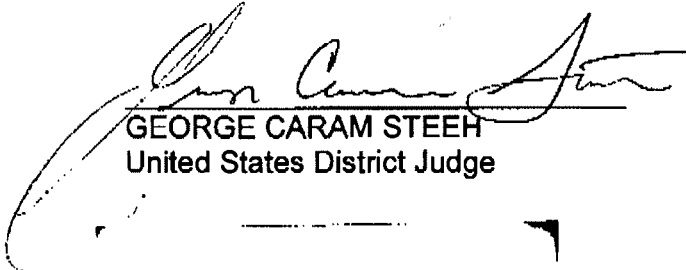
For the reasons set forth above, defendant Hypercom's motion to dismiss is hereby DENIED. Hypercom's motion to sever and transfer venue to the United States District Court for the District of Arizona is hereby GRANTED. Plaintiff Verve's claims as alleged against defendant Hypercom ONLY are hereby SEVERED from this lawsuit and TRANSFERRED to the United States District Court for the District of Arizona. Verve's alternative motion to transfer venue to the United States District Court for the Western District of Texas is hereby DENIED.

Plaintiff Verve is hereby ORDERED to show cause, in a writing filed with the court on or before June 3, 2004, and not exceeding 20 pages, why the claims as alleged against the remaining six non-Hypercom defendants should not be severed consistent with the severance analysis set forth herein.

SO ORDERED.

MAY 11 2004

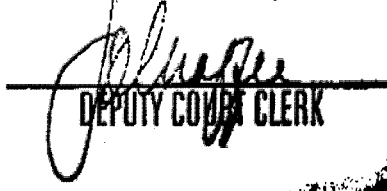
Dated: _____
Detroit, Michigan.


GEORGE CARAM STEEH
United States District Judge

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