Bloomberg Law

BNA's
Patent, Trademark & Copyright Journal®
Daily Edition

Venue

New Focus on Where to File Patent Suits After Major Supreme Court Venue Ruling

Patent owners that want to sue in a friendly forum now have a new standard to meet: instead of suing where their products are sold, which could be virtually anywhere, they must sue where an alleged infringer has a place of business.

Patent attorneys, reacting to the U.S. Supreme Court decision's limiting of where infringement complaints can be filed, still saw considerable leeway for a patentee to weigh venue options and pick one that might be friendlier to its case. It will require detailed research into the defendant's business locations, though, one commenter said, and a multi-factor strategy for comparing the courts in those locations.

The high court's ruling in *TC Heartland LLC v. Kraft Foods Group Brands LLC* was directed only to the first venue choice option under the patent-specific venue statute, 28 U.S.C. § 1400(b)—"the judicial district where the defendant resides" (*TC Heartland LLC v. Kraft Foods Group Brands LLC*, U.S., No. 16-341, 5/22/17). The court held that "resides" is limited to the alleged infringer's state of incorporation. It overturned U.S. Court of Appeals for the Federal Circuit law that for 27 years, allowed "resides" to mean anywhere the defendant makes a sale of an infringing product or service.

A second venue choice option under Section 1400(b) allows patentees to bring suit "where the defendant has committed acts of infringement and has a regular and established place of business." For 27 years, patentees virtually ignored it because the Federal Circuit's "resides" rule was all any patentee needed to file in patentee-friendly courts such as the U.S. District Court for the Eastern District of Texas.

Of the more than 4,600 patent suits filed in 2016, more than 1,600 were filed in the Eastern District of Texas, according to Bloomberg Law data.

Whether that court loses a lot of cases depends on how the second option plays out.

As the law stands right now, the definition of "a regular and established place of business" is broad enough to include where a defendant has a retail outlet or sales office, giving most patentees a number of options for where to file a complaint. That's what gives patentees the leeway to identify several venue options. But there's little doubt that alleged infringers will try to narrow that definition, and stakeholders questioned whether this definition fits the modern world of commerce.

"At least initially, it would not be surprising to see litigants test the boundaries of that interpretation," Baldassare Vinti, a partner in the Patent Law and Intellectual Property Groups of Proskauer Rose LLP, New York, told Bloomberg BNA.

Awkward Fit to Current Business Models Under the "established business" option, the requirements to show the defendant "committed acts of infringement" in a judicial district won't change from how they previously had to show "resides." And in defining an established business presence, the Federal Circuit held in *In re Cordis Corp.* in 1985 that the term merely meant doing business "through a permanent and continuous presence" in a particular court district.

"Analysis of such issues will require a close inspection of contacts to determine whether a defendant has engaged in regular, consistent and substantial business within a particular jurisdiction," said Blair M. Jacobs, a partner in the Intellectual Property practice at Paul Hastings LLP, Washington. "The answer might be easy where a company has a physical structure with employees in a particular jurisdiction but will be far more complicated when a company regularly conducts business in a jurisdiction where no physical presence exists."

Thomas L. Duston, a Chicago-based trial lawyer focusing on patent litigation at Marshall, Gerstein & Borun LLP, built on that last point. "These decisions come long before the advent of the World Wide Web and the explosive growth of patent litigation directed to e-commerce," he said. "Notions from the '60s, '70s, and even '80s of what is a 'place of business,' and where is the 'locus' of infringing acts for venue purposes, may awkwardly fit current, distributed business models (e.g. cloud computing)."

Washington-based IP attorney at Morrison & Foerster IP, Mark L. Whitaker, expected to see "satellite litigation to identify a regular and established place of business." The current president of the American Intellectual Property Law Association was concerned about the amount of discovery and cost that might have to go into making that judgment.

Thomas M. Dunlap of Dunlap Bennett & Ludwig PLLC, Leesburg, Va., told Bloomberg BNA that patentees should conduct "extensive venue research in advance of filing on the defendant for possible alternative forums. While it might not result in the ideal forum it might result in more than one choice."

Dunlap, who authored an amicus brief in the case, assumed patentees would identify as many possible venue options and choose the best based on a multi-factor test. He said that the factors might include the location of each venue relative to the testifying members of the

parties, the typical average time to reach a decision in each court, the average time from filing to getting a preliminary injunction, and the likelihood the court will grant a temporary restraining order.

It'll Hurt the Most in E.D. Texas The immediate impact should be on the Eastern District of Texas, which in most cases won't be a viable choice. More than one-third of all infringement suits have been filed in recent years, but no major manufacturers are incorporated there. Only an expanded view of ''regular and established place of business'' can prevent a significant decrease of filings in that court.

Marshall, Texas-based Judge J. Rodney Gilstrap, with more patent cases on his docket than any other district court judge, by far, declined Bloomberg BNA's request for a comment.

Local practitioner, Michael C. Smith, partner in charge of the Marshall office at Siebman, Burg, Philips & Smith LLP, predicted ''an enormous amount of activity at the court'' in the short term, at least. ''Every single pending patent case is going to have to be checked to see whether it has the right venue facts,'' he told Bloomberg BNA. ''If it doesn't, that case is going to have to go away.''

David A. O'Toole, clerk of Eastern District of Texas court, did not respond to a request for comment on whether the court has seen an uptick in transfer-related activity since the Supreme Court's decision.

Major Impact on Multi-Defendant Filings The *TC Heartland* ruling and any future limits on the definition of ''regular and established place of business'' will have a disproportionate impact on patent owners targeting multiple defendants. Patentees will be able to find a single location for filing against every defendant only in very specific circumstances.

Ironically, one such circumstance may be the best hope for the Eastern District of Texas to retain some cases, according to Matthew J. Rizzolo, counsel at Ropes & Gray LLP, Washington. ''The retail industry, for one, is likely to be affected by suits against multiple defendants; plaintiffs often sue the manufacturer of a product as well as the downstream sellers of those products,'' he said. ''Many retailers are likely to have a presence in the Eastern District of Texas, and may still be subject to suit there.''

In most other scenarios, though, Rizzolo said, ''the decision will confound a plaintiff's effort to sue multiple defendants in the same forum.''

''This may not only be more costly for plaintiffs, but also poses the potential for inconsistent opinions by different courts,'' said Brian C. Kwok, a partner at Haynes and Boone in Palo Alto, Calif.

Defendants who file separate lawsuits in multiple locations have one hope of reducing costs and effort. ''Multi-district litigation may increase judicial efficiency through consolidated pre-trial case management,'' said Michael Gaertner, a partner with law firm Locke Lord LLP, Chicago. ''Multi-district litigation, however, arguably brings drawbacks of delay and inconsistent results at the trial phase because the statute requires that each individual case be remanded for trial to the courts where that case was filed originally.''

Court Opinion Footnotes: More to Decide Finally, the *TC Heartland* opinion included two footnotes, each describing a scenario the court was sidestepping and expecting lower courts to address first.

Footnote 1 addressed an oddity in the case. TC Heartland is not ''incorporated''; it is a limited liability company, despite the case proceeding as if it was a corporation. The court simply left it to the district court to deal with the issue on remand.

''In this and future cases, courts may consider whether to apply the Supreme Court's holding in *Denver & Rio Grand Western Railroad v. Brotherhood of Railroad Trainmen*, that an unincorporated association such as an LLC may be sued 'wherever it is doing business,' or whether it is appropriate to treat unincorporated associations the same as corporations for venue purposes,'' Rizzolo said.

Footnote 2 of the opinion punted on the implications of the decision when the alleged infringer is a foreign corporation.

''It appears that *Brunette Machine Works, Ltd. v. Kockum Industries, Inc.* remains good law,'' William J. Voller III, an intellectual property attorney at Loeb & Loeb, Chicago, said. ''As such, proper venue for patent cases involving foreign corporations will likely be found in any judicial district.''

On the other hand, if a foreign company has a place of business such as a U.S. headquarters or sales facility with numerous employees in a particular venue, they will most likely be subject to suit there,'' Jacobs of Paul Hastings said. ''Plaintiffs may attempt to extend the scope of venue to places where foreign companies have more tenuous connections, but such attempts will undoubtedly result in motion practice concerning whether tenuous contacts constitute a 'regular and established place of business.' ''

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  PTCJ ISSN 2379-6073