

## 1 Year Of TC Heartland, 7 Lessons About Patent Venue

By **Manuel Velez** (May 22, 2018, 11:52 AM EDT)

The patent venue statute provides that patent suits may be filed where the defendant “resides” or “has committed acts of infringement and has a regular and established place of business.”[1] For nearly 30 years, the Federal Circuit and district courts interpreted this statute to allow a patent owner to file suit anywhere a defendant made sales. In *TC Heartland*, the U.S. Supreme Court upended this long-standing practice when it held that a domestic corporation “resides” only in its state of incorporation for purposes of the patent venue statute.[2] Following this landmark decision, courts have been grappling with the many unanswered questions that *TC Heartland* gave rise to. In this article, we explore seven lessons that we have learned regarding venue in patent cases one year after *TC Heartland*.



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### TC Heartland Constituted an Intervening Change in the Law

One of the first questions that courts had to address was whether *TC Heartland* constituted an intervening change in the law. This question arose in cases where, for example, the accused infringers did not move to dismiss on the basis of improper venue or raise improper venue as a defense at the outset of litigation, but sought dismissal after the Supreme Court issued its *TC Heartland* decision. In those cases, the accused infringers argued that there was no waiver because *TC Heartland* created a venue defense that was previously unavailable.

Even though there was a split among the district courts on whether *TC Heartland* changed the law,[3] the trend among courts was to hold that *TC Heartland* did not constitute an intervening change in the law.[4] The Federal Circuit disagreed with this trend and held that *TC Heartland* was a change of law that rendered the waiver rule inapplicable.[5] In reaching this conclusion, the court reasoned that “[t]he venue objection was not available until the Supreme Court decided *TC Heartland* because, before then, it would have been improper given controlling precedent, for the district court to dismiss or to transfer for a lack of venue.”[6]

For practitioners, however, it is important to note that the Federal Circuit has recognized that district courts have the authority to find that an accused infringer has forfeited its venue defense under the framework of *Dietz v. Bouldin*, which held that district courts have the power to “to manage their own affairs so as to achieve the orderly and expeditious disposition of cases.”[7] The take home message for accused infringers is that if they wish to take advantage of *TC Heartland*, they need to move

expeditiously. For patent holders wishing to keep the case in the original venue, they need to develop arguments that dismissal for improper venue would disrupt the expeditious disposition of the case because, for example, the case is at an advanced stage (e.g., close to trial).

### **The Federal Circuit Has Interpreted the “Resides” Prong Narrowly**

After the Supreme Court issued its TC Heartland decision, many legal commentators predicted that “place of business” would be the new patent venue battleground.[8] Despite this prediction, parties have litigated the meaning of the “resides” prong as it applies to states having multiple judicial districts. The issue here is whether a domestic corporation incorporated in a state having more than one district “resides” for purposes of the patent-specific venue statute in each and every judicial district in that state.

Reversing a decision by Judge Rodney Gilstrap from the Eastern District of Texas, the Federal Circuit recently held that “a domestic corporation incorporated in a state having multiple judicial districts “resides” for purposes of the patent-specific venue statute, 28 U.S.C. § 1400(b), only in the single judicial district within that state where it maintains a principal place of business, or failing that, the judicial district in which its registered office is located.”[9] In explaining its rationale, the court noted that its holding “finds clear support in the statute’s language, history, purpose, and precedent.”[10]

From a practical standpoint, this Federal Circuit decision is significant because it further limits where patent actions may be filed. Under the first prong of the patent venue statute, patent suits may now only be filed in the district within the accused infringer’s state of incorporation with the closest connection to the accused infringer.

### **The Federal Circuit Has Interpreted the “Place of Business” Prong Narrowly**

Most of the post-TC Heartland disputes have focused on what constitutes a “regular and established place of business.” In the first extensive treatment of this prong, Judge Gilstrap from the Eastern District of Texas developed a four-factor test to determine whether an out-of-state domestic corporation has a regular and established place of business in a district.[11]

The four factors are: (1) “the extent to which a defendant has a physical presence in the district, including but not limited to property, inventory, infrastructure, or people,” (2) “the extent to which a defendant represents, internally or externally, that it has a presence in the district,” (3) “the extent to which a defendant derives benefits from its presence in the district, including but not limited to sales revenue,” and (4) “the extent to which a defendant interacts in a targeted way with existing or potential customers, consumers, users, or entities within a district, including but not limited to through localized customer support, ongoing contractual relationships, or targeted marketing efforts.”[12] At the time, Judge Gilstrap’s test was viewed as a broad interpretation of the “place of business” prong in that it seemed to leave open the possibility that an accused infringer could be sued in a district where the accused infringer did not have a physical presence.[13]

On appeal, the Federal Circuit rejected Judge Gilstrap’s test finding that it applied an “incorrect legal standard.”[14] Instead, the court identified three general requirements courts must consider to evaluate whether a district qualifies as a regular and established place of business: (1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant.[15] The significance of this decision is that it requires that the defendant have a physical location in the district. With respect to the requirement that the place of business be regular

and established, the court noted that that sporadic activity or a transient presence in the district is not sufficient.[16] If an employee can move out of the district without permission, that weighs against the employee's home being a place of business. Finally, the defendant must establish or ratify the place of business. It is not enough that the employee does so on his or her own.[17] Taken together, these factors show that the Federal Circuit has interpreted the "place of business" prong narrowly.

Patent owners wishing to fight a motion to dismiss on the basis of improper venue should consider seeking discovery on venue issues. Such discovery may provide an avenue for investigating the accused infringer's ties with the district. These ties could extend to having subsidiaries in the district where venue is sought to be kept. For example, Chief Judge Leonard Stark from the District of Delaware recently allowed a patent owner to seek discovery on whether any entity related to the accused infringer, including subsidiaries, has corporate ties with any Delaware companies.[18]

### **Patent Owners Have the Burden to Show Venue Is Proper**

In *In re ZTE (USA) Inc.*, the Federal Circuit addressed the issue of who bears the burden of proof in patent cases when venue is challenged.[19] Finding that whether venue is proper under § 1400(b) is an issue unique to patent law, the court applied Federal Circuit law in its analysis and concluded that "upon motion by the Defendant challenging venue in a patent case, the Plaintiff bears the burden of establishing proper venue." [20] Given this ruling, patent owners, as discussed supra, should consider seeking discovery on venue issues in response to a motion to dismiss on the basis of improper venue.

### **The Federal Circuit Has Refused to Limit Where Foreign Companies Can Be Sued**

The Supreme Court addressed venue restrictions for foreign companies in a 1972 decision, *Brunette Machine Works Ltd. v. Kockum Industries Inc.* [21] In *Brunette*, the court held that a foreign corporation can be sued for patent infringement in any judicial district. [22] This was based on a long-standing rule that venue restrictions do not apply to foreign companies. In a footnote to the *TC Heartland* ruling, the court wrote that it did not "express any opinion on this court's holding" in *Brunette* or on the implications of the decision on foreign corporations. [23] The court's language left open the possibility that *TC Heartland* could affect venue rules for foreign companies in patents cases. In *In re HTC Corp.*, the Federal Circuit addressed this question and refused to limit where foreign companies can be sued. [24] In reaching this conclusion, the court explained that applying venue restrictions to foreign companies "could create a venue gap, where at least some alien defendants would be entirely exempt from patent infringement actions. [25]

The practical implications of this ruling remain to be seen. Some legal commentators have predicted that finding that venue restriction do not apply to foreign companies may incentivize patent owners contemplating filing suit against a U.S. subsidiary with a foreign parent just to sue the foreign parent to get around *TC Heartland*'s venue restrictions on the U.S. subsidiary and keep cases in preferred districts. [26] Other legal experts have noted that such venue shopping could be limited by the need to prove infringement, given that it is often the case that the foreign parent is not the entity making or selling the infringing products in the U.S., and by the costs/inconvenience of seeking discovery from a foreign entity. [27]

### **District Courts Are Split as to the Timing for Assessing "Place of Business"**

District courts do not agree on the timing for assessing when an accused infringer must have its regular and established place of business in the district for venue to be proper. For example, courts in the

Eastern District of Texas and Eastern District of Pennsylvania have found that patent venue is determined at the time the suit is filed.[28] In contrast, the court in Middle District of Florida has held that venue is evaluated at the time of the alleged infringement.[29]

While there is some tension between these decisions, a closer reading reveals that the courts considered, in part, the delay in filing suit as a factor in their analyses. Given this reliance, patent owners wishing to argue that venue is proper because the accused infringer had a regular and established place of business at the time of the alleged infringement should develop a record that they acted diligently in filing suit.

### **District Courts Are Split as to How TC Heartland Applies to ANDA Suits**

District courts do not agree on how to interpret the patent venue’s statutory language regarding “has committed acts of infringement” in the context of Hatch-Waxman actions. For example, the court in the District of Delaware has taken a broad approach in analyzing infringing acts finding “that an applicant’s submission of an ANDA [abbreviated new drug application], in conjunction with other acts the ANDA applicant nonspeculatively intends to take if its ANDA receives final FDA approval, plus steps already taken by the applicant indicating its intent to market the ANDA product in this District, must all be considered for venue purposes, and can be sufficient to demonstrate that the ANDA-filing Defendant ‘has committed’ ‘acts of infringement’ in this District.”[30] This means that a generic manufacturer can be sued in Delaware if it intends to sell its proposed generic product in the state, as long as it has a regular place of business there. In contrast, the court in the Northern District of Texas has taken a narrower view of infringing acts finding that “[i]n determining proper venue in a Hatch-Waxman Act case, it is appropriate to look to the forum where the ANDA submission itself was prepared and submitted.”[31]

Given this uncertainty, branded companies should take precautions to safeguard against the possibility of dismissal. Under the Hatch-Waxman framework, upon receipt of a Paragraph IV certification, branded companies may file an infringement action against the generic manufacturer. If the action is filed within 45 days of receipt of the Paragraph IV Certification, the U.S. Food and Drug Administration may not grant final approval of the ANDA for 30 months from the receipt date.[32] Because it is unclear whether dismissal of an ANDA action filed within 45 days from receipt of the Paragraph IV certification could jeopardize the 30-month stay of FDA approval, branded companies should consider filing two suits: one suit in the forum where they wish to litigate the case and a second, so-called “protective suit,” in the forum where jurisdiction over the generic manufacturer is certain.

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[1] 28 U.S.C. § 1400(b).

[2] TC Heartland LLC v. Kraft Foods Group Brands LLC, 137 S.Ct. 1514, 1521 (2017).

[3] Ryan Davis, Did TC Heartland Change Law? Judges Can’t Seem to Agree, Law360, June 29, 2017 at 1.

[4] Dorothy Atkins, TC Heartland Alters Venue in Fitbit Patent Row, Judge Says, Law360, Aug. 30, 2017 at 1.

[5] *In re Micron Tech., Inc.*, 875 F.3d 1091, 1096-97 (Fed. Cir. 2017).

[6] *Id.* at 1096.

[7] *Id.* at 1100-01 (citing *Dietz v. Bouldin, Inc.*, 136 S.Ct. 1885, 1891 (2016)).

[8] Ryan Davis, 'Place of Business' To Be New Patent Venue Battleground, Law360, May 26, 2017 at 1.

[9] *In re BigCommerce, Inc.*, Case Nos. 2018-120 and 2018-122, 2018 WL 2207265, at \*1 (Fed. Cir. May 15, 2018).

[10] *Id.* at 3.

[11] *Raytheon Co. v. Cray, Inc.*, 258 F. Supp. 3d 781, 796-799 (E.D.Tex. 2017).

[12] *Id.*

[13] Matthew Bultman, Gilstrap's Venue Test an Encouraging Sign for Patent Owners, Law360, July 6, 2017 at 2.

[14] *In re Cray Inc.*, 871 F.3d 1355, 1360 (Fed. Cir. 2017).

[15] *Id.* at 1360.

[16] *Id.* at 1362-63.

[17] *Id.* at 1363.

[18] *Mallinckrodt IP v. B. Braun Med. Inc.*, Nos. 17-365-LPS, 17-660-LPS, 2017 WL 6383610, at \*3-5 (D.Del. Dec. 14, 2017).

[19] No. 2018-113, slip op. at 2 (Fed. Cir. May 14, 2018).

[20] *Id.* at 5, 8.

[21] 92 S.Ct. 1936 (1972).

[22] *Id.* at 1941.

[23] *TC Heartland*, 137 S.Ct. at 1520 n. 2.

[24] No. 2018-130, slip op. at 20 (Fed. Cir. May 9, 2018).

[25] *Id.* at 4.

[26] Matthew Bultman, Foreign Cos. Expected to Test Venue Rules After TC Heartland, Law360, June 5,

2017 at 1.

[27] Matthew Bultman, Venue “Loophole’ for Foreign Cos. Open, But Limited, Law360, May 15, 2018 at 2.

[28] Personal Audio, LLC v. Google, Inc., No. 1:15-CV-350, 2017 WL 5988868, at \*7 (E.D. Tex. Dec. 1, 2017); Infinity Computer Prods., Inc. v. OKI Data Americas, Inc., Nos. 12-6797, 12-6799, 12-6800, 12-6806, 2018 WL 1035793, at \*9-10 (E.D. Penn. Feb. 23, 2018).

[29] ParkerVision, Inc. v. Apple, Inc., No. 3:15-cv-04177, slip op. at 16 (M.D. Fla. Mar. 8, 2018).

[30] Bristol-Myers Squibb Co, v. Mylan Pharms. Inc., No. 17-379-LPS, 2017 WL 3980155, at \*13 (D. Del. Sept. 11, 2017).

[31] Galderma Labs., L.P. v. Teva Pharms. USA, Inc., 290 F. Supp. 3d 599, 608 (N.D. Tex. 2017).

[32] 21 U.S.C. § 355(j)(5)(B)(iii).