Appeal Nos. 19-1952, 19-2394

IN THE

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Nazir Khan, Iftikhar Khan,

Plaintiffs-Appellants,

v.

Hemosphere Inc., et al.,

Defendants-Appellees,

Merit Medical Systems, Inc.,

Defendant-Cross Appellant,

Hospitals and Doctors Implanting Unpatented HeRO Graft to Doctors, et al.,

Defendants.

Appeals from the United States District Court
for the Northern District of Illinois in Case No. 1:18-CV-05368,
Judge Virginia M. Kendall

RESPONSE TO COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC

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The undersigned counsel for the following parties certifies the following:

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Mountain Medical Physician Specialists, P.C.	N/A	None
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4. The names of all law firms and the partners or associates that appeared for the parties now represented by the undersigned in the trial court or are expected to appear in this court (and who have not entered an appearance on appeal) are:

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5. The title and number of any other case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

None

6. Any information required under Fed.R.App.P. 26.1(b) regarding organizational victims in criminal cases and under Fed.R.App.P. 26.1(c) regarding bankruptcy case debtors and trustees:

None

DATED: October 22, 2020

/s/ Brent P. Lorimer
BRENT P. LORIMER

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INTRODUCTION

The Khans sued three corporate defendants and 300+ physicians for patent infringement in the Northern District of Illinois. Venue was clearly improper for the corporate defendants and for all physicians residing outside Illinois, *i.e.*, all but sixteen of them. Yet, the Khans insisted that venue was proper, and further insisted that all 300+ physicians had been properly served even though they clearly had not.

Merit Medical Systems, Inc. ("Merit") and the physicians indemnified by Merit ("the Merit Physicians" or "Merit Physician Appellees") repeatedly sent letters to the Khans warning them that their positions on venue and service were baseless and informing them of their Rule 11 obligations. The district court likewise repeatedly warned them. The Khans repeatedly and willfully ignored those warnings.

The Merit Physicians moved to dismiss the complaint and for Rule 11 sanctions. The district court granted those motions. On appeal, a panel of this Court affirmed the dismissal and concluded that the district court did not abuse its discretion in sanctioning the Khans. (Slip op. at 8-15.)

The Khans argue that rehearing should be granted on grounds that the panel decision is contrary to *Intamin Ltd. v. Magnetar Technologies Corp.*, 483 F.3d 1328, 1337 (Fed. Cir. 2007), which holds that Rule 11 issues are reviewed under the law of the regional circuit, here the Seventh Circuit. They then argue that the sanctions in this case were improper because the Rule 11 motion was not served on them before it was filed and because the warning letters served on them were insufficient. But it is indisputable that the Seventh Circuit's precedent allows a warning letter to satisfy Rule 11. And the letters in this case comply with that precedent. The Khans' arguments to the contrary misinterpret Seventh Circuit law. Curiously, the Khans' petition then argues that rehearing en banc is warranted primarily because the panel's decision is contrary to the law of *other* circuits. (Petition, pp. 2-3, 11-19.) The Khans cannot credibly assert that *Intamin* requires application of the law of the Seventh Circuit and then turn around and argue that this Court should apply the law of *other* circuits, where the Khans have provided no reason to depart from *Intamin* and this Court's longstanding practice of applying regional circuit law to such issues.

Even if the Khans' arguments on the merits are correct, they have waived or forfeited those arguments because they did not raise them below. *None* of the objections about notice or timing that the Khans now make was raised in the district court. Worse, the Khans raise some of their arguments for the first time on rehearing.

Because the Khans have provided no reason to depart from this Court's longstanding practice applying regional circuit law to Rule 11 issues, because Seventh Circuit law supports the imposition of sanctions, and because the Khans failed to timely make the objections they now raise, the petition should be denied.[1]

[1] This response to the Khans' petition is provided by Merit and the Merit Physician Appellees. Counsel for the other appellees have asked Merit to inform the Court that they take no position on the petition for rehearing, because it concerns only Rule 11 sanctions not involving those appellees.

ARGUMENT

I. The Petition for Panel Rehearing Should Be Denied

A. The Merit Physicians Substantially Complied with Rule 11 As Permitted Under Seventh Circuit Law

1. Seventh Circuit Law Permits Serving a Letter Instead of a Motion

The Khans contend that panel rehearing is warranted because the Merit Physicians served the Khans with a Rule 11 *letter* instead of a *motion*, arguing that this is contrary to "the unambiguous language" of Rule 11(c)(2). (Petition, pp. 3-4.) But the Khans concede that "the issue of Rule 11 sanctions is reviewed under the law of the regional circuit." (Petition, p. 2.) And it is indisputable that Seventh Circuit law allows for service of a letter instead of a motion. *Nisenbaum v. Milwaukee County*, 333 F.3d 804, 808 (7th Cir. 2003) (holding that a letter was sufficient); *Matrix IV, Inc. v. American Nat'l Bank & Trust Co.*, 649 F.3d 539, 552-53 (7th Cir. 2011) ("[W]e have held that a letter…is sufficient for Rule 11 purposes" (citing *Nisenbaum*)); *Northern Illinois Telecom v. PNC Bank, N.A.*, 850 F.3d 880, 888 (7th Cir. 2017) ("*Nisenbaum* remains controlling circuit law on this point."); *McGreal v. Village of Orland Park*, 928 F.3d 556, 559 (7th Cir. 2019) ("[The plaintiff's] argument that the defendants should have served him with their Rule 11

motion—not just emails and letters—is directly foreclosed by our holding in *Nisenbaum*.").

Thus, the panel can and should dismiss the Khans' assertion that service of a Rule 11 letter instead of a motion requires panel rehearing.

2. The Khans Misinterpret *Northern Illinois Telecom*: The Seventh Circuit Does Not Require a Letter to Specify that the Sanctioned Party Has 21 Days to Cure Its Conduct

The Khans next argue that under the Seventh Circuit's decision in *Northern Illinois Telecom* (hereinafter "*Telecom*"), a warning letter is inadequate unless it expressly states that the sanctioned party has at least 21 days to cure its conduct. (Petition, pp. 5-9.) The Khans argue that the letters here are defective for that reason. (Petition, pp. 7-9.)

The Khans' interpretation of *Telecom* is contrary to the *Nisenbaum* and *Matrix* precedents that *Telecom* acknowledged to be controlling. It is also contrary to Rule 11 itself, which prohibits the *filing* of a Rule 11 motion less than 21 days after service of the motion but does not require that the served motion *state* anything about the 21-day period. Fed.R.Civ.P. 11(c)(2). Neither *Telecom* nor the Khans offer any reason why more should be

required of a letter substituting for a served motion than is required of a served motion itself.

In *Telecom*, the defendant sent two letters to the sanctioned party. 850 F.3d at 883, 888. In both letters, the defendant demanded dismissal of the complaint *and payment of the defendant's attorneys' fees.* Both letters also stated that if the plaintiff did not dismiss and pay fees, the defendant would seek Rule 11 sanctions. Critically, neither letter offered the Rule 11 safe harbor; both demanded payment of fees ***regardless of whether the offending papers were withdrawn.*** Both offers by the *Telecom* defendant required withdrawal *and* fees. Neither offered the Rule 11 safe harbor *without* fees / sanctions. The defendant's letters were thus antithetical to the safe harbor of Rule 11, because neither letter offered a safe harbor of any kind.

The *Telecom* majority acknowledged that the Seventh Circuit's *Nisenbaum* decision allowed a letter to substitute for service of a motion. 850 F.3d at 887. The *Telecom* majority explained that in *Nisenbaum*, "the defendants sent a letter…that explained the grounds for sanctions and provided more than 21 days to remedy the problem." *Id.* Significantly, *Nisenbaum* states only that "[b]efore turning to the court, ***defendants*** alerted

Nisenbaum to the problem and ***gave him more than 21 days to desist***." 333 F.3d at 808. Nothing in *Nisenbaum* states that it was the *letter* rather than the *defendants* that "gave…more than 21 days to desist." *Telecom* likewise does not specify that it was the *letter* in *Nisenbaum* that "provided more than 21 days to remedy the problem." 850 F.3d at 887.

After summarizing *Nisenbaum*, the *Telecom* majority then addressed the Seventh Circuit's *Matrix* decision, explaining that "the moving party similarly sent a letter that explained the grounds for the sanctions and informed the opposing party it would seek Rule 11 sanctions if the claim were not dismissed voluntarily." 850 F.3d at 887. The *Matrix* letter did *not* specify that the sanctioned party had 21 days to cure the problem, only that it served as notice of an "intention to seek sanctions if and when the counts…are dismissed." 649 F.3d at 552. Significantly, the *Matrix* panel identified what content is required of a warning letter and pointed to the relevant time as the time between service of the letter and filing of the motion, not a time stated in the letter: ***"[W]e have held that a letter informing the opposing party of the intent to seek sanctions and the basis for the imposition of sanctions…is sufficient for Rule 11 purposes***. …That [the

moving party] ***filed its motion*** for sanctions…***more than two years after the Rule 11 notice letter was sent***…does not mean that the requirements of Rule 11 have not been satisfied." *Id.* at 552-53.

After discussing *Nisenbaum* and *Matrix*, the *Telecom* majority then explained the rule it gleaned from those two precedents: "Substantial compliance [with Rule 11] requires ***the opportunity to withdraw or correct the challenged pleading within 21 days without imposition of sanctions***." 850 F.3d at 888. It concluded that neither of the two letters in *Telecom* "offered that opportunity," *i.e.*, they "did not offer [the sanctioned party] the 21-day safe harbor that was offered in *Nisenbaum* or *Matrix*." *Id*. The letters in *Telecom* did not offer "the 21-day safe harbor that was offered in *Nisenbaum* or *Matrix*" because they did not offer *any* safe harbor; they did not offer the plaintiff the option of withdrawing the complaint *without paying fees / sanctions.*

In contrast, the Merit Physicians complied with Seventh Circuit law, including *Telecom*, when that law is viewed in light of *Nisenbaum* and *Matrix*, as it must be. The Merit Physicians sent numerous warning letters to the Khans to warn them about Rule 11 and the frivolous arguments they were

making. (SAppx208; SAppx210-213; SAppx232-233; SAppx683-685; SAppx687-688; SAppx693-694.)[2] In particular, the Merit Physicians' February 13, 2019 letter meets all the requirements of *Nisenbaum*, *Matrix*, and *Telecom*. The February 13 letter warned the Khans (again) that their venue and service theories were frivolous and explained that if the Khans dismissed the complaint in Chicago, the Merit Physicians would "not file a sanctions motion against you in Chicago." (SAppx688.) Indeed, the letter offered to have the Khans file a complaint against Merit in Utah so their infringement allegations could be resolved in that venue. (SAppx688.) It is undisputed that the Merit Physicians did not file their Rule 11 motion until March 7, 2019, more than 21 days after the February 13 letter. (SAppx68.)

Thus, as in *Nisenbaum*, "[b]efore turning to the court, [the Merit Physicians] alerted [the Khans] to the problem and gave [them] more than 21 days to desist." 333 F.3d at 808. And as in *Matrix*, the Merit Physicians provided "a letter informing the opposing party of the intent to seek sanctions and the basis for the imposition of sanctions" and "filed [their]

[2] References to "SAppx" herein are references to the Fed.Cir.R. 30(e) Supplemental Appendix filed on December 23, 2019 (ECF No. 67).

motion for sanctions…more than [21 days] after the Rule 11 notice letter was sent," which "is sufficient for Rule 11 purposes." 649 F.3d at 552-53. And in compliance with *Telecom*, the Merit Physicians gave the Khans "the opportunity to withdraw or correct the challenged pleading within 21 days without imposition of sanctions," providing the Khans with "the 21-day safe harbor that was offered in *Nisenbaum* or *Matrix*." 850 F.3d at 888.

It is true that the February 13 letter asked for a response from the Khans within 7 days rather than 21 days, but the Merit Physicians waited to file their motion until more than 21 days after the February 13 letter. Under *Nisenbaum* and *Matrix* (and Rule 11 itself), that is the relevant time period. And unlike the letters in *Telecom*, the February 13 letter explained to the Khans that if they dismissed their suit, there would be no Rule 11 sanctions for their frivolous venue and service theories. Thus, the Merit Physicians substantially complied with Rule 11 as permitted under Seventh Circuit law, and panel rehearing on that issue is not warranted.

B. The Khans Did Not Timely Raise and Have Therefore Waived or Forfeited the Arguments They Are Now Making

Even if the Court concludes that the Merit Physicians did not comply with Seventh Circuit law, the petition for rehearing must still be rejected.

The Khans did not raise *any* of the rehearing arguments they are now making in the district court. They did not argue that they were served with warning letters rather than a motion. Nor did they argue that the content of the warning letters was insufficient. Therefore, the Khans have waived or forfeited their rehearing arguments. Merit and the Merit Physicians pointed this out in their opening brief (ECF No. 85, p. 66), but the panel did not reach the issue because it concluded that the Merit Physicians complied with Seventh Circuit law (slip op. at 14).

A history of the sanctions briefing in this case is telling. In the Merit Physicians' motion for sanctions, they explained that they had complied with Rule 11's notice and safe harbor provisions by providing multiple warning letters to the Khans and then waiting for at least 21 days, citing the Seventh Circuit's decisions in *Nisenbaum* and *Matrix*. (SAppx632-633.) The Khans' opposition to the motion did not object to the type of notice provided, nor did the Khans object to the time afforded to them to withdraw their frivolous arguments. (SAppx715-717.) The Khans' opposition makes no mention of Rule 11's safe harbor requirements. (SAppx715-717.) After the district court imposed sanctions, the Khans filed a paper making

additional arguments about why they should not be sanctioned, but still did not raise the issues now raised in their petition. (SAppx899-901.) And even when they filed two non-compliant opening briefs in this appeal, they still raised none of the arguments they now make. (ECF Nos. 38, 58.) It was not until the Khans' second corrected opening brief that they argued for the first time that they had not been served with the Rule 11 motion before it was filed. (ECF No. 72, p. 20.) And it was not until now—in the Khans' petition for rehearing—that they first argued that the content of the warning letters was inadequate.

A party waives or forfeits its right to accuse the district court of error when it fails to raise an issue in the district court. *Sage Products, Inc. v. Devon Industries, Inc.*, 126 F.3d 1420, 1426 (Fed. Cir. 1997); *Teumer v. General Motors Corp.*, 34 F.3d 542, 546 (7th Cir. 1994). Objections based on failure to comply with Rule 11's safe harbor rule are no exception; such objections are waived or forfeited if not presented to the district court. *McGreal v. Village of Orland Park*, 928 F.3d 556, 559 (7th Cir. 2019); *Nyer v. Winterthur Int'l*, 290 F.3d 456, 460 (1st Cir. 2002); *Rector v. Approved Federal Savings Bank*, 265 F.3d 248, 252-53 (4th Cir. 2001).

Similarly, when a party fails to raise an issue in its opening brief on appeal, that party has waived or forfeited its right to raise that issue. *Customedia Technologies, LLC v. Dish Network Corp.*, 941 F.3d 1173, 1174 (Fed. Cir. 2019); *Landmark American Insurance Co. v. Deerfield Construction, Inc.*, 933 F.3d 806, 816 (7th Cir. 2019).

Because the Khans did not timely raise the alleged flaws in the district court's award of Rule 11 sanctions, they cannot raise those issues now. If the Khans had raised the arguments they now raise below, the Merit Physicians could have cured any potential issue by sending another letter expressly specifying a 21-day period for withdrawal, by serving their motion more than 21 days before filing it, or by re-filing their motion. Or the district court could have considered the Khans' arguments and rejected the motion on those grounds. But in the face of the motion's explanation as to how the Merit Physicians had complied with Rule 11's requirements under Seventh Circuit law, the Khans remained silent and made no objection. They should not be heard to object for the first time now, on appeal or on rehearing.

II. The Petition for Rehearing En Banc Should Be Denied

A. This Court Should Not Convene En Banc to Decide Whether Rule 11 Can Be Satisfied by Serving a Letter Because It Would Require Abandoning the Longstanding Rule Applying Regional Circuit Law to Such Issues

In its arguments for en banc rehearing, the Khans' petition once again contends that the Merit Physicians did not serve the Khans with a Rule 11 *motion* prior to filing, only with a *letter*. (Petition, pp. 9-10.) And the Khans once again argue that affirming an award of sanctions in this situation is contrary to "the plain language of Rule 11." (Petition, p. 10.) But in the face of this Court's longstanding rule that regional circuit law should be applied to such issues, there is no reason for this Court to address this issue, let alone en banc.

Significantly, the Khans do not argue, at least not expressly, that this Court should convene en banc to abandon its longstanding rule that regional circuit law should be applied to such issues. Indeed, the Khans rely on—and point with approval to—this Court's decision in *Intamin Ltd. v. Magnetar Technologies Corp.*, 483 F.3d 1328 (Fed. Cir. 2007), acknowledging that this Court reviews Rule 11 sanctions under the law of the applicable regional circuit. (Petition, pp. vii, 2.) Yet, at the same time, the Khans' petition (1)

reviews decisions from *other* circuits that have held that serving a letter rather than a motion is insufficient, (2) argues that the panel's decision "departs sharply from every other Court of Appeals to consider [the issue]," and then (3) argues that "[r]ehearing should be granted to consider whether the Court should maintain this circuit conflict." (Petition, pp. 11-19.)

The Khans do not seem to recognize that their approval of this Court's application of regional circuit law is inconsistent with—and the answer to—their complaint about a conflict among the circuits. Rehearing en banc cannot be granted "to consider whether this Court should maintain this circuit conflict," as the Khans request, without also considering whether this Court should abandon its longstanding rule to apply regional circuit law to such issues. This is because it is the Seventh Circuit's Rule 11 law that the panel has applied, not this Court's Rule 11 law.

If the Khans are implicitly arguing that the "circuit conflict" to which they point is a reason to abandon this Court's longstanding practice applying regional circuit law, that argument should be rejected. Differences in regional circuit law are not a reason to abandon this practice, but instead are the reason for it. As this Court has explained: "When we apply regional

circuit law to nonpatent issues, we do so in order to avoid the risk that district courts and litigants will be forced to select from two competing lines of authority based on which circuit may have jurisdiction over an appeal that may ultimately be taken…." *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359 (Fed. Cir. 1999) (en banc in relevant part). "[A] district court cannot and should not be asked to answer [procedural questions] one way when the appeal on the merits will go to the regional circuit…and in a different way when the appeal will come to this circuit." *In re Int'l Medical Prosthetics Research Assocs., Inc.*, 739 F.2d 618, 620 (Fed. Cir. 1984). In other words, the panel applied Seventh Circuit law in this case precisely *because* that law might differ from the law of the other circuits, so that the district court and the litigants in this case could apply the same law to Rule 11 questions as they would in every other case within the Seventh Circuit.

The Khans have provided no reason to depart from this practice, and it has been a mainstay of this Court's jurisprudence for a very long time. Indeed, this Court has been applying regional circuit law to questions unrelated to this Court's exclusive jurisdiction since its founding more than 35 years ago. *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1439-40 (Fed.

Cir. 1984) (en banc). This includes a long line of cases in addition to *Intamin* applying regional circuit law to Rule 11 issues. *E.g.*, *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1328 (Fed. Cir. 2011); *Power Mosfet Techs., L.L.C. v. Siemens AG*, 378 F.3d 1396, 1406-07 (Fed. Cir. 2004); *Phonometrics, Inc. v. Economy Inns of America*, 349 F.3d 1356, 1361 (Fed. Cir. 2003); *Antonious v. Spalding & Evenflo Companies, Inc.*, 275 F.3d 1066, 1072 (Fed. Cir. 2002); *Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1351 n.3 (Fed. Cir. 1991).

In summary, there is no reason for this Court to convene en banc to consider whether serving a letter rather than a motion is insufficient under Rule 11 when (1) this Court's longstanding rule is to apply regional circuit law to this issue, (2) the Khans cite this Court's precedent on applying regional circuit law with approval, and (3) law in the applicable regional circuit clearly holds that serving a letter is sufficient.

All of this is particularly true where the Khans have waived or forfeited their arguments for en banc rehearing. As demonstrated above, the Khans did not argue to the district court that they were not served with a motion rather than a letter. Under these circumstances, there is every reason not to convene en banc on this question.

B. This Court Should Not Convene En Banc Merely to Apply Seventh Circuit Law

The rest of the arguments in the Khans' petition are effectively arguments that this Court should convene en banc to apply Seventh Circuit law. For example, the Khans reiterate their argument that the panel's decision is inconsistent with the Seventh Circuit's decision in *Telecom* because the content of the warning letters was inadequate. (Petition, pp. 11, 12.) But there is no reason for this Court to convene en banc to decide how to apply Seventh Circuit law. A three-judge panel is more than suitable for performing that task. This is all the more true where the Khans have waived or forfeited the arguments that they want this Court to address en banc. The petition for rehearing en banc should be denied.

III. If Rehearing Is Granted and the Rule 11 Sanctions Are Disturbed on Appeal, the Denial of Attorney Fees Under § 285 Must Be Vacated

If the Rule 11 sanctions are disturbed for any reason on rehearing, the district court's denial of attorney fees under 35 U.S.C. § 285 must also be vacated. This is because the entire premise for the court's denial of the § 285 motion was the fact that it had already awarded fees pursuant to the Rule 11 motion. (SAppx24.) Merit cross appealed from the court's denial of the § 285 motion and made the conditional argument set forth above in its opening

brief. (ECF No. 85, p. 85.) The Khans had no response to the argument, but the panel did not reach it because the panel affirmed the Rule 11 sanctions. (Slip op. at 13-15.) If the sanctions are disturbed on rehearing, however, this Court will need to reach the conditional argument. In that scenario, the denial of fees under § 285 should be vacated so the district court can reconsider the § 285 motion in light of an absence of Rule 11 sanctions.

CONCLUSION

For all of the foregoing reasons, the Khans' petition should be denied. In the alternative, if rehearing is granted and the sanctions award is disturbed on appeal, the district court's denial of attorney fees under 35 U.S.C. § 285 should be vacated.

Respectfully submitted,

/s/ Brent P. Lorimer

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DATED: October 22, 2020

CERTIFICATE OF SERVICE

I certify that I electronically filed the foregoing RESPONSE TO COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC with the Clerk of the Court for the U.S. Court of Appeals for the Federal Circuit by using the appellate CM/ECF system and therefore service was accomplished by the CM/ECF system on all participants in the case.

DATED: October 22, 2020

/s/ David R. Todd
DAVID R. TODD

CERTIFICATE OF COMPLIANCE

Pursuant to Fed.R.App.P. 32(g), I certify that according to the word-processing system used in preparing it, the foregoing RESPONSE TO COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC is 3,895 words in length, excluding those portions exempted by Fed.R.App.P. 32(f) and Fed.Cir.R. 32(b), and therefore complies with the type-volume limitation set forth in Fed.Cir.R. 35(e)(2) and Fed.Cir.R. 40(c).

DATED: October 22, 2020

/s/ David R. Todd
DAVID R. TODD