
PATENT LAW — FORUM SELECTION — FEDERAL CIRCUIT HEIGHTENS STANDARD FOR PLAINTIFF PRESENCE THAT WILL WEIGH AGAINST TRANSFER. — *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010).

The Eastern District of Texas is well known for being plaintiff-friendly, particularly in patent litigation,¹ and is often the forum of choice for patent-holding companies² when suing large corporations that can be haled into court in many possible venues.³ The defendant's counter to this tactic is a motion to transfer under the federal change of venue provision at 28 U.S.C. § 1404(a).⁴ For the past few years, a defendant's motion to transfer has typically been granted except when the plaintiff has established a physical presence in the Eastern District of Texas.⁵ Recently, in *In re Zimmer Holdings, Inc.*,⁶ the Federal Circuit held that a plaintiff's physical presence in a forum would weigh against transfer only if the presence met a sufficiency standard: namely, not "recent, ephemeral, and an artifact of litigation."⁷ A key question is what kinds of presence will meet this sufficiency standard. The court's reasoning suggested three possible dimensions of analysis: time of presence; quality of presence, such as

¹ Yan Leychkis, *Of Fire Ants and Claim Construction: An Empirical Study of the Meteoric Rise of the Eastern District of Texas as a Preeminent Forum for Patent Litigation*, 9 YALE J.L. & TECH. 193, 206–15 (2007).

² A patent-holding company owns patents but does not produce products. It licenses the patents to other companies and sues companies that refuse to pay for a license. Robert A. Matthews, Jr., *Legal Nuances When a Patent-Holding Company Seeks to Enforce a U.S. Patent*, 49 IDEA 549, 550–51 (2009). "Patent-holding companies now comprise a notable portion of the plaintiffs bringing suits to enforce patent rights." *Id.* at 578.

³ Alisha Kay Taylor, Comment, *What Does Forum Shopping in the Eastern District of Texas Mean for Patent Reform?*, 6 J. MARSHALL REV. INTELL. PROP. L. 570, 570–71 (2007); Li Zhu, Note, *Taking Off: Recent Changes to Venue Transfer of Patent Litigation in the Rocket Docket*, 11 MINN. J.L. SCI. & TECH. 901, 902 (2010). The Eastern District of Texas is a popular patent litigation forum partly of its own design. Judge Ward adopted his own local patent rules in 2001, and the court adopted local patent rules in 2005. These rules favor plaintiffs in many respects. See Leychkis, *supra* note 1, at 209; Taylor, *supra*, at 572–73. The district is not a center of the innovative economy. It is sparsely populated and does not have major cities or major industry. Leychkis, *supra* note 1, at 195; Taylor, *supra*, at 570.

⁴ See, e.g., *In re TS Tech USA Corp.*, 551 F.3d 1315, 1318 (Fed. Cir. 2008). The provision reads: "For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought." 28 U.S.C. § 1404(a) (2006).

⁵ That is, after *TS Tech*. Before that case, a defendant's motion to transfer was routinely denied. Leychkis, *supra* note 1, at 216 (observing that before *TS Tech*, the rate of grants of motions to transfer out of the Eastern District of Texas in patent cases was substantially lower than the national average). *TS Tech* is understood by commentators as a pushback by the Federal Circuit against perceived "abuse of discretion" in the Eastern District of Texas in allowing excessive plaintiff forum shopping. See Zhu, *supra* note 3, at 906–07.

⁶ 609 F.3d 1378 (Fed. Cir. 2010).

⁷ *Id.* at 1381.

having an office or employees in the district; and activities conducted in the forum, such as patent prosecution or licensing. The former two kinds of sufficiency merely impose a nominal tax that plaintiffs must pay to keep their litigations in the Eastern District of Texas, but sufficiency based on the latter standard would impose a substantial tax on plaintiffs.

On August 26, 2009, plaintiff MedIdea, LLC, filed suit in the Eastern District of Texas against defendants Zimmer Holdings, Inc., Zimmer, Inc., and Zimmer US, Inc. (collectively, Zimmer), alleging infringement of two patents related to hip implants and four patents related to shoulder implants.⁸ MedIdea was incorporated in Michigan and had only two officers, both of whom resided in Michigan.⁹ It claimed its principal place of business was in Longview, Texas, though its office there had no employees and was shared with another client of its trial counsel.¹⁰ MedIdea did not indicate what business was transacted there.¹¹ Zimmer was a Delaware corporation with its principal place of business in Warsaw, Indiana.¹²

Zimmer moved to transfer the case to either the Northern District of Indiana or the Eastern District of Michigan under § 1404(a).¹³ The district court denied the motion.¹⁴ It weighed the private interest and public interest factors for determining venue transfer from *Gulf Oil Corp. v. Gilbert*.¹⁵ Regarding the private interest factors, the court recognized that the location of Zimmer's witnesses and evidence regarding the allegedly infringing products in Indiana weighed in favor of transfer but found that both of those factors were outweighed by MedIdea's presence in Longview.¹⁶ The public interest factors were held to be neutral as to transfer.¹⁷ The court also considered judicial

⁸ *Id.* at 1382; *MedIdea, LLC v. Zimmer Holdings, Inc.*, No. 2-09-CV-258-TJW, 2010 WL 796738, at *1 (E.D. Tex. Mar. 8, 2010).

⁹ *Zimmer Holdings*, 609 F.3d at 1381.

¹⁰ *Id.*

¹¹ *Id.*

¹² *MedIdea*, 2010 WL 796738, at *1.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ 330 U.S. 501 (1947); see *MedIdea*, 2010 WL 796738, at *1; *Zhu*, *supra* note 3, at 904.

The private interest 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 trial of a case easy, expeditious and inexpensive. The public interest 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 conflict of laws or in the application of foreign law.

MedIdea, 2010 WL 796738, at *1 (citation omitted).

¹⁶ *MedIdea*, 2010 WL 796738, at *2-3.

¹⁷ *Id.* at *4.

economy,¹⁸ which it believed weighed against transfer because MedIdea had brought a similar patent suit against another company in the same district.¹⁹ Zimmer petitioned the Federal Circuit for a writ of mandamus.²⁰

The Federal Circuit granted mandamus, vacated the order denying Zimmer's motion to transfer venue, and ordered the case transferred to the Northern District of Indiana.²¹ Writing for a unanimous panel, Judge Gajarsa²² held that transfer was required in the case because MedIdea's presence in Texas was "recent, ephemeral, and an artifact of litigation."²³ The court recognized that MedIdea was a Michigan company with two officers who were both residents of Michigan and that the company had no employees in Texas.²⁴ Although MedIdea had an office in the Eastern District of Texas, the court noted that the office was shared with another client of its trial counsel.²⁵ Also, MedIdea did not register to do business out of its Texas office until nine months after suit had already been filed.²⁶ MedIdea had transferred documents from its Michigan office to the Texas office in a bid to make its presence appear less attenuated, but the court did not give this fact any weight against transfer.²⁷ There was no evidence of any research and development or patent prosecution occurring in the Eastern District of Texas.²⁸ The court concluded that "MedIdea therefore has no presence in Texas that should be given weight in the transfer analysis."²⁹ The court described this situation as a "classic case where the plaintiff is attempting to game the system by artificially seeking to establish venue."³⁰ Without MedIdea's presence in the Eastern District of Texas as a counterweight, the location of Zimmer's witnesses and evidence in Indiana, as well as MedIdea's officers and business activities in nearby Michigan, made transfer required under § 1404(a).³¹ The court did not mention the *Gilbert* public interest factors as favor-

¹⁸ Judicial economy is not a *Gilbert* factor, but the *Gilbert* factors are not exclusive. *Id.* at *2.

¹⁹ *Id.* at *4.

²⁰ *Zimmer Holdings*, 609 F.3d at 1379.

²¹ *Id.* at 1382. Review of a request for mandamus regarding a denial of a motion to transfer is conducted under the "clear abuse of discretion" standard. *In re TS Tech USA Corp.*, 551 F.3d 1315, 1319 (Fed. Cir. 2008).

²² Chief Judge Rader and Judge Friedman joined the opinion.

²³ *Zimmer Holdings*, 609 F.3d at 1381.

²⁴ *Id.*

²⁵ *Id.*

²⁶ MedIdea, LLC, Application for Registration of a Foreign Limited Liability Company (filed May 6, 2010); see *Zimmer Holdings*, 609 F.3d at 1379.

²⁷ *Zimmer Holdings*, 609 F.3d at 1381.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 1381–82.

ing either the plaintiff or the defendant.³² Furthermore, the court disagreed that granting transfer would disrupt judicial economy because MedIdea's other case in Texas was against a different defendant and concerned mostly different patents.³³

The Federal Circuit's rejection of a plaintiff's presence in the forum as a factor weighing against transfer when the presence is insufficient is an important development because presence in the forum had been the primary tool with which a plaintiff could defeat a motion to transfer under § 1404(a). Ever since *In re TS Tech USA Corp.*,³⁴ the law has recognized that sources of evidence and key witnesses are almost always located near the defendant, not near the plaintiff, in a patent infringement suit.³⁵ This pattern exists because patent infringement suits generally require a great deal of evidence and witnesses regarding the defendant's products but not regarding the plaintiff's patents.³⁶ Meanwhile, the public interest factors in the *Gilbert* analysis are almost always neutral.³⁷ Therefore, plaintiffs have relied on physical presence in the Eastern District of Texas to defeat a defendant's motion to transfer out of the forum.³⁸

This reliance is undercut by the introduction of a requirement that presence meet a sufficiency standard. A key question is what counts as sufficient. The court did not define the requirements for finding sufficient presence, and the consequences of the court's decision vary significantly depending on what kinds of presence are sufficient. The court's reasoning suggested three possible dimensions of analysis: time of presence; quality of presence, such as having an office or employees in the district; and activities conducted in the forum, such as patent prosecution or licensing.

³² See *id.*

³³ Only one patent was common to both suits. *Id.* at 1382.

³⁴ 551 F.3d 1315 (Fed. Cir. 2008).

³⁵ See *In re Genentech, Inc.*, 566 F.3d 1338, 1345 (Fed. Cir. 2009) ("In patent infringement cases, the bulk of the relevant evidence usually comes from the accused infringer." (quoting *Neil Bros. Ltd. v. World Wide Lines, Inc.*, 425 F. Supp. 2d 325, 330 (E.D.N.Y. 2006)) (internal quotation mark omitted)). Plaintiffs' arguments that the Eastern District of Texas is convenient because it is a central location in the United States for witnesses and evidence, because documents can be cheaply and easily transferred electronically, or because the plaintiffs have already shipped their own documents and evidence there have all been rejected by the Federal Circuit. *Id.* at 1344-45; *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333, 1336-37 (Fed. Cir. 2009); *TS Tech*, 551 F.3d at 1320-21.

³⁶ See *Genentech*, 566 F.3d at 1345.

³⁷ See, e.g., *In re Nintendo Co., Ltd.*, 589 F.3d 1194, 1198 (Fed. Cir. 2009). Plaintiffs' arguments that the Eastern District of Texas is more convenient because it is a "rocket docket" and reduces court congestion or because there is a local interest due to a product's being sold in the district when the product is also sold nationwide have been rejected by the Federal Circuit. *Genentech*, 566 F.3d at 1347; *TS Tech*, 551 F.3d at 1321.

³⁸ *Matthews*, *supra* note 2, at 573-75.

The court's use of the words "recent" and "ephemeral" suggests that amount of time of presence is a factor.³⁹ It was nine months after the commencement of the suit before MedIdea registered to do business out of its Texas office.⁴⁰ The idea that recently established presence does not weigh against transfer had previously appeared in dicta in a nonprecedential opinion, *In re Apple Inc.*,⁴¹ in which the court stated that the plaintiff company's presence in the Eastern District of Texas was "not entitled to significant weight" because the company was incorporated in Texas only two months before filing suit.⁴² The decision was the first and only prior to *Zimmer Holdings* to use the language of recency and ephemerality,⁴³ stating that "the company's presence in Texas appears to be both recent and ephemeral."⁴⁴ Because these decisions are the only two Federal Circuit rulings on the subject, it is unclear how recent a presence is too recent.⁴⁵

A time-based analysis of presence will delay but not prevent patent-holding companies from suing in the Eastern District of Texas. Recency can be avoided by establishing a presence in the Eastern District for a sufficiently long period of time before filing suit. It will cost patent-holding companies more money to maintain an office in the Eastern District for longer than they have in the past, but the bar is surmountable.

The court also suggested that the quality of the plaintiff's presence was part of an analysis of sufficient presence. The court noted that MedIdea's Texas office was shared with another client of its trial counsel and that MedIdea had no employees in the state.⁴⁶ Furthermore, MedIdea was a Michigan company.⁴⁷ The law prior to *Zimmer Holdings* made clear that having no office and no employees in the district meant the plaintiff had no presence in the forum and transfer

³⁹ See *Zimmer Holdings*, 609 F.3d at 1381.

⁴⁰ MedIdea, LLC, Application for Registration of a Foreign Limited Liability Company (filed May 6, 2010).

⁴¹ Misc. No. 932, 2010 WL 1922942 (Fed. Cir. May 12, 2010) (per curiam).

⁴² *Id.* at *1. However, the district court's denial of transfer was ultimately upheld because the defendant did not show that the proposed transferee venue was more convenient with respect to witnesses and sources of evidence. *Id.*

⁴³ The following cases do not mention recency or ephemerality: *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Hoffmann-La Roche*, 587 F.3d 1333 (Fed. Cir. 2009); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re Telular Corp.*, 319 F. App'x 909 (Fed. Cir. 2009); and *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

⁴⁴ *Apple*, 2010 WL 1922942, at *1.

⁴⁵ After *Zimmer Holdings*, the Eastern District of Texas has found insufficient presence where the plaintiff's presence is clearly too recent, such as in *Software Rights Archive, LLC v. Google, Inc.*, No. 2:07-CV-511-CE, 2010 WL 2950351 (E.D. Tex. July 22, 2010), where the plaintiff established an office in the Eastern District in the same month as filing suit. *Id.* at *1, *5. However, it is still unclear whether a six-month presence or a one-year presence or more would be too recent.

⁴⁶ *Zimmer Holdings*, 609 F.3d at 1381.

⁴⁷ *Id.* at 1379.

would be granted.⁴⁸ However, it is not clear which combinations of having an office, having employees, or being incorporated in the district constitute a sufficient presence. The uncertainty is due to the limited variety of cases concerning the plaintiff's quality of presence that have been ruled on. Similarly to *Zimmer Holdings*, the nonprecedential *Apple* opinion found that the plaintiff's presence was insignificant because the plaintiff had no employees in the district and shared an office with its trial counsel.⁴⁹ In counterpoint is the nonprecedential opinion *In re Telular Corp.*,⁵⁰ where the plaintiff-patentee lived in Texas, and the court weighed the inconvenience he would suffer in having to travel to another forum against transfer.⁵¹ A significant gray area remains given that these cases are the only ones to provide guidance.⁵²

Judicial analysis of quality of presence will require patent-holding companies to spend more money to establish separate offices, hire employees, or incorporate domestically in the Eastern District of Texas in order to defeat motions to transfer. These requirements impose relatively minor costs, with the possible exception of a requirement to have an employee. In practice, patent-holding companies tend to be small entities with only a few principals who perform the key business activities of research and development, patent prosecution, and patent licensing, and these principals have tended to desire working and living in locations other than the Eastern District of Texas.⁵³ Some patent-holding companies would probably be unable to afford hiring an employee in the Eastern District of Texas. Still, if courts merely require an employee in the forum, without analyzing what activities the employee is performing (a topic discussed below), a patent-holding company could escape with the relatively minor cost of hiring unskilled labor to open and close the office each day.

⁴⁸ See *Nintendo*, 589 F.3d at 1197; *Hoffman-La Roche*, 587 F.3d at 1335; *Genentech*, 566 F.3d at 1348; *TS Tech*, 551 F.3d at 1318.

⁴⁹ *Apple*, 2010 WL 1922942, at *1.

⁵⁰ 319 F. App'x 909 (Fed. Cir. 2009).

⁵¹ *Id.* at 910, 912.

⁵² The Federal Circuit has never overturned a denial of transfer out of the Eastern District of Texas when the plaintiff had employees in the district or was incorporated in the district. See cases cited *supra* note 43. Having an office alone seems to be insufficient to establish a significant presence, at least when the office was recently opened or is shared with trial counsel or other clients of trial counsel. See *Zimmer Holdings*, 609 F.3d at 1381; *Apple*, 2010 WL 1922942, at *1; *Software Rights Archive, LLC v. Google, Inc.*, No. 2:07-CV-511-CE, 2010 WL 2950351, at *5 (E.D. Tex. July 22, 2010).

⁵³ See *Matthews*, *supra* note 2, at 570; see, e.g., *Zimmer Holdings*, 609 F.3d at 1381 (noting that the plaintiff company had only two officers, who both lived in Michigan, one of whom was the inventor of the patent and the other of whom was the prosecuting attorney); *Aloft Media, LLC v. Adobe Sys. Inc.*, No. 6:07-CV-355, 2008 WL 819956, at *4 (E.D. Tex. Mar. 25, 2008) (noting that the plaintiff company's inventors and employees involved in the suit lived over 100 miles from the Eastern District of Texas).

In addition to the previous two approaches to analyzing presence, the court also delved into the types of business activities pursued in a forum as indications of sufficient presence: “Aside from uncorroborated contentions that MedIdea has its principal place of business in Texas, it is undisputed that all of MedIdea’s research and development, and patent prosecution work took place in Michigan.”⁵⁴ Previous Federal Circuit cases have not discussed business activities as indications of presence.⁵⁵ Part of the reason is that a business activities requirement is a sort of “super quality of presence” requirement. Some quality of presence must be established in order for business activities to be conducted at all: most business activities would require at least an office and at least one employee. Previous Federal Circuit cases have stopped at an analysis of time and quality of presence and have not advanced to a business activities analysis.⁵⁶

Judicial analysis of business activities would impose a significantly higher burden on patent-holding companies than would the previous two approaches. As noted above, patent-holding companies tend to be small entities with only a few principals who perform the key business activities of research and development, patent prosecution, and patent licensing and who are usually foreign to the Eastern District of Texas. It is hard for the principals of patent-holding companies to offload these key business activities to salaried employees because the patent-holding company business model depends on a high degree of skill in selecting patents to research, prosecute, or license that will support claims in litigation.⁵⁷ Therefore, if patent-holding companies must conduct business activities in a forum to maintain a sufficient presence there, at least some principals of patent-holding companies will likely decide that the cost of moving to the Eastern District of Texas outweighs its benefit as a patent litigation forum given that there are probably other plaintiff-friendly forums that are more amenable to their desired lifestyle.⁵⁸ Such a change could lead to a significant reduction in the patent docket of the Eastern District of Texas and even possibly to its demise as a patent litigation forum.⁵⁹

⁵⁴ *Zimmer Holdings*, 609 F.3d at 1381.

⁵⁵ See cases cited *supra* note 43.

⁵⁶ See cases cited *supra* note 43.

⁵⁷ See Matthews, *supra* note 2, at 550–51.

⁵⁸ For a list of other popular patent litigation forums, see Leychikis, *supra* note 1, at 205.

⁵⁹ Nonetheless, the point should not be overstated because some patent-holding companies are large entities that could pay to maintain business activities in the forum, see Rachael King, *The ‘Troll’ that Ticks Off Techies*, BLOOMBERG BUSINESSWEEK, Feb. 15, 2010, at 66 (describing Acacia Research, a publicly traded patent-holding company with \$34.8 million in revenue in 2006), some principals of patent-holding companies may be willing to move to the Eastern District of Texas, and some patent-holding companies are likely to try creative ways to meet an activities requirement. For example, there is no case law holding that living and working in the forum

However, there are several reasons why courts are more likely to analyze presence only at the levels of time and quality of presence, as opposed to delving into a business activities analysis. First, *Zimmer Holdings* is the only case to address business activities in an analysis of presence, so there is little precedent propping up the idea. Second, an analysis of business activities introduces litigation costs that the former two kinds of analysis do not. Evidence would have to be produced regarding the kinds of activities conducted, and witnesses might have to testify on the subject.⁶⁰ Judges may expend significant time and energy in analyzing different kinds of activities and determining which would count as sufficient presence. Third, there may not be a principled way to establish a line determining which activities count for sufficient presence and which do not. It is not clear which of the activities of research development, patent prosecution, or patent licensing should be necessary to establish a presence or how much of each activity is needed to establish presence. Fourth, the judiciary has been reluctant to impose special burdens on patentees who do not practice their patent.⁶¹ In this vein, judges might decline to analyze business activities to avoid using a patent-holding company's lack of activities against it during litigation. Perhaps the crucial reason why presence analysis based on business activities will likely not take place after *Zimmer Holdings*, at least in the courthouses of the Eastern District of Texas, is that it could eliminate a significant portion of their patent docket.⁶²

Forum shopping can be very unfair to the defendant. Not only does the defendant have to travel to the remote Eastern District of Texas,⁶³ but the forum is much more plaintiff-friendly than the average court.⁶⁴ In theory, having a court handle many patent cases could lead to higher accuracy as judges gain experience in adjudicating those types of cases, but in fact, the Eastern District of Texas's reversal rate is undistinguished.⁶⁵ The Federal Circuit's use of language suggesting that business activities may be a factor keeps open the possibility that the court will, in future decisions, make business activities a requirement for presence. Such a development would strictly limit plaintiff forum selection and seismically alter the landscape of patent litigation.

for part of the year or having a board of directors in the forum could not meet the presence requirement.

⁶⁰ See, e.g., *Zimmer Holdings*, 609 F.3d at 1381 (noting that MedIdea failed to provide evidence to support its assertion that its Longview office was its principal place of business).

⁶¹ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006) (rejecting the rule that injunctive relief be denied solely on the basis that a patent is not practiced).

⁶² See *supra* note 3.

⁶³ Leychkis, *supra* note 1, at 223.

⁶⁴ *Id.* at 210–11.

⁶⁵ *Id.* at 221.