After the Supreme Court drastically altered patent venue law last year, plaintiffs are scrambling for ways to keep suing corporate defendants in perceived plaintiff-friendly forums, such as the Eastern District of Texas.

After a quarter-century in which patent plaintiffs could sue a defendant anywhere it is subject to personal jurisdiction, the Supreme Court has narrowed the venue options for a corporate patent defendant to either the state of incorporation or “where the defendant has committed acts of infringement and has a regular and established place of business.” TC Heartland v. Kraft Foods Grp. Brands, 137 S. Ct. 1514, 1517 (2017). The Federal Circuit then clarified the requirements for where the defendant “has 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.” In re Cray, 871 F.3d 1355, 1362 (Fed. Cir. 2017). Because many corporate defendants do not have regular and established places of business in traditional hotbeds of patent suits (such as the Eastern District of Texas), district courts in recent months have transferred dozens of cases on these grounds.

To stem the tide, plaintiffs have marshaled a variety of creative arguments to try to keep their cases in their desired venues. Within the last few months, numerous plaintiffs have resisted transfer by arguing that venue is proper because a place of business of the defendant’s corporate affiliate is, in fact, a “place of the defendant” (the third element of the Cray test). Those arguments rest largely on traditional notions of “alter ego” and lack of “separateness” between the two corporations. For the quarter-century before TC Heartland, the Federal Circuit’s broader interpretation of patent venue had obviated the need for plaintiffs to make such arguments. The law here is not rapidly developing, and we see some trends emerging.

First, the corporate affiliate argument has some merit. Before the Federal Circuit broadened patent venue more than a quarter-century ago, it made clear that “venue in a patent infringement case [may be] proper with regard to one corporation by virtue of the acts of another, intimately connected, corporation.”

Although numerous plaintiffs have recently advanced this corporate affiliate argument, none has yet succeeded. But at least two plaintiffs have managed to get a motion to transfer venue stayed pending further venue-related discovery authorized by the court, and those cases have not yet reached a final venue decision. Mallinckrodt IP v. B Braun Med., No. 17-cv-365-LPS (D. Del. Dec. 14, 2017); Javelin Pharm. v. Mylan Labs., No. 16-cv-224 (D. Del. Dec. 1, 2017). To obtain venue-related discovery, the plaintiff must establish that there is at least some possibility that formal corporate separateness was not preserved. Post Consumer Brands v. Gen. Mills, 2017 WL 4865936, at *2 (E.D. Mo. Oct. 27, 2017). Even mere failure by the defendant to affirmatively establish in the record that formal corporate separateness is preserved may be adequate for the plaintiff to get venue-related discovery. See Mallinckrodt IP; Javelin Pharm.

Some plaintiffs have looked beyond corporate affiliates, arguing that even a third-party distributor, one which unquestionably maintains formal corporate separateness from the defendant, could have its place of business imputed to the defendant for venue purposes. Cray does provide some support for this theory, indicating that a place of business may be “of the defendant” if the defendant “exercises attributes of possession or control over the place.” See 871 F.3d at 1363. This suggests that a lesser showing than affiliate “alter ego” proof may be accepted by courts to establish venue. Despite this statement in Cray, though, the argument has not yet succeeded. For example, in West View Research v. BMW of North America, the defendant did not have any place of business in the forum. There were, however, several dealerships in the forum which exclusively sold cars distributed by the defendant, and BMW allegedly exerted significant control over these dealerships. The court gave short shrift to plaintiff’s theory of control, finding that the formal corporate separateness precluded the dealerships from being “places of the defendant.” Other courts have generally taken the same approach. E.g., Galderma Labs. v. Teva Pharm. USA, No. 17-cv-1076-M (N.D. Tex. Nov. 17, 2017); CAO Lighting v. Light Efficient Design, No. 16-cv-482-DCN (D. Idaho Oct. 11, 2017). There seems little doubt, however, that plaintiffs will continue to advance creative arguments that defendants exercise “attributes of possession or control” over physical places within the plaintiff’s preferred venue, and the courts will need to flesh out the limits of Cray’s test in this regard.

Practical Considerations
This emerging trend of establishing patent venue based on the presence of the defendant’s corporate affiliate in the district yields several practical considerations for patent plaintiffs. First, prepare in advance to offer proof of lack of corporate “separateness” between your defendant and its affiliate. Consider identifying a corporate affiliate in your pleading as a basis for proper venue to enhance the credibility of this strategy with the court. And always ask for discovery of both the defendant and its affiliate; have your discovery ready to go when you file the case. Finally, within the bounds set by Fed. R. Civ. P. 11, consider suing the affiliate as well. Where there is a good-faith basis for believing that the affiliate may have some liability for the infringement, having the affiliate in the case should greatly strengthen the plaintiff’s ability to obtain “separateness” discovery from the affiliate.

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