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Federal Circuit's Transfer Decisions Forcing Plaintiffs to Re-evaluate Their Eastern District of Texas Strategy

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In re Hoffman-La Roche Inc. and *In re Nintendo Co., Ltd*. are the latest in a series of Federal Circuit decisions that have shifted the legal landscape regarding patent venue —turning the tide in favor of defendants seeking to transfer cases out of the Eastern District of Texas.[1] Indeed, it appears that a plaintiff's chances of successfully opposing a transfer motion out of the Eastern District of Texas are lower than ever before.

In recent years, the Eastern District of Texas developed a reputation for being a desirable forum for plaintiffs, attracting numerous patent owners and making the district a hotbed for patent litigation. Moreover, because motions to transfer appeared to be routinely denied, defendants found themselves required to litigate in the Eastern District of Texas, even when virtually no connection existed between the dispute and the venue.

The Fifth Circuit's *en banc* decision in *Volkswagen*, an auto injury case, started a significant change in transfer law. *In re Volkswagen of America, Inc*., 545 F.3d 304 (5th Cir. 2008) (*en banc*). In ordering the case transferred from the Eastern District to the Northern District of Texas, the appellate court held that the district court could not disregard the physical location of evidence simply because modern technology makes it easier to transport certain forms of discovery. *Id*. at 316, 322-23. Virtually everything related to the dispute in *Volkswagen* stemmed from or was located in Dallas, including all of the witnesses, documents, and physical evidence. *Id*. at 316-18. Additionally, the Northern District had absolute subpoena power over all of the witnesses. *Id*. at 316. The appellate court concluded that the district court had erred in failing to properly consider the actual location of evidence, the availability of the compulsory process, and the local venue's interest in deciding the case "at home." *Id*. at 317-18. The Fifth Circuit granted Volkswagen's petition and ordered the case transferred to the Northern District of Texas. *Id*. at 319.

Soon after *Volkswagen*, a patent infringement defendant, TS Tech, filed a petition for writ of mandamus in the Federal Circuit. *In re TS Tech USA Corp*., 551 F.3d 1315, 1318 (Fed. Cir. 2008). Following Fifth

Circuit law, the Federal Circuit held that the district court clearly abused its discretion by: (1) giving too much weight to plaintiff's choice of venue; (2) ignoring Fifth Circuit precedent requiring an assessment of costs for attendance of witnesses; (3) marginalizing the factor concerning the relative ease of access to sources of proof; and (4) disregarding Fifth Circuit law in analyzing the public interest in having localized decisions decided "at home." *Id*. at 1320-21. Accordingly, the Federal Circuit granted TS Tech's writ and ordered the district court to transfer the case. *Id*. at 1322-23.

Initial district court rulings following *Volkswagen* and *TS Tech* suggested that more cases would be transferred from the Eastern District of Texas, particularly when the physical evidence and witnesses were centralized at or near the proposed transferee courts and when the alternate forum was "clearly more convenient." *Id*. at 1319 (quoting *Volkswagen*, 545 F.3d at 315). However, plaintiffs in multi-defendant "decentralized" cases (*i.e*., cases in which the evidence, witnesses, and parties were located throughout the country) seemed to have a better chance at defeating transfer motions. Indeed, several cases supported the notion that "centralized" cases, where the physical evidence was confined to a "limited region," were distinguishable from "decentralized" national cases, where no single venue would clearly be more convenient. *See*, *e.g.*, *Novartis Vaccines & Diagnostics, Inc. v. Hoffman-La Roche Inc.*, No. 2:07-CV-507, Order, slip op. at 5 (E.D. Tex. Feb. 3, 2009).[2]

The rationale for decentralized, multi-party cases, however, was short lived. The Federal Circuit again exercised its mandamus power — this time ordering the transfer of a decentralized case out of the Eastern District of Texas. *See In re Genentech, Inc*., 566 F.3d 1338 (Fed. Cir. 2009). Several months later, the Federal Circuit issued yet two more transfer decision involving decentralized evidence, parties, and witnesses. *See Nintendo*, 2009 WL 4842589, at *4-5; *Hoffmann-La Roche*, 2009 WL 4281965, at *4. The *Genentech*, *Hoffman-La Roche*,and*Nintendo* decisions made clear that the Federal Circuit would not shy away from reviewing district court venue transfer rulings via writs, even in decentralized cases.

In *Genentech*, Sanofi, a German pharmaceutical firm, filed a patent infringement action against Genentech (located in the Northern District of California) and Biogen (located in the Southern District of California) in the Eastern District of Texas. *Genentech*, 566 F.3d at 1340-41. The witnesses and evidence were located in multiple geographic regions, and none were located in Texas. *Id*. The district court based its ruling on its determination that the Eastern District of Texas was as good a central location for a decentralized case as any other venue. *Id*. at 1342. The Federal Circuit rejected this "central location rationale" and set forth several instances in which the district court failed to properly assess the relevant factors under Fifth Circuit law. *Id*. at 1342-49.

- First, the district court improperly disregarded multiple potential witnesses in California because they were not "key witnesses." *Id*. at 1344-45. Witnesses need not be "key witnesses" as long as they have knowledge of "relevant and material information at this point in the litigation." *Id*. at 1344.

- Second, the district court's application of the Fifth Circuit's "100-mile" rule for determining the cost of attendance for willing witnesses and parties was improper. *Id*. at 1344. Although Europe is closer to Texas than it is to California, the witnesses from Europe would be "required to travel a significant distance no matter where they testify." *Id*. Therefore, the slight additional time that European witnesses would have to travel was far outweighed by the significant inconvenience that two California parties and multiple California-based witnesses would have had to face if required to travel to Texas. *Id*.

- Third, in ruling that Texas is a central location, the district court failed to consider the fact that none of the identified witnesses lived in Texas and the majority of witnesses lived in California. *Id*. at 1344-45.

- Fourth, the district court erred in minimizing the "significant and unnecessary burden" that would be imposed on defendants if required to transport relevant materials from California to Texas. Moreover, it would be only "slightly more inconvenient or costly to require the transportation of [Sanofi's] materials [housed in Europe and Washington, D.C.] to California [rather] than Texas." *Id*. at 1345-46.

- Fifth, the district court overlooked the fact that the compulsory process factor weighed in favor of

transfer more than "slightly" because there were a substantial number of witnesses within the subpoena power of the Northern District of California and none within the compulsory process power of the Eastern District of Texas. *Id*. at 1345.

- Sixth, the district court clearly erred in giving weight to the fact that: (1) Genentech had previously filed a different suit in the Eastern District of Texas and (2) the California district court might not have had jurisdiction over plaintiff. *Id*. at 1346. Both Genentech's previously filed case and Sanofi's challenge to jurisdiction were irrelevant to a transfer analysis under 28 U.S.C. § 1404(a). *Id*.

- Finally, the district court's discussion of the potential court congestion in the Northern District of California was "speculative" and "should not alone outweigh" all of the other relevant factors. *Id*. at 1347.

Although the Federal Circuit did not evaluate whether the Northern District of California's interest in having the case tried "at home" only "slightly" favored transfer, the court concluded that it "nevertheless favors transfer." *Id*. After considering all of these factors, the Federal Circuit granted the petition and ordered the district court to transfer the case to the Northern District of California. *Id*. at 1348-49.

The first of the Federal Circuit's two most recent transfer opinions, *Hoffmann-La Roche*, extended this ongoing shift in transfer law. *Hoffmann-La Roche*, 2009 WL 4281965, at *4. In *Hoffmann-La Roche*, Novartis Vaccines and Diagnostics, Inc., a company headquartered in California, brought suit in the Eastern District of Texas against Hoffmann-La Roche Inc., Roche Laboratories Inc., Roche Colorado Corp., and Trimeris, Inc. *Id*. at *1. Novartis alleged that Fuzeon®, a commercial HIV inhibitor drug, infringed its patent. *Id*. Fuzeon® was developed at Trimeris' labs in North Carolina where certain documents were maintained. *Id*. Roche's manufacturing and processing facilities were located in Colorado, Michigan, and Switzerland. *Id*. The company packaged the drug at its New Jersey headquarters and marketed Fuzeon® nationwide. *Id*. Only a handful of 25 potential witnesses lived in North Carolina. *Id*.

Defendants moved to transfer, contending that there were no witnesses or evidence within 100 miles of the Eastern District of Texas. *Id*. Additionally, defendants argued that most of the relevant evidence, a number of Trimeris' employee witnesses, and four non-employee witnesses were located in North Carolina. *Id*. Novartis opposed, arguing that the case involved multiple parties from across the country, and that sources of proof and witnesses were located throughout the United States. *Id*. Consequently, transferring the case to North Carolina would merely rearrange the inconveniences. *Id*.

Chief Judge David Folsom agreed with Novartis and denied the motion to transfer, finding that: (1) four non-party witnesses in North Carolina did not constitute a substantial number of witnesses; (2) Novartis' documents had been transferred to Texas; and (3) the district court had subpoena power over one of the witnesses who lived in Houston. *Id*. at *2. The district court concluded that "the Eastern District of North Carolina had no more of a local interest in deciding this matter than the Eastern District of Texas" because the accused product was offered for sale nationwide. *Id*. at *4. Defendants petitioned the Federal Circuit for a writ of mandamus. *Id*. at *2.

The Federal Circuit compared the case's connection to the Eastern District of Texas and its connection to the Eastern District of North Carolina and held that there was "a stark contrast in relevance, convenience, and fairness between the two venues." *Id*. The appellate court held that the district court clearly abused its discretion by failing to give proper weight to the meaningful connection that the patent infringement dispute had to North Carolina but did *not* have to the Eastern District of Texas. *Id*. at *4. In reaching its decision, the Federal Circuit analyzed relevant factors under Fifth Circuit law and made the following conclusions:

- The "sources of proof" related to the development and testing of the infringing product were located in North Carolina (the location where the accused drug was developed). *Id*. at *2.

- The district court had no basis to conclude that documents that were electronically transferred from California to Texas supported rejection of the transfer motion. The law prohibits "attempts to manipulate venue in anticipation of litigation or a motion to transfer." *Id*. at *3.

- The district court disregarded precedent by holding that North Carolina had no more of a local interest than Texas. On the contrary, the "local interest in this case remains strong because the cause of action calls into question the work and reputation of several individuals residing in or near that district." *Id*. at *2.

- The matter had "no relevant factual connection to the Eastern District of Texas." In contrast, North Carolina's interest in the matter was "self-evident." *Id*. at *4.

- The district court overlooked the importance of the "absolute subpoena power," which permits a court to compel a witness to attend depositions and trial. In doing so, the district court gave too much weight to its ability to compel one witness at trial, noting that because the witness lived more than 100 miles away, the district court would not be able to compel her to attend a deposition. The district court also failed to consider the fact that the Eastern District of North Carolina had absolute subpoena power over at least four non-party witnesses, which favored transfer. *Id*.

- The less-congested docket of the district court of North Carolina indicated that the court "may be able to resolve this dispute more quickly." *Id*. at *2.

The Federal Circuit granted the petition and directed the Eastern District of Texas to transfer the dispute to the Eastern District of North Carolina. *Id*. at *4.

The second of the Federal Circuit's two recent decisions further confirmed this ongoing shift in the law. *See Nintendo*, 2009 WL 4842589, at *4-5. In *Nintendo*, Nintendo sought transfer to the Western District of Washington, where it was incorporated and hadits principal place of business. *Id*. at *1. Motiva opposed transfer, arguing that Eastern District of Texas was the proper venue for the decentralized case. *Id*. The Federal Circuit again rejected the "decentralized" argument for maintaining a case in Texas that lacks any connection to the venue and reminded the district court that it had "already questioned this type of reasoning in another case involving the Eastern District of Texas." *Id*. at *4 (citing *Genentech*, 566 F.3d at 1344). In holding that "the district court clearly abused its discretion in denying transfer from a venue with no meaningful ties to the case," *id*. (citing *TS Tech*, 551 F.3d at 1322-23), the Federal Circuit reached the following conclusions:

- Although the district court "correctly assessed the local interest of the Western District of Washington as high" and "candidly observed that the Eastern District of Texas has little relevant local interest in the dispute," it "gave the plaintiff's choice of venue too much deference." *Id*. at *3-4.

- The district court also improperly failed to give proper weight to the fact that "[a]ll of the identified key witnesses in this case [we]re in Washington, Japan, Ohio, and New York" and "[n]o witnesses live[d] in Texas." *Id*. at *3.

- The fact that Nintendo's products are sold nationally did not justify keeping the case in Texas. "The Fifth Circuit has unequivocally rejected the argument that citizens of the venue chosen by the plaintiff have a 'substantial interest' in adjudicating a case locally because some allegedly infringing products found their way into the Texas market." *Id*. (citing *Volkswagen*, 545 F.3d at 317-18).

- The district court "glossed over a record without a single relevant factor favoring the plaintiff's chosen venue" and incorrectly "hypothesized that the Eastern District of Texas could serve as a centralized location" despite the fact that neither party had evidence in Texas, and the majority of Nintendo's evidence was located in Washington. *Id*. at *4-5.

Because all of the relevant factors favored transfer, the Federal Circuit held that the district court's result was "patently erroneous" and ordered the case transferred to the Western District of Washington.

These recent Federal and Fifth circuit venue decisions indicate that the tide continues to turn in favor of parties seeking to transfer cases out of the Eastern District of Texas. Moreover, it appears that the

Federal Circuit is paying close attention to newly issued district court transfer rulings and will not hesitate to find an abuse of discretion when lower courts fail to balance the *Volkswagen* factors in a manner that conforms to its recent decisions. *Genentech* and *Nintendo* indicate that transfer is appropriate in decentralized cases if there are no witnesses in the district where the case is filed and a significant number of witnesses would benefit from a change of venue. *Hoffman-La Roche* and *Nintendo* suggest that district courts evaluate whether the patent dispute's connection to a plaintiff's selected venue is more meaningful than the connection to any one alternative local venue. All of these cases highlight the importance of witness convenience, location of evidence, and a connection between the dispute and the district. Additionally, the fact that a case involves a product that is sold nationwide no longer means that any venue in the country is appropriate. Consequently, even decentralized cases now appear to have a high probability of being transferred if the dispute does not have any meaningful connection to the Eastern District of Texas and an alternate jurisdiction with such a connection exists.

The Federal Circuit's recent opinions may cause patentees to rethink their strategies regarding choice of forum and reconsider whether they should file in the Eastern District of Texas. And if cases with no connection to the district are nonetheless filed there, these recent decisions indicate that the odds of obtaining transfer to a forum with a more significant connection to the case are much better than they were just a year ago.

Footnotes

[1] *In re Hoffmann-La Roche Inc*., --- F.3d ----, Misc. No. 911, 2009 WL 4281965 (Fed. Cir. Dec. 2, 2009); *In re Nintendo Co., Ltd*., --- F.3d ----, Misc. No. 914, 2009 WL 4842589 (Fed. Cir. Dec. 17, 2009). The other decisions in the series include: *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re TS Tech USA Corp*., 551 F.3d 1315 (Fed. Cir. 2008); *In re Volkswagen of America, Inc*., 545 F.3d 304 (5th Cir. 2008) (*en banc*).

[2] Morrison & Foerster LLP represents plaintiff Novartis Vaccines and Diagnostics, Inc.