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Patent Forum Shopping May Be Curtailed

Federal courts viewed by some as pro-patentee may grant changes of venue

Much of the news in the general business media these days about the U.S. patent system is negative. There are constant complaints about questionable patents, oversized damage awards, unfair injunctions and the like, coming mostly — and predictably — from corporate defendants.

Within the last few years, the United States Supreme Court has taken considerable interest in the patent system and has issued decisions that have mitigated some of the problems focused upon by corporate defendants. These have included the *EBay* decision, making it more difficult for some patent owners to obtain injunctions, and the *KSR* decision, removing one roadblock that often prevented defendants from invalidating seemingly weak patents.

There has been one additional thorn in the side of corporations, however, that continues to draw complaints. Certain federal courts have developed a reputation — rightly or otherwise — for being overly favorable to patent owners. The juries in these jurisdictions are criticized for being overly generous in their damage awards; the judges are sometimes criticized for a reluctance to grant summary judgment in patent infringement cases. You get the picture.

The one court that is perhaps most often singled out for such criticisms is the U.S. District Court for the Eastern District of Texas. For those who have not studied the geography of Texas vis-à-vis the federal courts, we are not talking about Houston (in the Southern District) or Dallas (in the Northern District) or even Austin (in the Western District). The Eastern District of Texas consists of seven divisions in smaller cities such as Marshall, Tyler and Beaumont.

It may seem perplexing, at least initially, how it is that major U.S. corporations (many of which are headquartered in technology-heavy places like Silicon Valley, California; Redmond, Washington; and New Jersey) should find themselves being sued for patent infringement in the Eastern District of Texas. The question is particularly perplexing to patent litigators of my generation, who began practicing back when newly issued patent numbers began with a "3," and when the choice of venue in patent infringement cases was viewed as extremely narrow.

In those days, venue in patent infringement cases was governed exclusively by 28 U.S.C. § 1400(b), which states, "Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." This was usually understood to mean that a patent infringement suit against a corporate defendant had to be brought where the company was incorporated (often Delaware), where it had its headquarters, or where it had a significant facility in which it manufactured the accused product or practiced the accused method.

Interestingly, § 1400(b) has not changed. What *did* change was 28 U.S.C. § 1391(c), which currently states that for purposes of venue under this "chapter" of Title 28, a corporation is deemed to "reside" in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced. In a 1990 decision which took much of the patent bar by surprise, the U.S. Court of Appeals for the Federal Circuit (which had begun to hear all appeals in patent infringement actions some eight years earlier) held that § 1400(b) was indeed part of the "chapter" referred to in § 1391(c). The upshot of this ruling was that notwithstanding the seemingly restrictive language of § 1400(b), a corporation was deemed to "reside" — and thus could be sued for patent infringement — in any district in which it is subject to personal jurisdiction. See *VE Holdings Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).

The most immediate impact of *VE Holding* on patent litigation was that in patent suits brought by one corporation

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against a competitor, the suit was invariably filed in the plaintiff's "home court," assuming (as was usually the case) that the corporate defendant was subject to personal jurisdiction in that court. When that occurred, venue was normally proper under *VE Holdings*, such that the only other vehicle for seeking out a venue more favorable to a defendant was a motion to transfer under 28 U.S.C. § 1404. But in these types of scenarios, obtaining a transfer was an uphill battle. Absent unusual circumstances, if the inconvenience to the defendant of litigating in the plaintiff's chosen "home court" was roughly the same as the inconvenience the plaintiff would suffer if the case was transferred to the defendant's "home court," the motion to transfer would normally be denied.

This was the general landscape until the early years of this century, when major corporations began to find themselves being sued for patent infringement in the Eastern District of Texas. Oftentimes, the plaintiffs were disparagingly referred to as "patent trolls." In many patent infringement suits filed in the Eastern District of Texas, the plaintiff sued not just one corporate defendant, but a veritable *Who's Who* of corporate America. As the reputation of the Eastern District of Texas as a patentee-friendly forum grew, so did its docket of patent infringement cases — and its growth was exponential.

Not surprisingly, efforts have been made to roll back the liberal scope of venue in patent infringement cases to make it tougher to file cases in jurisdictions like the Eastern District of Texas. Legislation has been proposed, and it may well become law. See, e.g., H.R. 1908 (overriding 28 U.S.C. § 1391(c) in patent infringement cases). But perhaps the most promising source of relief for corporate defendants who believe they have been unfairly sued in the Eastern District of Texas was a recent judicial decision that was little noticed within the patent infringement bar. Perhaps this was because the case had nothing to do with patents; it was a personal injury action. And the decision wasn't by the Federal Circuit sitting in Washington, D.C., in the exercise of its exclusive jurisdiction over patent appeals; it was by the U.S. Court of Appeals for the Fifth Circuit based in New Orleans. And it involved a change of venue of all of 155 miles.

The case was *In re Volkswagen of America, Inc.*, 506 F.3d 376 (5th Cir. 2007), decided on October 24, 2007. This began as a personal injury case filed in the Marshall Division of the Eastern District of Texas, alleging design defects in a Volkswagen vehicle. The defendant sought to transfer this case to the Dallas Division of the Northern District of Texas, where the accident had occurred and where there were numerous other connections to the lawsuit. The district court had denied the motion to transfer, holding that Volkswagen hadn't satisfied its burden of showing that the balance of convenience and justice weighed "substantially" in favor of the transfer.

The Fifth Circuit, after initially denying mandamus, granted mandamus on rehearing and remanded the case with instructions that the transfer be granted. The court held that the standard for a transfer relied upon by the district court, i.e., that the balance of convenience and justice "substantially" weigh in favor of the transfer, was too strict and erroneous. Instead, while the party seeking a transfer retains the burden of showing why a case should be transferred, it need only show "good cause" for the transfer. The Fifth Circuit opinion went on to discuss the so-called public and private factors to be addressed on a motion to transfer, noting the close ties which the Northern District of Texas had to this case and the absence of relevant factors favoring the forum chosen by the plaintiffs, i.e., the Eastern District of Texas.

One might expect the *Volkswagen* decision to be of considerable assistance in attempting to transfer the typical patent infringement brought by a patent owner in the Eastern District of Texas, particularly where neither party has significant ties to the district. And if the district court is unwilling to transfer a patent infringement action to another district, the *Volkswagen* decision may provide a basis for seeking mandamus. Where would such a petition be filed? The Federal Circuit at one time suggested that it would not entertain mandamus petitions involving district court rulings "implicating responsibilities of regional circuit courts for supervising, administering, overseeing, and managing the courts within the circuit (e.g., transfer of case to another district.)" *In re Innotron Diagnostics*, 800 F.2d 1077, 1082 (Fed. Cir. 1986).

One more recent view holds that because it has exclusive appellate authority over final judgments in patent suits, the Federal Circuit has exclusive authority to petition for extraordinary writs as a matter of necessity. See 2 Dunner et al., *Court of Appeals for the Federal Circuit: Practice and Procedure* § 9.01[e] (Matthew Bender 2006). But even if the mandamus petition is filed in the Federal Circuit, the Federal Circuit would likely apply the law of the regional circuit. See, e.g., *Innogenetics, N.V. v. Abbott Labs.*, No. 2007-1145, -1162, slip op. at 9 (Fed. Cir. Jan. 17, 2008) ("We review procedural issues not unique to patent law under regional circuit law.").

Thus, as to cases brought in the Eastern District of Texas, irrespective of where a mandamus petition might be filed and entertained, the relevant law would be the Fifth Circuit's decision in *Volkswagen*.

The early returns, however, suggest that the rationale of *Volkswagen* may prove to be a hard sell in patent cases filed in the Eastern District of Texas. In *LG Electronics, Inc. v. Hitachi, Ltd.*, No. 9:07-CV-138, 2007 WL 4411035 (E.D. Tex. Dec. 3, 2007), a Korean patent owner had sued a Japanese company and its U.S. affiliates for patent infringement in the Lufkin Division of the Eastern District of Texas. In ruling on a motion to transfer, the court in *LG* distinguished the case before it from *Volkswagen*, noting that "[i]n personal injury cases, the evidence and witnesses are heavily linked to the place where the injury occurred," while in patent cases, the witnesses "are typically more dispersed," and that "with modern video deposition technology, the need for many witnesses to travel at all is reduced or eliminated … especially … witnesses whose credibility cannot seriously be challenged." The court in *LG* also noted that the fact that the allegedly infringing products were sold in the district weighed against the transfer (not mentioning that, in all likelihood, the products had been sold in every other district as well, a factor considered but rejected in *Volkswagen*.)

In the end, the court in *LG* transferred the case to the Northern District of California — but only because that court had already become deeply immersed in other litigation involving the same patents, litigation which had already gone to the Federal Circuit and even the Supreme Court.

Of course, transfer may be more problematic where there are multiple

defendants, since it may be difficult to find one district as to which an argument can be made that the proposed transferee district has significant ties to the dispute vis-à-vis the multiple defendants. In that situation, the defendants might consider seeking a transfer to a forum where the inventor resides or where the invention was made, etc., or perhaps Delaware if all defendants are incorporated there, or maybe New York if all defendants have offices there.

It may still take another appellate decision to convince judges in the Eastern District of Texas to transfer out a patent infringement case which has no significant ties to that district and which lacks the unique circumstances that led to the transfer in *LG*. ■