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The Wild World of Patent Venue (And How It Could Be Changing)

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Special to the Legal

At first blush, a discussion of the rules governing venue of patent infringement lawsuits sounds like a boring topic. But those rules have led to some unexpected real-world situations. For example, in some recent years patent lawsuits filed in small eastern Texas towns accounted for more than 40 percent of all U.S. patent infringement lawsuits. In *TC Heartland v. Kraft Foods Group Brands*, No. 16-341, the U.S. Supreme Court is considering a challenge to the current interpretation of the venue laws, which could change where corporations are subject to patent suits.

DEVELOPMENT OF PATENT LITIGATION HOTSPOTS

Marshall, Texas—a small town about three hours east of Dallas—is not well known except to local residents, fans of the boxer George Foreman or former Eagles cornerback Bobby Taylor (who



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played football at nearby Longview High School), the attendees of the annual FireAnt Festival, and to patent lawyers. Although this latter group is

“Only time will tell how significantly a Supreme Court reversal in ‘TC Heartland’ will affect the filing of patent infringement suits in places like the Eastern District of Texas and the District of Delaware.”

not what first comes to mind when you think of a small East Texas town, patent owners routinely file suit in Marshall. Texas is not usually the corporate home of the defendant companies. So, why eastern Texas?

The phenomenon began with the U.S. Court of Appeals for the Federal

Circuit's interpretation of the federal venue statutes in *VE Holding v. Johnson Gas Appliance*, 917 F.2d 1574 (Fed. Cir. 1990). The court considered the patent infringement specific venue statute, which provided, and still provides, that an action for patent infringement "may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." The court also considered the general venue statute, which had been amended two years earlier to provide: "For purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced ..."

Although the Supreme Court had previously held the definition of corporate residence in Section 1391(c) did not apply to the term "resides" in Section 1400(b), see *Fourco Glass v. Transmirra Products*, 353 U.S. 222, 228-29 (1957), in *VE Holding*, the Federal Circuit determined Congress had superseded *Fourco* by including the language "for purposes of venue under this chapter" in the 1988 statutory revision. Section 1400(b) is within the same chapter as Section 1391(c). Thus, the Federal Circuit interpreted Section 1400(b) to provide that a party resides wherever it is subject to personal jurisdiction. Companies that sold products

nationwide essentially became subject to patent infringement suits in any jurisdiction in the United States.

Shortly thereafter, the Eastern District of Texas became a popular jurisdiction for filing such suits. The district implemented special local rules for patent cases that led to predictable case management. The average time to trial was one of the fastest in the country. The judges in Texas were quickly gaining more patent case experience than almost any other district judges in the country. And, initially, win rates favored plaintiffs, although recent statistics seem to suggest a fairly even division between plaintiff and defense victories. The number of cases filed in the Eastern District of Texas steadily increased; by 2015 approximately 43.6 percent of all patent infringement lawsuits were filed there.

The increase in complex patent litigation brought a steady stream of lawyers to those small East Texas towns. Businesses grew to support the weekly influx of patent litigators. Patent litigation in eastern Texas received national news coverage. Samsung, a frequent defendant in Marshall even invested in the town, sponsoring scholarships, donations to local charities, and a local ice skating rink. Undoubtedly, the Federal Circuit's *VE Holding* decision allowed the Eastern District of Texas to develop into the unique jurisdiction it has become.

In 2011, Congress again revised the general venue statute. Among

other things, the entire section is now applicable "except as otherwise provided by law," and the residency subsection defines residency "for all venue purposes." In *TC Heartland*, the effect of the revised statutes on patent infringement cases is now before the Supreme Court. What will the Supreme Court's decision in *TC Heartland* mean for patent litigation in East Texas? How might it change the overall landscape of patent litigation in the United States?

THE 'TC HEARTLAND' CASE

In *TC Heartland*, Kraft, a Delaware corporation, sued TC Heartland, an Indiana corporation, in Delaware. TC Heartland develops, tests, and manufactures the accused products in Indiana. It has no local presence in Delaware and had not entered into any supply contracts in Delaware. It does, however, ship some orders directly to Delaware under contracts with companies headquartered outside of Delaware. TC Heartland argued that venue was improper in Delaware and that the case should be transferred to Indiana. The District Court denied the motion based on the Federal Circuit's decision in *VE Holding*. The Federal Circuit denied TC Heartland's petition for a writ of mandamus. TC Heartland then petitioned the Supreme Court for a writ of certiorari.

At the certiorari stage before the Supreme Court, both parties discussed the history of patent venue

law, detailing both legislative changes and relevant Supreme Court decisions. TC Heartland stressed that the language from Congress's 1988 Amendment—"for purposes of venue under this chapter"—on which the Federal Circuit had relied on in 1990 in *VE Holding*, was deleted in 2011. Thus, according to TC Heartland, the Supreme Court's *Fourco* decision again applies, the definition of residency in Section 1391 does not affect patent cases under Section 1400(b), and in those cases a corporation resides only where it is incorporated, as the court had already determined in *Fourco*.

In opposition, Kraft argued that in *VE Holding* the Federal Circuit correctly interpreted the general venue statute, which set forth a definition of corporate residence that the legislative history showed applied to § 1400(b). Kraft stressed that in 2011, Congress did not simply delete the language *VE Holding* relied upon, but replaced that phrase with the even broader language "for all venue purposes," which the legislative history shows "would apply to all venue statutes." Accordingly, the law is clear and it is the job of Congress, not the court, to make any further changes.

The Supreme Court granted certiorari and set oral argument for March 27, 2017. The court will consider whether the definition of corporate residence in the current version of the general venue statute (Section 1391(c)) applies to the

patent infringement specific statute (Section 1400(b)).

POTENTIAL RAMIFICATIONS OF 'TC HEARTLAND'

If the Supreme Court affirms the Federal Circuit, nothing is likely to change unless and until Congress acts.

If, however, the Supreme Court determines the definition of corporate residence in the amended version of Section 1391 does not apply to patent infringement suits governed by Section 1400(b) and that a corporation's residence is only where it is incorporated, there could be significant changes in where patent suits are filed.

First, for many defendants incorporated in Delaware, the residency prong of the venue inquiry could render venue appropriate only in that district. With respect to the number of patent infringement suits, Delaware is already often second only to the Eastern District of Texas and offers patent-experienced judges and, frequently, short times to trial. To the extent it becomes difficult to file suit in the Eastern District of Texas, Delaware is a likely alternative for suit against many corporations.

Second, there will likely be an increased focus on the meaning of the "regular and established place of business" element in the second half of Section 1400(b). Prior to *VE Holding*, Federal Circuit cases suggested this element might be quite broad, not even requiring a physical

presence in the jurisdiction, see *In re Cordis*, 769 F.2d 733, 737 (Fed. Cir. 1985). But because the 1990 decision in *VE Holding* rendered venue over a corporate defendant coexistent with personal jurisdiction, there has been no need to analyze whether the defendant had a "regular and established place of business" in the district. Indeed, in *VE Holding*, the Federal Circuit recognized that the place-of-business analysis would be relevant only to noncorporate defendants. If the Supreme Court narrows the definition of corporate residence, the venue analysis will likely shift in many cases to whether a corporate defendant has a regular and established place of business in the jurisdiction—a test that has not been significantly addressed in Federal Circuit cases in nearly 30 years.

Only time will tell how significantly a Supreme Court reversal in *TC Heartland* will affect the filing of patent infringement suits in places like the Eastern District of Texas and the District of Delaware. A reversal by the Supreme Court will, however, almost certainly result in increased litigation over what constitutes a "regular and established place of business," a portion of the statute that is, at present, irrelevant to venue over a corporate defendant. •