

Patent Venue Questions Persist 18 Months After TC Heartland

By **Matthew Bultman**

Law360 (November 8, 2018, 3:23 PM EST) -- Eighteen months after the U.S. Supreme Court limited where patent suits can be filed, courts continue to wrestle with questions about venue rules. Here is a look at recent decisions that have provided some guidance.

The Supreme Court in *TC Heartland v. Kraft Foods* ruled patent suits must be filed where the defendant is incorporated or where it has a "regular and established place of business" and has committed acts of infringement.

The ruling left open a number a number of questions, including what qualifies as a "place of business," leaving lower courts to sort through the aftermath. Some issues have been fleshed out in the meantime, and over the past few weeks a series of decisions have provided additional answers.

Imputed Residency in Delaware

Last month, U.S. District Judge Leonard Stark threw out a patent lawsuit that Bristol-Myers Squibb Co. and Pfizer Inc. brought in Delaware in an attempt to block Mylan Pharmaceuticals Inc. from making a generic version of the blood thinner Eliquis.

Mylan is incorporated in West Virginia but has a subsidiary, Mylan Securitization LLC, in Delaware. Bristol-Myers argued the residency of Mylan Securitization can be imputed to Mylan Pharmaceuticals under the first prong of the venue statute.

Judge Stark agreed it was possible to impute the residence of one entity to another for the purposes of venue, but only by overcoming a presumption of corporate separateness by a showing of fraud, injustice or unfairness.

None of that happened with Mylan, according to the judge, who said there was nothing improper about forming a wholly owned company for tax purposes.

The ruling opens the door for patent owners to argue in Delaware that venue has been imputed, attorneys say. But at the same time, it suggests that will be a difficult argument to make.

"[The judge] imposed what I think is a very high standard for being able to utilize those contacts, essentially analogizing it to piercing the corporate veil," Dechert LLP partner Robert Rhoad said.

Also interesting is what was not in the decision, attorneys said.

Earlier in the case, Judge Stark suggested Mylan may have a place of business in Delaware based on the volume of litigation that it is involved with in that state. This idea was not explored in the ruling because Bristol-Myers didn't argue venue was proper under the "place of business" prong.

"This case stood out for me for what it did not address," said Manuel Velez, counsel at Mayer Brown LLP.

Subsidiary-Owned Stores in West Texas

The issue of subsidiaries was also front and center in a Texas case against The Walt Disney Co.

Interactive ToyBox LLC, which sued Disney Co. in December over a patent for an interactive toy, argued venue was proper in the Western District of Texas because the presence of Disney stores in the Austin area meant Disney Co. had a "place of business" in the district.

The problem for ToyBox is those stores are owned by a separate Disney entity, Disney Store USA LLC.

U.S. District Judge Robert Pitman cited rulings from district courts in Texas, Missouri and Virginia which held that, except where corporate formalities are ignored and an alter ego relationship exists, the presence of one entity in a district doesn't establish venue over a separate corporate relative.

The "evidence does not establish that [Disney Co.] and [Disney Consumer Products] are ignoring corporate formalities or that they are exerting such a level of control over Disney Stores USA LLC that the subsidiary is merely an alter ego for" those companies, he wrote in an Oct. 24 order.

The judge ordered the case be transferred to the Central District of California, where Disney Co. is headquartered. Squire Patton Boggs LLP partner Tamara Fraizer suggested there were parallels between the decision and Judge Stark's ruling in the Mylan case.

"The touchstone here is the recognition that corporate entities can be set up and maintained separately and that venue does in fact respect that," Fraizer said.

Computer Servers (and More?) in East Texas

On the other side of the state, computer servers helped keep a case against Google LLC in the Eastern District of Texas.

Ruling in a lawsuit brought by Seven Networks LLC, U.S. District Judge Rodney Gilstrap held in July that Google servers housed at the facilities of various local internet service providers were a "place of business" for Google that made venue in the district appropriate.

"The [servers] are best characterized as local data warehouses, storing information in local districts to provide Google's users with quick access to the cached data, avoiding the delays associated with distant data retrieval from Google data centers," the judge wrote.

Google immediately appealed the ruling, which was in direct contradiction to what another judge in the

Eastern District of Texas, U.S. District Judge Ron Clark, had said months earlier in a lawsuit that Personal Audio LLC had brought against Google.

The Federal Circuit denied Google's petition for writ of mandamus in late October, saying Google hadn't shown the district court's ruling implicated the "special circumstances" justifying mandamus review.

U.S. Circuit Judge Jimmie Reyna dissented from the ruling, arguing the majority failed to recognize "far-reaching" implications of the district court's ruling. Judge Reyna said a company could potentially be sued in any district where a physical object belonging to the company is located.

"The biggest question here is ... that physical place of business in the district, a place from which business is conducted, whether or not that can be done with just machines there on the ground," Fraizer said.

"I wonder about that, because it's hard to imagine machines conducting business," she said.

Oil Rigs in the Gulf of Mexico

Judge Gilstrap had to tackle another venue question in a lawsuit involving units of Tesco Corp. This question didn't center on computer servers but instead oil and gas rigs 160 miles off the coast of Texas in the Gulf of Mexico.

There was no dispute that Tesco Corp. (US) and Tesco Offshore Services Inc. had a place of business in East Texas — there was a maintenance facility in Kilgore, not far from the courthouse in Tyler. The question was whether there had been "acts of infringement" in the district.

According to the court, there was evidence the Tesco devices that are alleged to infringe Weatherford Technology Holdings LLC patents on well-drilling technology were used on a Shell oil and gas platform and at least one other rig in the Gulf.

Judge Gilstrap said that was enough to tie the companies to the district, citing a 1953 law that U.S. jurisdiction extends to "the subsoil and seabed of the outer Continental Shelf" and all devices attached to the seabed. The judge noted that a 2016 ruling found the law applied to oil rigs within 200 miles of Port Arthur, Texas.

"The [rigs with Tesco devices] are 'permanently or temporarily attached to the seabed' of the Outer Continental Shelf ... and they are located within 200 miles of Port Arthur," the judge wrote. "They fall within this court's jurisdiction."

Pharmacy Registration in New Jersey

When Metuchen Pharmaceuticals LLC sued Texas-based Empower Pharmaceuticals LLC, accusing the company of selling a knockoff of the erectile dysfunction drug Stendra, it chose to do so in its home state of New Jersey.

Hoping to keep the case in the Garden State, Metuchen took a novel approach: it offered the New Jersey Board of Pharmacy's address in Newark as Empower's place of business.

Metuchen's argument was that, by virtue of its out-of-state pharmacy license, Empower had given the

board the authority to act as its place of business in the state. Metuchen said the board performed some of the "functions of a regular and established place of business," such as storing records.

In a ruling last month, U.S. District Judge Jose Linares declined to endorse what he called "a broad and novel understanding of what constitutes a 'regular and established place of business.'"

"Defendants' status as one of the many regulated entities of a New Jersey licensing agency is far from analogous to the kind of local business presence that has been found to constitute a regular and established place of business," the judge wrote.

Judge Linares ordered the case be transferred to the Southern District of Texas.

--Editing by Brian Baresch and Alanna Weissman.