Transferring Cases Out of Eastern Dist. Of Texas

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Law360, New York (October 15, 2008) —Last Friday, Oct. 10, 2008, an en banc panel of the Court of Appeals for the Fifth Circuit took the extraordinary step of issuing a writ of mandamus to the Marshall Division of the U.S. District Court for the Eastern District of Texas, ordering the lower court to transfer a products liability case to the Dallas Division of the U.S. District Court for the Northern District of Texas, thus calling into question the weight to which a plaintiff's choice of venue is entitled.

While the underlying case is a products liability action arising out of an automobile accident, the implications of the decision could be far reaching. The opinion of the Fifth Circuit may have a significant impact on the status of the Eastern District of Texas as the preeminent venue for patentees looking to enforce their rights.

The patent bar has taken notice of an otherwise unremarkable (although tragic) products liability action in a town of 25,000 in rural Texas. The case has caught the eye of the AIPLA, which filed an amicus brief, which in turn led to the formation of the Ad Hoc Committee of Texas Intellectual Property Trial Lawyers, which filed a brief in response to the AIPLA's amicus brief.

In In re Volkswagen of America, Inc., No. 07-40058 (5th Cir. Oct. 10, 2008), Volkswagen, the defendant in a products liability case pending in the Marshall Division, sought a writ of mandamus ordering the lower court to transfer the case to the Dallas Division, which it described as the locus of the incident giving rise to the case.

Part I of this article discusses the factual background of the underlying case, Singleton v. Volkswagen of Am., Inc., No. 2-06-CV-222 (E.D. Tex. Sept. 12, 2006) (Ward, J.). Part II discusses the procedural history leading up the en banc review by the Fifth Circuit. Part III examines the "clear abuse of discretion" standard for mandamus while Part IV addresses the lessened role of the plaintiff's choice of forum. Part V discusses the Fifth Circuit's review of the facts and Part VI looks at the dissenting opinion. Part VII discusses the potential implications of the decision.

Part I: The Marshall Action

Richard, Ruth and Amy Singleton filed suit against Volkswagen AG and Volkswagen of America Inc. in the Marshall Division of the Eastern District of Texas in 2006. Richard and Ruth Singleton were involved in car accident on a freeway in Dallas in which their Volkswagen was hit from behind and propelled into a disabled flat-bed trailer parked on the shoulder of the road.

Volkswagen, slip op. at 2. Amy Singletons' seven-year-old daughter (and the granddaughter of Plaintiffs Richard and Ruth Singleton) was killed in the crash when she was trapped beneath the front passenger seat which collapsed in the impact. Id.

At the time of the accident, the Singletons resided in the Marshall Division, but have since moved to Dallas. Volkswagen filed a third party complaint against the driver of the flatbed trailer parked at the side of the road.

Volkswagen filed the motion to transfer to the Dallas Division under 28 U.S.C. § 1404(a), citing the minimal connection between the case and Marshall, located 150 miles from Dallas. Volkswagen asserted that the transfer was warranted because it was undisputed that none of the plaintiffs live in the Marshall Division, no known party or non-party witness lives in the Marshall Division, no known source of proof is located in the Marshall Division and none of the facts giving rise to the suit occurred in the Marshall Division. Volkswagen, slip op. at 2-3.

Specifically, the accident occurred in Dallas, the car was purchased in Dallas County, Dallas residents witnessed the accident, Dallas emergency services personnel responded to the accident, a Dallas doctor performed the autopsy, and the third party defendant lives in Dallas County. Volkswagen, slip op. at 2. In the words of the majority, "[t]he only connection between this case and the Eastern District of Texas is plaintiffs' choice to file there." Volkswagen, slip op. at 20 quoting In re Volkswagen of Am., Inc., 223 F. App'x 305, 307 (5th Cir. 2007) (Garza, J., dissenting).

The district court denied the motion to transfer.

Part II: The Road To The Fifth Circuit

Volkswagen filed a motion for reconsideration, arguing that the court gave inordinate weight to Plaintiffs' choice of venue and failed to meaningfully consider the venue transfer factors. Volkswagen, slip op. at 3. The district court denied this motion as well. See Singleton v. Volkswagen of Am., Inc., 2006 WL 3526693 (E.D. Tex. Dec. 7, 2006). Volkswagen then filed a petition for mandamus with the Fifth Circuit, which was denied by a 2-1 margin. In re Volkswagen of Am., Inc., 223 F. App'x 305 (5th Cir. 2007).

Volkswagen filed a petition for hearing en banc, which the panel interpreted as a petition for rehearing, and granted the petition. Oral argument was heard before a different three judge panel, which granted the petition for mandamus and issued a writ directing the transfer of the action to the Dallas Division. Volkswagen, slip op. at 4. The Plaintiffs then filed a petition for rehearing en banc, which was granted.

Part III: A "Clear Abuse Of Discretion"

In a 10-7 decision, the Fifth Circuit issued a sharp rebuke to the lower court, finding that it had "[given] undue weight to the plaintiffs' choice of venue, ignored our precedents, misapplied the law, and misapprehended the relevant facts." Volkswagen, slip op. at 5. "[T]he district

court reached a patently erroneous result and clearly abused its discretion in denying the transfer." Volkswagen, slip op. at 5.

The majority's analysis began with the propriety of writ of mandamus to test a district court's § 1404(a) ruling and set forth the standard for such a writ. Volkswagen, slip op. at 5. Mandamus, said the Court, is appropriate for "exceptional circumstances amounting to a judicial usurpation of power or a clear abuse of discretion." Volkswagen, slip op. at 5-6 quoting Cheney v. U.S. Dist. Ct., 542 U.S. 367, 380 (2004). Only a "clear" abuse of discretion will warrant a writ of mandamus. Id.

The Court acknowledged that the line between an abuse of discretion and a clear abuse of discretion was a fine one and attempted to clarify the distinction: A court abuses its discretion when it relies on clearly erroneous findings of fact, relies on erroneous conclusions of law or misapplies the law to the facts. Volkswagen, slip op. at 6-7.

This ordinary abuse of discretion rises to the level of a "clear" abuse of discretion where these errors "produce a patently erroneous result." Volkswagen, slip op. at 7.

Part IV: The Role Of Plaintiffs' Choice Of Venue

According to the Court, while a plaintiff has the privilege of filing his claims in any judicial division appropriate under the general venue statue, 28 U.S.C. § 1391, the exercise of that privilege is tempered by § 1404(a). Accordingly, a plaintiff's choice of venue is to be treated as a "burden of proof question" and the burden is on the defendant to demonstrate why the venue should be changed. Volkswagen, slip op. at 13, n. 9. A plaintiff's choice of forum should not be treated as an independent factor in the change of venue calculus. Id.

The district court erred when it considered the Singleton's choice of forum as an independent factor to be weighed against the countervailing interests offered by Volkswagen.

The district court further erred when it applied the stricter forum non conveniens standard, which requires that the factors cited by the movant "substantially outweigh" the plaintiff's choice of venue. Volkswagen, slip op. at 13. The less restrictive § 1404(a) standard simply requires that the transfer be "[f]or the convenience of the parties, in the interest of justice." Volkswagen, slip op. at 13.

"Thus, when the transferee venue is not clearly more convenient than the venue chosen by the plaintiff, the plaintiff's choice should be respected. When the movant demonstrates that the transferee venue is clearly more convenient, however, it has shown good cause and the district court should therefore grant the transfer."

Volkswagen, slip op. at 14. The Court appeared to indicate that little, if any, deference will be given to a plaintiff's choice of venue if an alternate venue is "clearly more convenient."

Part V: The Fifth Circuit's Analysis Of The Facts

The Fifth Circuit's opinion provides a detailed and thorough re-analysis of the showing made by Volkswagen and the district court's application of the factors that determine whether a venue transfer is in fact "for the convenience of the parties and witnesses and in the interest of justice." Volkswagen, slip op. at 14.

Before the district court, Volkswagen argued that the so-called Gilbert factors dictated a transfer to the Dallas Division:

(1) The district court disagreed that the location of all documents and physical evidence in Dallas favored a transfer. Rather, the district court found this factor to be neutral because of advances in copying technology and information storage and the availability of electronic courtrooms in both locations.

(2) Volkswagen argued that the availability of compulsory process favored transfer since the Marshall Division would not have "absolute subpoena power" over the non-party witnesses. The district court likewise found this factor to be neutral since it could deny any motion to quash and compel the attendance of third-party witnesses located anywhere in Texas.

(3) Volkswagen argued that the cost of attendance for willing witnesses (none of whom reside in the Marshall Division) favored transfer as the Dallas Division is more convenient for all relevant witnesses. The district court disagreed because Volkswagen had not designated "key" witnesses and because of the proximity of the Dallas Division to the Marshall Division.

(4) The localized interest in having local interests decided at home favored transfer, according to Volkswagen, since the accident occurred in Dallas, the car was purchased in Dallas County and Dallas residents witnessed the accident. No fact giving rise to the suit occurred in Marshall and no plaintiff, party or non-party witness, or known source of proof is located in the Marshall Division.

The lower court nonetheless found this factor neutral because the citizens of Marshall "would be interested to know whether there are defective products offered for sale in close proximity to the Marshall Division." Volkswagen, slip op. at 15-16.

The Fifth Circuit disagreed with Judge Ward's factual analysis on all counts. As to the availability of compulsory process to secure the attendance of witnesses, the Dallas Division would have absolute subpoena power over witnesses. The district court's power to deny a motion to quash does not address the convenience of the witnesses, a primary concern in the venue transfer analysis. Volkswagen, slip op. at 17.

Similarly, as to the cost of attendance for willing witnesses, Volkswagen submitted a list of potential witnesses, all of whom reside in or around Dallas, and two witness affidavits stating that travel to Marshall would be inconvenient. This factor clearly leaned in favor of a transfer.

The lower court also disregarded the Fifth's Circuit's self-described 100-mile rule, which provides that when the distance between the existing venue and proposed venue is more than

100 miles, the inconvenience to the parties increases in direct relationship to the additional distance traveled. Volkswagen, slip op. at 18.

As to the public interest factor, the strong connection to the Dallas area and the complete absence of any factual connection to the Marshall Division strongly favored a transfer. The lower court's suggestion that the citizens of Marshall would be interested in the availability of dangerous products in the vicinity "stretches logic in a manner that eviscerates the interest that this factor attempts to capture." Volkswagen, slip op. at 19.

The Court noted that the facts do not support the district court's logic since the Marshall Division does not even have a Volkswagen dealership. The Court concluded that while the citizens of Marshall "are not in any relevant way connected to the events that gave rise to this suit," the citizens of the Dallas Division "have extensive connections." Volkswagen, slip op. at 19.

The public interest factor thus supports a transfer and the balance of the factors compels a transfer to the Dallas Division.

Part VI: Substitution Of Judgment Or Abuse Of Discretion?

The dissent, written by Judge King, a member of the original three-judge panel that first denied the petition for mandamus, sharply criticized the majority's analysis, stating that a "clear" abuse of discretion "occurs when the court lacks the judicial power or authority to make the decision that it did." Volkswagen, slip op. at 33.

In other words, unless the district court acted outside the scope of its power or authority, mandamus is unwarranted. In the view of the dissent, there was no claim here that the district court lacked the power to deny the transfer motion and mandamus was unwarranted. Volkswagen, slip op. at 34. "The claim is that it erred in the judgment that it made when it exercised the power that it concededly has. That is not the basis for a writ." Volkswagen, slip op. at 34.

Part VII: Going Forward

The filing of actions for patent infringement in the Eastern District of Texas with limited connection to that venue has been well reported and discussed. See, e.g., Julie Creswell, So Small a Town, So Many Patent Suits, N.Y. Times, Sept. 24, 2006. As the AIPLA pointed out in its brief, the Eastern District of Texas saw 368 new patent cases in 2007, up from 23 in 2000.

This total is more than the 308 patent cases filed in the Central District of California in 2007 or the 148 filed in the Northern District of California, home of Silicon Valley. AIPLA Brief at 2, n.3. Rightly or wrongly, patentees tend to view the District as patentee-friendly and unlikely to transfer cases out of the District. The proliferation of patent cases in the Eastern District of Texas has given rise to efforts for legislative reform, including a proposal to limit venue in patent cases. See, e.g., HR-1908, the Patent Reform Act of 2007.

Whether rooted in a difference in judgment or the correction of a manifest abuse of discretion, the Fifth Circuit has now informed the lower courts of the Eastern District of Texas (and elsewhere in the Circuit) that they must apply the transfer analysis more evenly and with less deference to the plaintiff's choice of venue.

It remains to be seen if this decision will have a broad impact in the Eastern District of Texas or affect its status and the leading venue for patent infringement in terms of cases field.

With the new direction of the Fifth Circuit, patentees must now consider the real possibility that cases with minimal connection to the Eastern District of Texas will be transferred if the accused infringer can establish the convenience of an alternate forum.

This may cause more initial skirmishes on venue, add delay to reaching the merits of a case and add expense for the patentee who chooses the Eastern District of Texas as a venue for a patent case with little connection to that venue.

Volkswagen was a particularly extreme example, albeit in a different area of law, with no witnesses in the chosen venue, no parties in the chosen venue, and no operative facts having occurred in the chosen venue. However, the logic of Volkswagen could equally apply to a patentee with no business in the Eastern District of Texas who brings suit there against a California-based manufacturer of semiconductors.

Under Volkswagen, a patentee can no longer rest on its choice of forum as a near-inviolable right. The accused infringer needs to show that the alternate venue is more convenient, a low hurdle to overcome where the patentee is a patent holding company with no non-licensing business of its own and de minimus sales provide the only connection to the District.

If the accused infringer can show that all relevant witnesses were located in California, and all design and sales records were similarly located there, the patentee would be left only to argue that the public interest in not having infringing goods in the district favors against a transfer.

The message is clear that the Fifth Circuit will be closely watching challenges to venue in the Eastern District of Texas, which may well result in more cases being transferred venues with a more logical connection to the case, a result that many in the patent bar have long been waiting for.

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