Is *TS Tech* the Death Knell for Patent Litigation in the Eastern District of Texas

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From 1970 through the 1990's, litigation in East Texas was plentiful for personal injury attorneys in the district. In the late 1990's after the passage of tort reform in Texas which set a cap on punitive damages, the number of personal injury cases on the dockets of East Texas Courts plummeted. But soon, East Texas litigators were again busy when dockets of the Federal Courts began to fill with patent cases. In fact, in September 2006, a New York Times article entitled "So Small a Town, So Many Patent Suits"[2] brought national fame to patent litigation in Marshall, Texas, home to one of the East Texas U.S. District Courts. Now, it seems, because of a recent decision from the U.S. Court of Appeals for the Federal Circuit, the patent litigation which blossomed after the turn of the new century may be wilting.

That significant decision is *In re TS Tech USA Corp. et al.,* in which the Federal Circuit issued a writ of mandamus to the U.S. District Court in the small town of Marshall, the birthplace of East Texas patent litigation. The Federal Circuit held that the East Texas district court "clearly abused its discretion in denying transfer of venue of the *TS Tech* case [from the Eastern District of Texas] to the Southern District of Ohio." The *TS Tech* decision has diminished the appeal of the Eastern District of Texas as the go-to jurisdiction for patent litigation plaintiffs and will give support for defendants sued in the Eastern District to seek transfer of their cases elsewhere.

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[2] http://www.nytimes.com/2006/09/24/business/24ward.html?pagewanted=1&_r=1

Marshall, Texas from 1970 to the Late 1990's

Before the turn of the century, "Marshall-based plaintiffs' lawyers generated tens of millions of dollars in fees — and grabbed the national spotlight — by pursuing class-action lawsuits against companies that used asbestos and silica, and against the pharmaceutical and tobacco industries."[3] However, the good times were over for Marshall lawyers by the late 1990's as broad tort reform in Texas limited punitive damages and later capped damages on medical malpractice lawsuits, effectively limiting the fees that lawyers could make.[4]

After the tort reform, there was a "dearth of good lawsuits" for Marshall lawyers to handle.[5] Consequently, "many local lawyers made the trip from P.I. to I.P. — that is, they moved out of personal injury and into intellectual property."[6]

The Explosion of Patent Lawsuits in the E.D. Texas

After Judge John T. Ward was sworn into the East Texas federal bench in September 1999, the number of filings of patent infringement lawsuits in the Eastern District of Texas quickly jumped from about 32 to about 234 suits per year.[7] This increase is not due to nation-wide increased patent infringement case filings which have remained relatively steady since 2000 at between 2,200 and 2,800 per year.[8]

Despite the fact that there was often no substantial connection between East Texas and the patent cases filed there—for example, because physical evidence, documentary evidence, key witnesses, parties' office location(s), and parties' states of incorporation usually were located elsewhere—more patent suits were filed in the Eastern District of Texas than in any other district in the country. The graph below identifies the respective number of patent filings

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[3] http://www.nytimes.com/2006/09/24/business/24ward.html?_r=1&pagewanted=2

[4] *See id.*

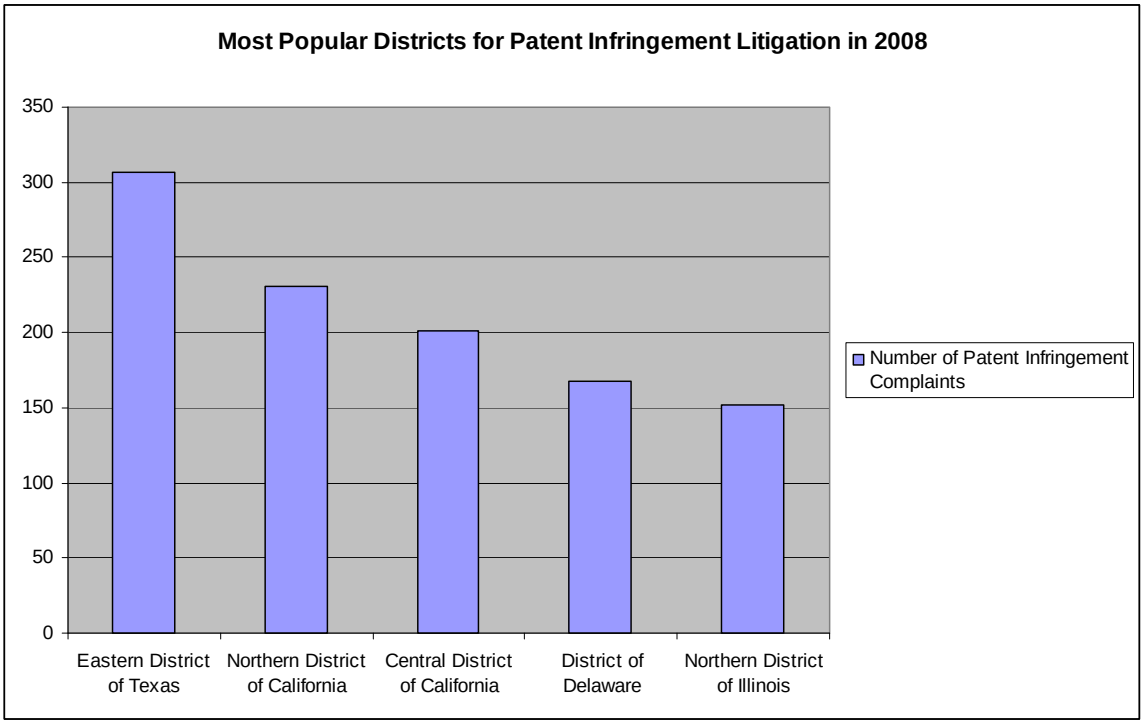
[5] *See id.*

[6] *See id.*

[7] http://www.nytimes.com/2006/09/24/business/24ward.html?pagewanted=1&_r=1

[8] http://lexmachina.stanford.edu

during 2008 in the top five districts, which respectively were the Eastern District of Texas, Northern District of California, Central District of California, District of Delaware, and the Northern District of Illinois.[9]



Further supporting the popularity of the Eastern District of Texas is that for 2008 the top three judges in the nation with the most new patent cases were all U.S. District Judges from the Eastern District of Texas: Judge Ward (Marshall, Texas); Judge Leonard Davis (Tyler, Texas); and Judge David Folsom (Texarkana, Texas).[10]

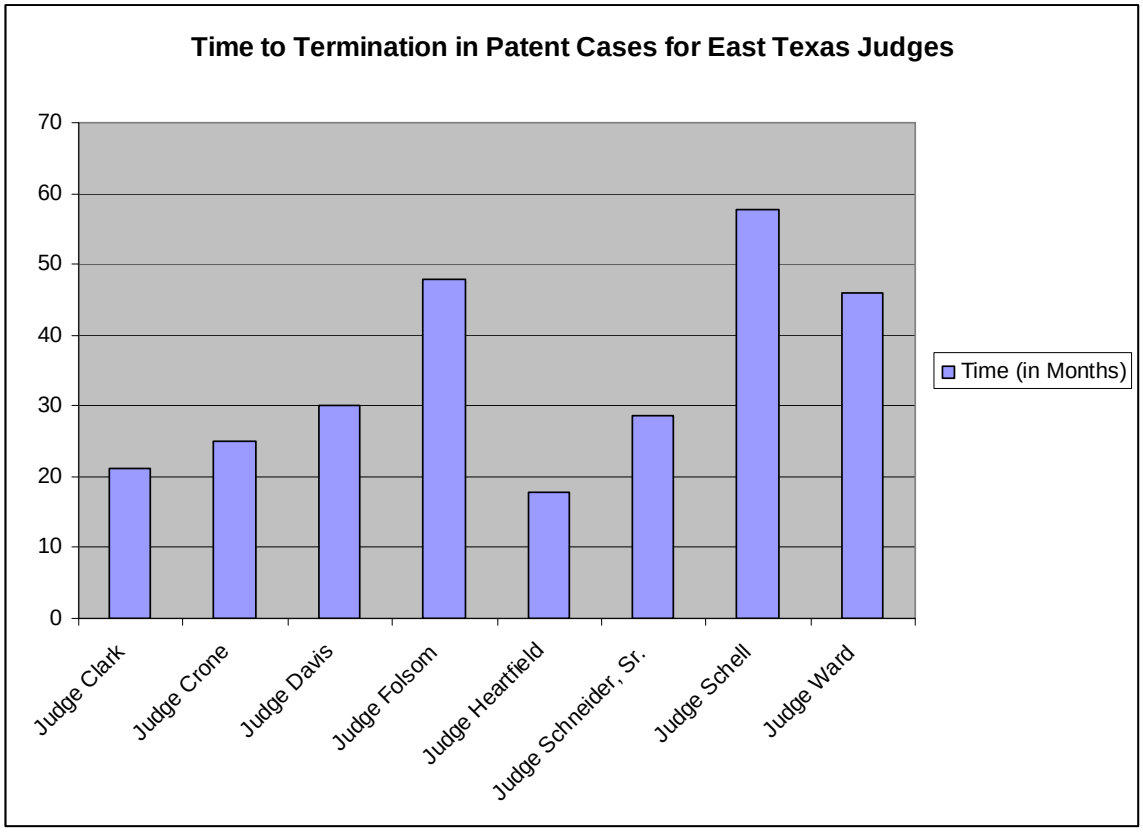
A common misunderstanding is that East Texas's popularity among patent plaintiffs stems from its status as a fast jurisdiction. While this initially may have been true, according to recent data and experiences, it is not particularly fast and certainly not one of the fastest patent dockets in the country.[11] Most likely, this is

[9] http://www.legalmetric.com/top5reports/

[10] *Id.*

[11] Recently, the fastest districts in the country for patent cases have been the Eastern District of Virginia, Western District of Wisconsin, Middle District of Florida, Western District of Washington, and the Central District of California. Conversely, the slowest districts in the country for patent cases have been the District of Delaware, District of Connecticut, District of New Jersey, District of Massachusetts, and the Northern District of Ohio.

because of the tremendous number of patent filings that have bogged down the district. For example, as illustrated below, the current time from commencement of the action until entry of judgment in patent cases in the district ranges from about 17.8 to 57.7 months, and averages about 34.3 months.[12]



Trial attorneys are of the opinion that the explosion of patent suits in East Texas was due primarily to the fact that the district was perceived to be very pro-plaintiff. Indeed, even an East Texas Judge has been quoted as saying that "historically anyway [the Eastern District of Texas is] a plaintiffs-oriented district."[13]

Obviously, a plaintiff in a patent case is interested in enforcing the rights granted under a patent to exclude others from making, using, or selling products

[12] *See, e.g.,* "District Judge Reports" available from Legal Metric, LLC, 1000 Des Peres Road, Suite 210, St. Louis, MO 63131 (http://www.legalmetric.com/cgi-bin/index.cgi)

[13] http://www.nytimes.com/2006/09/24/business/24ward.html?pagewanted=3&_r=1

or services covered by the claims of the patent.[14] Our recent studies indicate that East Texas jurors may have a predisposition that supports a patent plaintiffs' cause. 93% of potential jurors in East Texas said that they favor protecting inventions and discoveries with patents, and 76% of these individuals said that they "strongly favor" patent protection. Only 19% of potential jurors believed that patents discouraged innovation. Further, only 3% of potential jurors "strongly believed" that patents discouraged innovation. Lastly, 25% of potential jurors believed that the U.S. Patent & Trademark Office "rarely or never" makes mistakes in awarding patents. Thus, potential jurors in East Texas seem to have a surprisingly strong pro-plaintiff predisposition in patent cases.

Moreover, East Texas jurors are not all talk when it comes to favoring patent protection. Juries in the district have been more than willing to put a defendant's money where their mouth is. Large and well-publicized damage verdicts that have befallen some defendants in East Texas are another reason for the popularity of the district. One recent example was *TiVo, Inc. v. EchoStar Comm. Corp*., 516 F.3d 1290 (Fed. Cir. 2008). In this case, the Federal Circuit affirmed a finding of infringement against Dish Network (formerly known as EchoStar), an award of about $100 million in damages (including interest), and a permanent injunction. Worse yet, Dish Network was found in contempt of the permanent injunction in June 2009, because its design-around product violated the court's injunction. *See TiVo Inc. v. EchoStar Comm. Corp*., Civil Docket No. *2:04-cv-00001-DF-CMC.* Consequently, the judge awarded another $103.1 million in damages. As of the date this article is being written, the judge has not yet awarded additional monetary sanctions until he receives briefs on the question from the parties.

The *TiVo* damages award has been dwarfed by a June 29, 2009 jury verdict in *Centocor, Inc. v. Abbott Laboratories* (07-CV-00139, U.S. District, E.D. Tex.). The jury in Judge Ward's court in Marshall, after a one-week trial, granted J&J's subsidiary Centocor, Inc. a verdict in the amount of $1.67 billion. The damages were based upon Abbott's sale of the arthritis drug Humira included

[14] *See* 35 U.S.C. § 271 (2008).

$1.17 billion in lost profits and $504 million in royalties. This is believed to be the largest verdict in a patent infringement case in history, eclipsing the $1.52 billion judgment against Microsoft in a suit filed by Alcatel-Lucent SA. The Microsoft verdict was set aside by the trial judge.

The bottom line is that the favorable results obtained by the patent plaintiff in *TiVo* and *Centocor*, and many other patent plaintiffs in East Texas, provide a strong incentive for plaintiffs to file in the district. Concomitantly, the unspoken threat of similar results encourages defendants to settle cases in order to avoid having to try their case in front of an East Texas jury. This combination of results has created a sentiment about the Eastern District Texas that has provided patent plaintiffs with a perceived upper hand before the merits of their accusations are even considered.

Further, some critics have commented that the Eastern District of Texas is seen as "giving summary judgment reluctantly, speeding discovery, and delaying claim construction," which are "all practices that favor plaintiffs."[15]

The reasons cited above, considering the historical treatment of the law allowing plaintiffs to freely choose a forum, had resulted in the Eastern District of Texas being the most popular district in the country for patent plaintiffs.

The Fifth Circuit's Decision in *In re Volkswagen of Am., Inc*.

In the past, only about one-third of decided transfer motions in the Eastern District of Texas have been granted.[16] Recently, the district has received a fair amount of criticism for refusing to transfer cases to other districts when East Texas did not have any significant connection to the cases. Experienced trial attorneys often would not file a motion to transfer under 28 U.S.C. § 1404(a),

[15] http://thepriorart.typepad.com/the_prior_art/2008/05/ed-tex-lawyers-to-aipla-quit-talking-smack-about-judge-ward.html

[16] The same is true for the Southern District of California and the District of Delaware. Most other districts have much higher win rates on transfer motions such as, for example, the Southern District of New York and the Northern District of Illinois, which have win rates on transfer motions that are above 50%.

because the common belief was that such a motion would have no realistic chance of success. This issue became ripe in the *Volkswagen* case.

Initially, Volkswagen AG and Volkswagen of America, Inc. (collectively, "Volkswagen") were defendants in the Eastern District of Texas for a personal injury case. Volkswagen filed a motion to transfer the case and, as expected, its motion was denied. Volkswagen sought a writ of mandamus directing the district court to transfer the suit. *In re Volkswagen of Am. Inc*., 223 Fed.Appx. 305 (5th Cir. 2007). In a *per curiam* opinion, a divided panel of the Fifth Circuit denied the petition and refused to issue a writ. *Id.* at 307.

Thereafter, Volkswagen filed a petition for rehearing *en banc* (2007 WL 2910272) that was granted. *In re Volkswagen of Am. Inc*., 545 F.3d 304, 308 (5th Cir. 2007) ("Volkswagen II"). Interestingly enough, this prompted competing *amicus curiae* filings by the American Intellectual Property Law Association in favor of Volkswagen[17] and by an "Ad Hoc Committee of Intellectual Property Trial Lawyers in the Eastern District of Texas" in support of the plaintiffs.[18]

The overarching question before the *en banc* Fifth Circuit was whether a writ of mandamus should issue directing the transfer of the case from the Eastern District of Texas—which had no connection to the parties, the witnesses, or the facts of the case—to the Dallas Division of the Northern District of Texas that had extensive connections to the parties, the witnesses, and the facts of the case. *Volkswagen II*, 545 F.3d at 304.

In its opinion, the Fifth Circuit stated that a motion to transfer venue should be granted upon a showing that the transferee venue is "clearly more convenient" than the venue chosen by the plaintiff. *Id.* at 315. The Fifth Circuit further found that "public" and "private" factors for determining *forum non conveniens* must be applied when deciding a § 1404(a) venue transfer question. *Id.* at 314 n.9. The "private" interest factors were: "(1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other

[17] http://thepriorart.typepad.com/the_prior_art/files/vw_case_5th_circuit_102407.pdf

[18] http://thepriorart.typepad.com/the_prior_art/files/adhoc_committee.Amicus%20Brief.pdf

practical problems that make a trial easy, expeditious and inexpensive." *Id,* at 315 (citing *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 n. 6, 102 S.Ct. 252 (1981)). The "public" interest factors to be considered were: "(1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws [or in] the application of foreign law." *Id.*

Based on the foregoing, the Fifth Circuit granted the petition and directed the district court to transfer this case to the Dallas Division. *Id.* at 319. This was the first decision to undermine the Eastern District of Texas's ability to continue to attract and retain new patent suits.

After the Fifth Circuit's decision in *Volkswagen II* in October of 2008, there was a noticeable decrease in the number of patent filings in East Texas. Prior to the decision, the Eastern District of Texas was averaging 15.5 patent suits per month. After the decision, the number of filings dropped to 7.5 per month.

Already on the ropes, the Federal Circuit's decision in *TS Tech* may act as a knock-out punch for the availability of East Texas for many patent plaintiffs that would have previously filed in the district.

The District Court Proceedings in *TS Tech.*

On September 14, 2007, Lear Corporation filed suit against TS Tech USA Corporation *et al.* in the Marshall Division of the Eastern District of Texas and the case was assigned to Judge Ward. *See* Civil Action No. 2:07-cv-406-TJW (subsequent citations to this docket omitted).

Lear's complaint for patent infringement alleged that TS Tech had been making and selling infringing pivotal headrest assemblies to Honda Motor Co., Ltd. The complaint further alleged TS Tech knowingly and intentionally induced Honda to infringe the patent by selling the headrest assemblies in their vehicles throughout the United States, including in the Eastern District of Texas.

Shortly after the suit was filed, TS Tech moved to transfer venue of the case to the Southern District of Ohio. TS Tech argued that the Southern District

of Ohio was a far more convenient venue to try the case because (1) the physical and documentary evidence was located primarily in Ohio, (2) the key witnesses lived in Ohio, Michigan, and Canada, (3) no party was incorporated in Texas, (4) no party had an office located in the Eastern District of Texas, and (5) there was no meaningful connection between the venue and the case.

Lear opposed the transfer motion and argued that the Eastern District of Texas was the proper venue because several Honda vehicles containing the accused product had been sold in Texas.

On September 10, 2008, Judge Ward sided with Lear and denied transfer in an order that preceded the *Volkswagen II* decision by about a month. The district court found that TS Tech had failed to demonstrate that the inconvenience to the parties and witnesses clearly outweighed the deference entitled to Lear's choice of bringing suit in the Eastern District of Texas. Judge Ward further found that because several vehicles with TS Tech's accused product had been sold in the venue, the citizens of the Eastern District of Texas had a "substantial interest" in having the case tried locally.

Thereafter, TS Tech filed a petition for a writ of mandamus with the Federal Circuit.

The Federal Circuit's Analysis in *TS Tech*

In its opinion, the Federal Circuit stated that although a writ of mandamus is only available "in extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power," the Eastern District of Texas clearly abused its discretion in refusing to transfer the case. *In re TS Tech USA Corp., et al.*, 2008 WL 5397522 at *5 (Fed. Cir. 2008).

In reaching its conclusion, the Federal Circuit applied the law of the regional circuit in which the district court resides (*i.e.,* the Fifth Circuit), because the petition did not involve substantive issues of patent law. *Id.* at *2. The Court explained that motions to change venue in patent cases, as in other civil cases, are governed by 28 U.S.C. § 1404(a), which provides that "[f]or the convenience of parties and witnesses, in the interest of justice, a district court may transfer

any civil action to another district court or division where it might have been brought." *Id*. The Court further explained that, based on *Volkswagen II*, transfer motions should be granted upon a showing that the transferee venue is "clearly more convenient" than the venue chosen by the plaintiff. *Id.*

After applying the "private" and "public" factors articulated by the Fifth Circuit in *Volkswagen II*, the Federal Circuit determined that the district court gave too much weight to the plaintiff's choice of venue. *Id.* at *3. In particular, while the plaintiff's choice of venue is accorded deference, Fifth Circuit precedent clearly forbids treating the plaintiff's choice as a distinct factor in the analysis under 28 U.S.C. § 1404(a). *Id.*

The Federal Circuit further held that the district court ignored precedent in accessing the cost of attendance for witnesses. This is because the district court disregarded the Fifth Circuit's "100-mile rule," which provided that "[w]hen the distance between an existing venue for trial of a matter and a proposed venue under § 1404(a) is more than 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to be traveled." *Id.* at *3-4.

The district court also erred by reading out of the analysis the relative ease of access to sources of proof. Despite the fact that the vast majority of physical and documentary evidence was located in Ohio, Michigan, and Canada, and none of the evidence was located in Texas, the district court determined that this factor was insignificant, because some documents were stored electronically and therefore could be transported easily. *Id.* at *4. However, the Federal Circuit noted that because all of the physical evidence, including the headrests and the documentary evidence, were far more conveniently located near the Ohio venue, the district court erred in not weighing this factor in favor of transfer. *Id.*

Finally, and most notably, the Federal Circuit highlighted the district court's erroneous analysis regarding the public's interest in having localized interests decided at home. The Federal Circuit explained that there was no relevant connection between the actions giving rise to this case and the Eastern District of Texas except that certain vehicles containing the accused product were sold in

the venue. *Id.* No evidence, parties, or witnesses were located in the venue. In contrast, the vast majority of identified witnesses, evidence, and events leading to this case involve Ohio or its neighboring state of Michigan. The Federal Circuit further explained that the vehicles containing the accused product were sold throughout the United States, and thus the citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue. *Id.*

Based on the foregoing, the Federal Circuit determined that mandamus relief was warranted and held that the district court "clearly abused its discretion in denying transfer of venue to the Southern District of Ohio." *Id.* at *6.

In re Genentech Tracks T.S. Tech

Some five months after the writ of mandamus was issued in T.S. Tech another Eastern District of Texas court, this time the Beaumont division, was the recipient of a writ of mandamus from the Federal Circuit ordering transfer of a case out of the Eastern District of Texas.

In *In re Genentech, Inc. and Biogen Idec Inc.*[19] Judge Ron Clark of the Beaumont division was, using the same criteria used in *In re Volkswagen of Am., Inc.* and *TS Tech*, ordered to transfer the Genentech and Biogen case to the Northern District of California, the Federal Circuit noting that Judge Clark had abused his discretion in denying a request for the transfer. The Federal Circuit also stated that there is no requirement that the transferee district have jurisdiction over the plaintiff(s), but should have jurisdiction over the defendant(s).

Future Litigation in East Texas

The *TS Tech* decision by the Federal Circuit is expected to reduce significantly the number of patent cases that are filed in the Eastern District of Texas. The overall lack of connection between East Texas and the parties or cause of action cited by the Federal Circuit in *TS Tech* and *In re Genentech* is not the exception. Rather, in many of the cases, it is the rule. Physical evidence,

[19] 566 F.3d 1338 (Fed. Cir. 2009)

documentary evidence, key witnesses, a party's office(s), and a party state of incorporation are frequently located in other state(s). Consequently, the "private" factors[20] to be considered under § 1404(a) will typically favor litigating a case somewhere other than the Eastern District of Texas. Similarly, the "public" factors[21] often will be neutral because they will neither favor nor oppose transfer to another venue. Following *TS Tech* and *In re Genentech*, an order denying a transfer motion must consider all public and private interest factors and can no longer be based entirely on negligible sales in the district or buzz words such as "plaintiff's choice of forum."

At a minimum, this decision will likely encourage defendants involved in pending litigation in the Eastern District of Texas to file transfer motions in an effort to escape what many trial attorneys believe is a pro-plaintiff district.

In early 2009 Legal Metric Research analyzed how *TS Tech* had affected the Eastern District of Texas as a venue for patent litigation. The number of transfer motions filed in the district had increased 270 percent compared to the corresponding period in 2008.[22]

In the immediate wake of *TS Tech*, the Eastern District of Texas has both granted and denied such motions. *See e.g.*, *Odom v. Microsoft*, 08-CV-331 at *13 (E.D. Tex. Jan. 30, 2009) (Love, J.) (granting transfer to District of Oregon because the case was "significantly localized in the Northwest," and no Texas state law cause of action was asserted; and *PartsRiver v. Shopzilla et al.*, 07-CV-440 at *4 (E.D. Tex. Jan. 30, 2009) (J. Folsom) (granting transfer to the Northern District of California "based on the regional nature" of the case). *See e.g.*, *Fujitsu Limited v. Tellabs, Inc. and Tellabs Operations, Inc.*, 6:08-CV-22 (E.D. Tex. July

[20] The "private" factors are (1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive.

[21] The "public" factors are (1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws or in the application of foreign law.

[22] Transfer Motions Jump and Patent Case Filings Fall in Eastern District of Texas; Legal Metric Research, St. Louis, MO, February 17, 2009.

7, 2009) granting transfer to the Northern District of Illinois (Davis, J).

But motions have also been denied. *See Novartis Vaccines and Diagnostics, Inc. v. Hoffman-La Roche*, 07-CV-507 at *2-6 (Feb. 3, 2009) (Folsom, J) (denying motion to transfer where no single, alternative forum was any more convenient or appropriate than the plaintiff's choice of forum – the Eastern District of Texas – because the evidence and witnesses were spread across the nation); and *MHL Tek, LLC v. Nissan Motor Company et al.*, 07-CV-289 at *8 (E.D. Tex. Feb. 23, 2009) (Ward, J) (denying a motion to transfer on grounds that the proposed transferee court – the Eastern District of Michigan – because that forum was not "clearly more convenient"). The Eastern District of Texas bench's reading of *TS Tech* limits, at least thus far, limits the precedent's applicability to cases where the parties, evidence and witnesses are clearly localized to one district or region.

Because of the large jury verdicts, it is unlikely that "patent trolls" will abandon East Texas. In fact, it will not be surprising if "patent trolls" in the future attempt to manufacture fact patterns conducive to venue in East Texas by opening an office in the district, moving any physical and documentary evidence to the local office, pre-selecting "key" witnesses such as experts who are geographically local, and/or incorporating their companies in Texas.

Another possible strategy is for patent trolls to include as additional defendants a few small Texas businesses, including "mom and pop" operations run principally out of the business owners' homes, generating *de minimis* income. This type of approach would at least manufacture some connection between some defendants in the action and the venue. If this tactic is successful, East Texas businesses can expect to become regular targets of litigation by patent infringement plaintiffs in need of "anchors" to tie a case to a venue that would otherwise fail to satisfy the dictates of § 1404(a). That would be a heavy economic burden to place on East Texas industries and businesses. However, given the limited array of businesses in East Texas, the availability of this strategy to patent plaintiffs would be constrained greatly.

Also, in many patent cases the patentee accuses multiple defendants in a

single complaint. The relevant witness and material documents are located at places of business throughout the country. So, no single district can be said to be "clearly more convenient" than any other district.

Once served in the Eastern District of Texas a defendant can prevail if a critical mass of witnesses and physical evidence is found elsewhere or if the court to whom transfer is sought has prior experience with the patent(s)-in-suit.[23]

Entities wishing to avoid East Texas should consider filing a declaratory judgment action and create the "plaintiff's choice of forum advantage". Whether such actions will withstand scrutiny is another problem raising complex questions.

[23] *Invitrogen Corp. v. General Electric Co.*, 2009 WL331891 (E.D. Tex. March 19, 2009) (transferee court had already construed the patents-in-suit).