

ALERT

Federal Circuit Patent Bulletin: *In re Nintendo of Am., Inc.*

June 25, 2014

"[The] 'customer-suit' exception to the 'first-to-file' rule exists to avoid, if possible, imposing the burdens of trial on the customer, for it is the manufacturer who is generally the 'true defendant' in the dispute."

On June 25, 2014, in *In re Nintendo of Am., Inc.*, the U.S. Court of Appeals for the Federal Circuit (Newman,* Rader, Hughes) issued a writ of mandamus ordering the U.S. District Court for the Eastern District of Texas to sever, stay, and transfer to the Western District of Washington the suit by Secure Axxess LLC against Nintendo and other retailers alleging that Nintendo gaming systems such as the Wii U console infringed U.S. Patent No. 6,522,309, which related to multiscreen computer displays. The Federal Circuit stated:

A district court is authorized to "transfer any civil action to any other district or division where it might have been brought or to any district or division to which all parties have consented." Where, as here, it is unclear whether the entire action could have been brought in the transferee venue, courts may sever defendants for purposes of transfer. . . .

Nintendo coordinates the manufacture and marketing of its products in the United States from its Redmond, Washington campus, where it employs approximately 830 persons. Nintendo states that location is where key executives work, sales and marketing decisions concerning the accused products are made, and where it maintains documents relating to finance, sales, licensing, contracts, advertising, and product development. Plaintiff Secure Axxess is a company that acquires, licenses, and enforces patents. While its executives work in various parts of the country, Secure Axxess states that all of its officers' business cards list its principal place of business in Plano, Texas, where it leased 200 square feet of office space before filing its first infringement suit in the Eastern District of Texas.

After Secure Access filed its complaint, petitioners moved to sever and transfer the claims against Nintendo to the Western District of Washington, where a substantial portion of the witnesses and documents relating to the litigation are located. Although two of the eleven Retailers are headquartered in Texas, petitioners pointed out that none maintained principal operations in the Eastern District of Texas or had any information relating to the development or design of the accused Nintendo products. Petitioners further requested that the remaining claims be stayed, pointing out that the Retailers had stipulated that they would be bound by any judgment rendered by the transferee court in the Nintendo litigation.

The district court denied the motion. Noting Secure Access' assertion it could obtain a higher royalty against the Retailers in light of "higher retail prices and the retailers' practice of bundling the accused systems with video games and other accessories," the district court determined that it should not sever the claims because "Plaintiffs should be allowed to pursue Nintendo and the Retailer Defendants simultaneously for an award of damages, even though it may only collect once." Having decided against severance, the district court held that the request for transfer must be denied.

When a patent owner files an infringement suit against a manufacturer's customer and the manufacturer then files an action of noninfringement or patent invalidity, the suit by the manufacturer generally take precedence. This "customer-suit" exception to the "first-to-file" rule exists to avoid, if possible, imposing the burdens of trial on the customer, for it is the manufacturer who is generally the "true defendant" in the dispute. . . .

Petitioners argue persuasively that granting this motion would resolve these claims more efficiently and conveniently. Indeed, the district court recognized that "the issues of infringement and validity are common to Nintendo and the Retailer Defendants" and that if Secure Access were to collect royalties from Nintendo, this would preclude suit against the Retailers. Moreover, the record reflects that all of Nintendo's identified witnesses reside in the transferee forum or would find travel to and from that venue significantly more convenient; no witness was identified as residing in the Eastern District of Texas.

Secure Access maintains that its choice of forum is entitled to deference because it is filing in its "home venue." However, decisions granting transfer have looked beyond the connection of the parties with the transferor venue when the disparity of convenience is so marked as to outweigh the plaintiff's right to choose the forum. So too here, there is a "stark contrast in relevance, convenience, and fairness between the two venues." . . . The benefits of trying the case against Nintendo in the Western District of Washington are indisputable. We conclude that the district court should have exercised its discretion to grant the petition. The district court order denying the motion to sever, transfer, and stay is vacated, and the district court is directed to grant petitioners'

motion.