LITIGATION IN EAST TEXAS AFTER THE FEDERAL CIRCUIT'S DECISION IN *TS TECH*

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Prior to the late 1990's, personal injury litigation in East Texas was plentiful. After passage of Texas tort reform, litigation virtually disappeared. Thereafter, litigation rebounded based on an influx of patent cases. Indeed, a *New York Times* article entitled "So Small a Town, So Many Patent Suits"[1] brought national attention to patent litigation in the venue. Now, because of the Federal Circuit's decision in *TS Tech* in which the district court was found to have "clearly abused its discretion in denying transfer of venue," the district will no longer be the go-to jurisdiction for patent litigation.

THE EXPLOSION OF PATENT LAWSUITS IN THE E.D. OF TEXAS

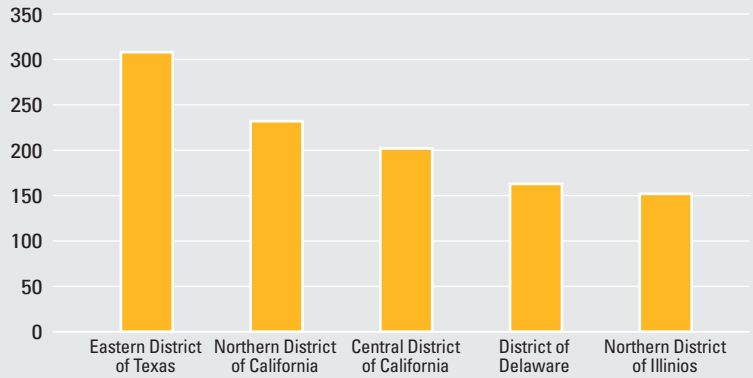
After Judge Ward was sworn into the bench, patent lawsuits in East Texas jumped from 32 to 234 suits annually. Despite rarely having substantial connection to the venue, more patent suits were filed recently in East Texas than anywhere else.[2]

A common misunderstanding is that East Texas is popular because it is a fast jurisdiction, but it is not.[3] The time from commencement until judgment in ranges from 17.8 to 57.7 months, and averages 34.3.[4]

The popularity of East Texas is because it is very pro-plaintiff. 93% of East Texas jurors favor protecting inventions with patents, and 76% "strongly favor" patent protection. Only 19% of jurors believed that patents discouraged innovation. Only 3% of jurors "strongly believed" that patents discouraged innovation. Lastly, 25% of jurors believed that the Patent Office "rarely or never" makes mistakes.

Another reason for the district's popularity is disasters that befell some defendants, such as Echostar,[5] which was found to infringe TiVo's patent and had to pay $100M in damages. Currently, EchoStar is in danger of being held in contempt because its design around may violate the permanent injunction. These disasters encourage plaintiffs to file in the district. Concomitantly, it encourages defendants to settle cases in order to avoid East Texas juries.

Most Popular Districts for Patent Infrigement Litigation in 2008[2]
Number of Patent Infrigement Complaints



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

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

[3] 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.

[4] 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)

[5] *TiVo, Inc. v. EchoStar Comm. Corp.*, 516 F.3d 1290 (Fed. Cir. 2008).

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Further, some argue that the district gives summary judgment reluctantly, speeds discovery, and delays claim construction, which are "all practices that favor plaintiffs."[6]

IN RE VOLKSWAGEN OF AM., INC.

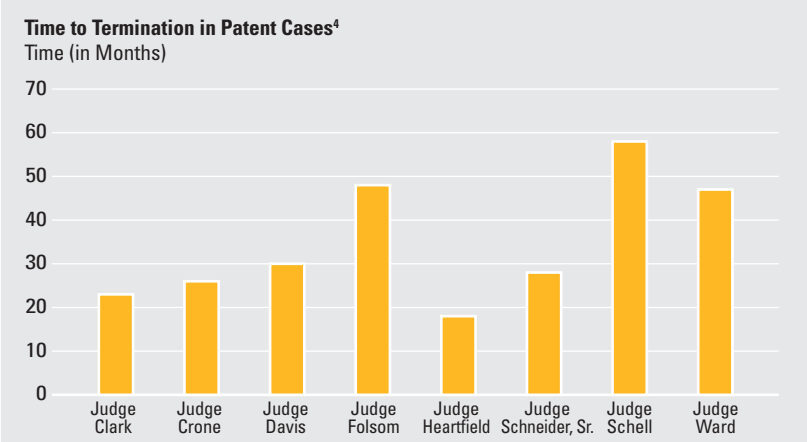
East Texas has been criticized for refusing to transfer cases lacking a significant connection to the venue. Trial attorneys often would not file transfer motions, because there was no realistic chance of success. This unwillingness to transfer cases was addressed by the Fifth Circuit in *In re Volkswagen of Am. Inc.*, in which there were competing *amicus curiae* filings by the American Intellectual Property Law Association in favor of Volkswagen[7] and by an "Ad Hoc Committee of Intellectual Property Trial Lawyers in the Eastern District of Texas."[8]

In that case, the Fifth Circuit granted a writ of mandamus and ordered transfer of the case.[9] This decision undermined East Texas' ability to attract and retain new patent suits.

IN RE TS TECH USA CORP. ET AL.

Lear filed suit against TS Tech in East Texas and the case was assigned to Judge Ward. TS Tech moved to transfer venue, but Judge Ward denied transfer. Thereafter, TS Tech sought mandamus.

A writ of mandamus is only available "in extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power." Nonetheless, the Federal Circuit held that East Texas clearly abused its discretion in refusing to transfer the case. The Federal Circuit applied the "private" and "public" factors articulated by the Fifth Circuit in *Volkswagen II* and determined that the district court gave too much weight to the plaintiff's choice of venue. While the plaintiff's choice of venue is accorded deference, precedent clearly forbids treating the choice as a distinct factor in the analysis under 28 U.S.C. § 1404(a).



The court also erred by disregarding the "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."

The court further erred by reading out of the analysis the relative ease of access to sources of proof. In particular, the Federal Circuit noted that because all of the physical evidence was far more conveniently located near the Ohio venue, the district court erred in not weighing this factor in favor of transfer.

Finally, the court's analysis regarding the public's interest in having localized disputes decided at home was erroneous. There was no relevant connection between the case and East Texas except that the accused products were sold in the venue. 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. Because the accused products were sold throughout the country, the citizens of East Texas had no more of a connection to the case than any other venue.

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

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

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

[9] *In re Volkswagen of Am. Inc.*, 545 F.3d 304, 308 (5th Cir. 2007) ("Volkswagen II").

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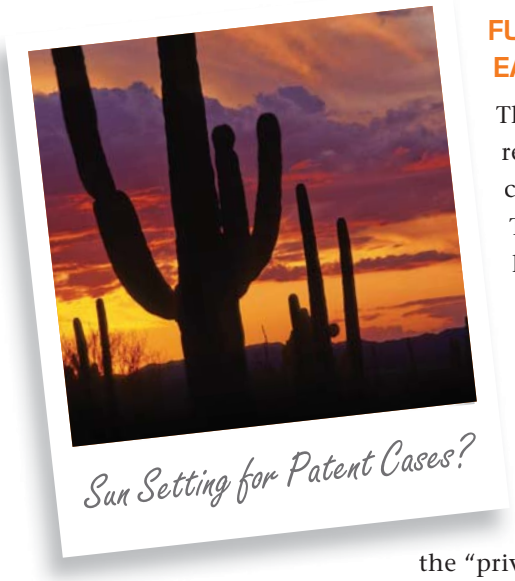
Thus, the Federal Circuit held that the district court "clearly abused its discretion in denying transfer of venue to the Southern District of Ohio."



FUTURE LITIGATION IN EAST TEXAS

The *TS Tech* decision will reduce the number of patent cases that are filed in East Texas, because most cases will lack substantial connection to the venue. Physical evidence, documentary evidence, key witnesses, a party's office(s), and a party state of incorporation are located typically in other state(s). Consequently, the "private" factors[10] to be considered will typically favor litigating a case somewhere else. Similarly, the "public" factors[11] often will be neutral because they will neither favor nor oppose transfer to another venue. At a minimum, this decision will encourage defendants to file transfer motions in order to escape the district.

However, it is unlikely that "patent trolls" will abandon East Texas. The trolls may attempt to manufacture fact patterns conducive to venue by opening office(s) in the district, moving any physical and documentary evidence to the local office(s), pre-selecting "key" witnesses such as experts who are geographically local, and/or incorporating their companies in Texas.

Another possible strategy is for trolls to include as additional defendants a few small Texas businesses, including businesses that are literally "mom and pop" operations. This type of approach would generate some connection between some defendants and the venue. However, 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).

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Only time will tell if these types of approaches will be effective. For others, this strategy is not practical. When all is considered, it looks like the "sun will set" for patent cases in East Texas. ■

[10] 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.

[11] 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.