



NEWSLETTER OF THE  
**WESTERN DISTRICT OF WISCONSIN  
BAR ASSOCIATION**

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## **Personal Jurisdiction: Adrift in the Stream of Commerce**

**By Bryan Cahill / Godfrey & Kahn, S.C.**

A long-standing question in federal jurisprudence is when does use of the stream of commerce establish personal jurisdiction over a defendant.<sup>1</sup> Twenty years after the Supreme Court's fractured decision in *Asahi Metal Industry, Inc. v. Superior Court*,<sup>2</sup> courts remain divided amongst those that follow Justice Brennan's "simple stream of commerce" theory, those that follow Justice O'Connor's restrictive "stream of commerce plus" theory, and those that have decided not to decide.<sup>3</sup>

Recent decisions in patent cases from Chief Judge Crabb and Judge Shabaz illustrate a split within the District Court for the Western District of Wisconsin over this question. In *AU Optronics Corp. v. LG.Philips LCD Company*, Judge Shabaz applied the simple stream of commerce theory. But, in *LG Electronics, Inc. v. Quanta Computer Inc.*, Chief Judge Crabb appeared to apply the stream of commerce plus theory.<sup>4</sup> Consequently, which judge a case is assigned might make a difference in whether it ends up being litigated in the Western District. Before discussing these two cases and their implications, however, a brief review of personal jurisdiction and *Asahi* is useful.

### **Basic Principles of Personal Jurisdiction**

Personal jurisdiction comes in two types. General jurisdiction, present when a defendant has continuous and systematic general business contacts with the forum state, opens a defendant to litigation on any subject matter.<sup>5</sup> Specific jurisdiction refers to "ju-

risdiction over a defendant in a suit arising out of or related to the defendant's contacts with the forum."<sup>6</sup> The stream of commerce theory provides a basis for specific jurisdiction.

For a court to exercise specific jurisdiction over a defendant in Wisconsin, the plaintiff must make a *prima facie* case that the defendant's contacts with Wisconsin satisfy the Wisconsin long-arm statute, Wis. Stat. § 801.05, and constitute the minimum contacts required by the Due Process Clause.<sup>7</sup> Due process requires two things before a court can exercise personal jurisdiction. First, a defendant must have established minimum contacts with Wisconsin by purposely availing itself of the privilege of conducting activities within [Wisconsin].<sup>8</sup> That is, the contacts must be substantial enough to allow the defendant to reasonably anticipate being haled into a Wisconsin court.<sup>9</sup> The stream of commerce is one way a defendant may acquire minimum contacts with a forum.<sup>10</sup> Second, due process requires that the exercise of personal jurisdiction "not offend traditional notions of fair play and substantial justice."<sup>11</sup>

Once the plaintiff makes a *prima facie* showing of minimum contacts, the burden shifts to the defendant to make a "compelling case" that the "interests of the plaintiff and the forum in the exercise of jurisdiction" are too slight to justify requiring a defendant to appear in a foreign legal system.<sup>12</sup>

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## Electronic Case Filing is Here in the Western District of Wisconsin

For the past year, the District Court for the Western District of Wisconsin has been actively preparing to implement a new case management and electronic filing system. Effective January 22, 2008 the system, known as CM/ECF, is mandatory for all civil and criminal filings. CM/ECF is easy to use and will allow parties to file electronically 24 hours a day from any computer that can connect to the Internet. Filers prepare a document using word processing software, then convert the document to Portable Document Format (PDF). After logging onto the court's CM/ECF web site with a court-issued password, the filer follows step-by-step instructions to create the entry, then attaches the document and submits it to the court. A notice verifying court receipt is sent by e-mail to the filer, and other parties receive e-mail notification. Under CM/ECF, litigants automatically receive one free electronic copy of documents filed in their cases.

Beginning on October 1, 2007, the clerk's office converted its pending case load and implemented the case management portion of CM/ECF. Frequent filers to the court may have noticed some changes, particularly in accessing case information from PACER. On December 3<sup>rd</sup>, after receiving training from clerk's office representatives, several law firms began using CM/ECF to electronically file all of their documents in their cases. The pilot program has been a big success. To ease your transition to CM/ECF, we've compiled some helpful tips:

- Read the administrative procedures located on the website. These are the procedures that the court has adopted for filing to the system and will address many of the questions you may have.
- If you forget to add an attachment to a filing, call the clerk's office help line. Do not attempt to re-file the attachment as an additional entry.
- You need two logins to use the system properly: a CM/ECF and PACER login. Your CM/ECF login, issued only to attorneys, is used for filing documents, and your PACER login is used for viewing documents. You need a CM/ECF login to view sealed documents in your cases.

CM/ECF will be a big change from current practice but a change for the better. To make the transition a smooth one, the support and participation of the Bar is crucial. If you have questions, ideas or suggestions, please feel free to contact the Clerk's Office at (866) 241-7123. For more information on the CM/ECF program, please visit the court's website at <http://www.wiwd.uscourts.gov>.

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## Personal Jurisdiction

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### *Asahi Metal Industry, Inc. v. Superior Court*

In *Asahi*, the Court confronted the question whether “the mere awareness on the part of a foreign defendant that the components it manufactured, sold, and delivered outside the United States would reach the forum State in the stream of commerce constitutes ‘minimum contacts[.]’”<sup>13</sup>

*Asahi* began as a products liability action by a plaintiff whose rear motorcycle tire exploded, killing his passenger. Defendant Cheng Shin Rubber Industrial Company, a Taiwanese corporation, manufactured the tube in the tire that exploded. Defendant Asahi Metal Industries, a Japanese corporation, manufactured the valve in the tire. For a number of years before the accident, Asahi had shipped large numbers of valves to Taiwan for Cheng Shin to incorporate them into its tire tubes.

After the plaintiff settled with all defendants, Asahi moved to dismiss Cheng Shin’s indemnification cross-claim for lack of personal jurisdiction. The California Supreme Court concluded California courts could exercise personal jurisdiction over Asahi because “Asahi’s intentional act of placing its components into the stream of commerce ... coupled with Asahi’s awareness that some of the components would eventually find their way into California,” was sufficient to satisfy due process.<sup>14</sup>

The United States Supreme Court unanimously reversed, concluding that it would offend “traditional notions of fair play and substantial justice” to require Asahi to defend itself in a foreign legal system when the interests of California and Cheng Shin in subjecting Asahi to personal jurisdiction in California were “slight.”<sup>15</sup> The justices disagreed, however, on the first prong of the due process analysis, concerning whether Asahi had the necessary minimum contacts to satisfy due process. Three opinions were written on this question and on the standard to apply.

Justice O’Connor’s plurality opinion—articulating the “stream of commerce plus” theory—concluded that minimum contacts requires more than just an awareness by the defendant that its products would make their way into the forum State through the stream of commerce.<sup>16</sup> Rather, the minimum contacts necessary for personal jurisdiction “must come about by *an action of the defendant purposefully directed* toward the forum State.”<sup>17</sup> Examples given of purposefully directed conduct include: (1) “designing the product for the market in the forum State,” (2) “advertising in the forum State,” (3) “establishing channels for providing regular advice to customers in the forum State,” or (4) “marketing the product through a distributor who has agreed to serve as the sales agent in the forum State.”<sup>18</sup>

By contrast, under the “simple stream of commerce” theory in Justice Brennan’s concurring opinion, a defendant’s awareness of the final destination for its products was enough: The stream of commerce refers not to unpredictable currents or eddies, but to the regular and anticipated flow of products from manufacture to distribution to retail sale. As long as a participant in this process is aware that the final product is being marketed in the forum State, the possibility of a lawsuit there cannot come as a surprise.<sup>19</sup>

This four-four split has provoked substantial uncertainty and prompted many courts to avoid choosing between the two theories by finding that personal jurisdiction exists regardless which theory is applied.<sup>20</sup>

### *The Western District of Wisconsin Cases*

Since the 1987 *Asahi* decision, neither version of the stream of commerce theory has won predominance in the federal courts. *LG Electronics* and *AU Optronics* show this is equally true in the Western District of Wisconsin.

Both cases were actions for patent infringement brought by foreign corporations (Korean and Taiwanese, respectively) against foreign corporate defendants and one California corporation in each action.

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## Personal Jurisdiction

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In both *LG Electronics* and *AU Optronics* the plaintiffs alleged infringement against electronic components that are incorporated into consumer goods (DVD drives and LCD modules, respectively). And, in both cases, defendants moved to dismiss for lack of personal jurisdiction.

In *LG Electronics*, Chief Judge Crabb granted Quanta Storage Inc.'s motion to dismiss for lack of personal jurisdiction, holding LG Electronics failed to make a *prima facie* showing that Quanta Storage had minimum contacts with Wisconsin. The court found the following relevant facts: (1) Quanta Storage, a Taiwanese corporation, sold the DVD drives it manufactured to manufacturers of notebook computers, including Dell, Hewlett Packard, Sony, Apple, and Gateway; (2) Quanta Storage never shipped DVD drives to Wisconsin, did not market them in Wisconsin, and had no employees or offices in Wisconsin; (3) in 2001, Quanta Storage sold and shipped two million DVD drives to the United States; (4) Quanta Storage ships DVD drives to California and its warehouses in Texas, Tennessee, and Nevada; (5) Quanta Storage had close working relations with some of its customers, even locating its Texas warehouse next to Dell's assembly plant and designing DVD drives to meet the requirements of Dell and Hewlett Packard; (6) Dell and Hewlett Packard have significant U.S. market share; (7) Dell has retail stores in Wisconsin; (8) Dell and Hewlett Packard sell computers directly to the public over the internet; and (9) LG Electronics' counsel purchased from Wisconsin retail stores one Compaq and two Gateway notebook computers, each of which contained a DVD drive accused of infringement.

In *AU Optronics*, Judge Shabaz held that the court had personal jurisdiction over both defendants. The court found the following relevant facts: (1) defendants, a Korean manufacturer and its wholly owned California subsidiary, sold LCDs only to manufacturers of computer monitors and televisions; (2) defendants never shipped LCDs directly to Wisconsin, did not market them in Wisconsin, and had no employees or offices in Wisconsin; (3) over a three year period, the California subsidiary had sales of more than \$5 million

in the United States; (4) the California subsidiary had offices in California, Texas, North Carolina, and Illinois; (5) televisions and computers incorporating the defendants' LCDs were sold by well-known retailers, including Best Buy, Radio Shack, and Circuit City; and (6) AU Optronics did not offer direct evidence that accused infringing products were sold in Wisconsin.

In *AU Optronics*, where the defendants did not establish or actively control the distribution network for their LCDs, Judge Shabaz nevertheless found personal jurisdiction over the defendants. He explained:

[The American subsidiary] exists for the purpose of exploiting the entire United States market for the sale of [the foreign parent corporation's products]. [The American subsidiary] sells a product that is incorporated in mass marketed consumer products by large producers of brand name electronics and sold through nationwide retail chains thereby guaranteeing their sale everywhere in the country.

The inevitable conclusions from these facts are that ... [the American subsidiary] should reasonably anticipate being sued for patent infringement *in any United States district court*.<sup>21</sup>

By contrast, *LG Electronics* implies that minimum contacts require, if nothing else, that a defendant "intentionally established" the distribution channel for its products.<sup>22</sup> Of course, this would require a defendant to actively shape or direct distribution of its products. This is a very different standard than that in Justice Brennan's opinion and endorsed by the Seventh Circuit in *Dehmlow* that a "forum State does not exceed its powers under the Due Process Clause if it asserts personal jurisdiction over a corporation that delivers its products into the stream of commerce *with the expectation that they will be purchased*."<sup>23</sup>

Nevertheless, it is debatable whether *LG Electronics* signals Chief Judge Crabb's acceptance of the "stream of commerce plus" theory. Another plausible interpretation of *LG Electronics* is that the plaintiff failed to meet a burden of proof for establishing personal

jurisdiction that is more rigorous than the standard imposed by Judge Shabaz.

LG Electronics argued that Quanta Storage had two established distribution channels into Wisconsin: one through Quanta Storage's relationship with Dell and one evidenced by the purchases from Wisconsin retailers of Gateway and Compaq computers that contained the accused devices. Even though a *prima facie* showing requires all disputed facts to be resolved in favor of the plaintiff,<sup>24</sup> Chief Judge Crabb held LG Electronics failed to make a *prima facie* showing because it did not trace each step in the distribution channel from the initial sale of DVD drives by Quanta Storage to the purchase of a computer with an accused device by Wisconsin consumers.<sup>25</sup> Compared to Judge Shabaz's finding of personal jurisdiction in *AU Optronics*, the evidentiary standard in *LG Electronics* can only be described as *prima facie* with teeth.

Regardless of the explanation for the difference in outcomes between *LG Electronics* and *AU Optronics*, plaintiffs appearing before Chief Judge Crabb should be prepared to trace each step in the distribution of a product from the defendant to the consumer and the defendant's awareness of each step. This will satisfy the more rigorous burden of proof Chief Judge Crabb requires plaintiffs to meet when alleging personal jurisdiction under the stream of commerce. Moreover, to minimize any uncertainty over which version of the stream of commerce Chief Judge Crabb applies, plaintiffs should be prepared to show some purposeful conduct by the defendant that is targeted at Wisconsin, including some of those affirmative actions identified by Justice O'Connor's plurality opinion in *Asahi*.<sup>26</sup>

## (Endnotes)

<sup>1</sup> *LG Elecs., Inc. v. Quanta Computer Inc.*, No. 07-C-0361-C, slip op. at 16 (Nov. 5, 2007) (Crabb, C.J.) ("What will constitute sufficient minimum contacts with the forum state under the stream of commerce theory remains an open question.")

<sup>2</sup> 480 U.S. 102 (1987).

<sup>3</sup> *Compare Dehmlow v. Austin Fireworks*, 963 F.2d 941, 946 (7th Cir. 1992) (simple stream of commerce) and *Barone v. Rich Bros. Interstate Display Fireworks Co.*, 25 F.3d 610, 614 (8th Cir. 1994) (same) with *Boit v. Gar-Tec Prods.*, 967 F.2d 671, 682-83 (1st Cir. 1992) (stream of commerce plus) and *Bridgeport Music, Inc. v. Still N The Water Publ'g*, 327 F.3d 472,

480 (6th Cir. 2003) (same) and with *Commissariat A L'energie Atomique v. Chi Mei Optoelectronics Corp.*, 395 F.3d 1315, 1322 (Fed. Cir. 2005) (declining to decide) and *Pennzoil Prods. Co. v. Colelli & Assocs., Inc.*, 149 F.3d 197, 205 (3d Cir. 1998) (noting that while some courts of appeals have decided between the two theories, others have avoided choosing).

<sup>4</sup> *Compare LG Elecs., Inc.*, No. 07-C-0361-C, slip op. (Nov. 5, 2007), with *AU Optronics Corp. v. LG.Philips LCD Co.*, No. 07-C-137-S, slip op. (May 30, 2007) (Shabaz, J.).

<sup>5</sup> *Steel Warehouse of Wis. v. Leach*, 154 F.3d 712, 714 (7th Cir. 1998) (citing *Helicopteros Nacionales de Columbia, S.A. v. Hall*, 466 U.S. 408, 416 (1984)).

<sup>6</sup> *Helicopteros Nacionales de Columbia, S.A. v. Hall*, 466 U.S. 408, 414 n.8 (1984).

<sup>7</sup> *Kopke v. A. Hartrodt S.R.L.*, 2001 WI 99, ¶ 8, 245 Wis. 2d 396, 629 N.W.2d 662; *Purdue Research Found. v. Sanofi-Synthelabo, S.A.*, 338 F.3d 773, 782 (7th Cir. 2003). Note, however, that in federal court the plaintiff's burden to establish personal jurisdiction varies depending whether there is an evidentiary hearing on jurisdiction. *Purdue Research Found.*, 338 F.3d at 782. Absent a hearing, the plaintiff need only make a *prima facie* showing, in which case all disputed facts are resolved in favor of the plaintiff. *Id.* If a hearing is held, however, the plaintiff must establish jurisdiction by a preponderance of the evidence. *Id.*

<sup>8</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985) (quoting *Hanson v. Deckla*, 357 U.S. 235, 253 (1958)).

<sup>9</sup> *Dehmlow*, 963 F.2d at 946.

<sup>10</sup> *Purdue Research Found.*, 338 F.3d at 788-89.

<sup>11</sup> *Asahi Metal Indus., Inc.*, 480 U.S. at 105.

<sup>12</sup> *Id.* at 114; *Burger King Corp.*, 471 U.S. at 477.

<sup>13</sup> *Asahi Metal Indus., Inc.*, 480 U.S. at 105.

<sup>14</sup> *Id.* at 108.

<sup>15</sup> *Id.* at 113-16.

<sup>16</sup> *Asahi Metal Indus., Inc.*, 480 U.S. at 111-12; *Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 429 (Fed. Cir. 1996).

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 117 (Brennan, J., concurring).

<sup>20</sup> *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994); *Dehmlow*, 963 F.2d at 947.

<sup>21</sup> *AU Optronics*, slip op. at 10 (emphasis added).

<sup>22</sup> *LG Elecs.*, slip op. at 17.

<sup>23</sup> *Asahi Metal Indus. Co.*, 480 U.S. at 119-20 (quoting *World-Wide Volkswagen v. Woodson*, 444 U.S. 286, 297-98 (1980)); *Dehmlow*, 963 F.2d at 947.

<sup>24</sup> *Purdue Research Found.*, 338 F.3d at 782.

<sup>25</sup> *LG Elecs.*, slip op. at 20.

<sup>26</sup> See text accompanying footnote 18.

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# Court Applies Change of Venue Statute Where No Local Connection Is Present

By **Kenneth B. Axe and Carrie Benedon**  
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Three recent Western District of Wisconsin decisions on motions to transfer venue provide an opportunity for a review of the law of venue, and insight into the standards applied in the Western District.

The purpose of venue requirements is to protect the defendant against the risk that a plaintiff will select an unfair or inconvenient place for trial. *Thomas v. Corr. Corp. of Am.*, 2003 U.S. Dist. LEXIS 27492, \*5 (W.D. Wis. 2003), citing *Leroy v. Great Western United Corp.*, 443 U.S. 173, 183-184 (1979). Proper venue is established pursuant either to the “general” venue provisions in 28 U.S.C. § 1391, or the hundreds of “specific” venue provisions that apply to particular types of actions. When multiple proper venues exist, the plaintiff is free to choose the forum in which to file the lawsuit, and need not file in the most convenient of the appropriate forums. However, a plaintiff that files in an inconvenient, albeit appropriate, forum may find the action the subject of a motion to transfer venue pursuant to 28 U.S.C. § 1404(a).

As intellectual property practitioners are aware, 2007 bought an apparent increase in patent infringement filings in the Western District. Plaintiffs are no doubt attracted by the district’s “rocket docket,” especially in light of slowdowns in other district courts. Plaintiffs in patent infringement cases may bring suit against a corporate defendant in any district where it is subject to personal jurisdiction, even when neither party has any substantial connection to the chosen forum, thus frequently resulting in motions to transfer venue. (Pending legislation would substantially restrict venue options in patent infringement actions.)

Section 1404(a) permits transfer to another venue, notwithstanding that the forum in which the lawsuit was filed was proper, “for the convenience of parties and witnesses, in the interest of justice.” Three recent Western District decisions on § 1404(a) motions to transfer venue in patent infringement cases illustrate how such motions will be decided. Although the decisions resulted in different outcomes, the reasoning in each case is consistent, and illustrates that the decision whether to transfer venue is a highly fact-intensive inquiry.

In *Ricoh Company, Ltd. v. Asustek Computer Inc.*, Case No. 06-C-0462-C, Judge Crabb denied a motion to transfer venue to the Northern District of California. Plaintiff was a Japanese company, with no presence in or connection to Wisconsin other than the allegation that products infringing its patents were being sold in Wisconsin (and nationwide). In support of their motion to transfer, the defendants asserted that three of the defendants were California corporations; however, the Court found it persuasive that the California defendants were merely subsidiaries of large, multinational companies based in Taiwan, which companies were also named as defendants.

Because the California corporations were merely sales outlets for the Taiwanese companies, relevant witnesses and documents were likely located in Taiwan, not in California. Furthermore, any relevant documents located in California could be electronically produced and transmitted. Therefore, the difference in convenience between the Northern District of California and the Western District of Wisconsin was minimal. Judge Crabb noted that when the chosen forum is not particularly inconvenient to the defendants, the plaintiff’s chosen forum should prevail. The Court also considered the “interest of justice” factor, and concluded that, especially in a patent infringement action where patents diminish in value as they age, a more prompt resolution in the Western District of Wisconsin weighed in favor of keeping the case in Wisconsin.

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In contrast, in *Gemini IP Tech., LLC v. Hewlett Packard Co.*, Case No. 07-C-205-S, Judge Shabaz granted a motion to transfer venue to the Northern District of California. Although he considered the same factors of convenience to parties and witnesses and the interests of justice, the specific facts weighed in favor of granting the motion to transfer. Defendants were headquartered in California, which was also the site of relevant witnesses and evidence. The plaintiff company apparently was organized in Wisconsin for the sole purpose of establishing venue in the Western District of Wisconsin, and did not even have employees or officers in Wisconsin.

Therefore, the Northern District of California was the far more convenient forum. In addition, Judge Shabaz recognized that although the relative speed of the docket is a legitimate concern under the interests of justice, even application of that factor will depend on the facts of the case. Since the plaintiff only sought reasonable royalties as damages, and not injunctive relief, the Court found that a delay in resolution would not significantly harm the plaintiff.

In both cases, the Court rejected arguments that consideration should have been given to the fact that the parties had litigated in a particular forum in the past. As Judge Shabaz stated, “each case must be judged on its own practicalities.”

Finally, in *Contacts Synchronization Corp. v. Alltel Communications, Inc.*, Case No. 07-C-0250-C, Judge Crabb considered yet another motion to transfer venue to the Northern District of California. There, neither the plaintiff nor the defendants had any connection to the Western District of Wisconsin *or* the Northern District of California. Rather, the case was one that could have been brought in nearly any judicial district, with virtually equal convenience.

Although the defendants identified certain persons with relevant knowledge located in the Northern District of California, it was not clear that such individuals

would actually be called as witnesses, much less “key witnesses.” Additionally, Judge Crabb found that the case would have faced substantial delay if it were transferred to the Northern District of California. Because the plaintiff’s choice of forum was entitled to deference, the interests of justice weighed against a transfer, and the Northern District of California would have been no more convenient, Judge Crabb denied the motion to transfer.

These cases demonstrate that although the Court will apply the § 1404(a) factors of convenience to parties and witnesses and the interests of justice, the determination of a motion to transfer will depend entirely on the facts of a specific case. Moreover, the Court will not take advantage of a motion to transfer just to clear its docket.

Finally, it is worth noting that 28 U.S.C. § 1406(a) also provides grounds for a transfer of venue. The distinction is that § 1406(a) permits a transfer of venue when the initial forum in which the lawsuit was filed is *improper*, and not merely inconvenient. In such an instance, rather than dismiss the case, a district court may transfer the case to a proper venue.

For recent Western District of Wisconsin decisions applying § 1406(a), see *Younis v. Pinnacle Airlines, Inc.*, Case No. 06-C-0763-C, 2007 U.S. Dist. LEXIS 34513 (W.D. Wis. 2007) and *Hewlett Packard Development Co, L.P. v. eMachines, Inc.*, 04-C-0789-C, 2005 U.S. Dist. LEXIS 2575 (W.D. Wis. 2005).



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