Patent Venue In The Aftermath Of *TC Heartland v. Kraft Foods*

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I. INTRODUCTION

Venue in federal civil actions is generally governed by 28 U.S.C. § 1391, which provides, in part, that a civil action may be brought in a judicial district in which a defendant resides or a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred.[1] The general venue statute deems an entity to "reside" in any judicial district in which the defendant is subject to the court's personal jurisdiction.[2]

For patent cases, 28 U.S.C. § 1400(b) provides that venue is proper either (1) "in the judicial district where the defendant resides," or (2) "where the defendant has committed acts of infringement and has a regular and established place of business." In *Fourco Glass v. Transmirra*, the Supreme Court held that § 1400(b) is the sole and exclusive provision controlling venue in patent infringement actions and that it is not to be supplemented by the provisions of the general venue statute.[3] The Court interpreted the term "resides" in § 1400(b) independent from the general venue statute to mean only the state of incorporation for a domestic corporation.

In 1988, Congress amended the general venue statute, § 1391, and defined residency "for the purposes of venue under this chapter."[4] Concluding that "this chapter" referred to chapter 87 of title 28, which encompasses both the general and patent venue statutes, the Federal Circuit held, in *VE Holding*, that the broad definition of "resides" in § 1391 applies equally to the patent venue statute.[5] For decades that followed, this interpretation allowed a liberal choice of forums for patent plaintiffs and led to many patent cases ending up in the Eastern District of Texas.

In *TC Heartland*, the Supreme Court reiterated and revived its decision from *Fourco*.[6] According to the Court, there is no indication that Congress intended any amendments to the general venue statute, before or after *VE Holding*, to alter the meaning of the patent venue statute. Thus, as applied to domestic

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[1] 28 U.S.C. § 1391(b).
[2] 28 U.S.C. § 1391(c)(2).
[3] *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957).
[4] *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1578 (Fed. Cir. 1990).
[5] *Id.*
[6] *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514 (2017).

corporations, residence in the patent venue statute still refers only to the defendant's State of incorporation.[7]

II. RESOLVING VENUE DISPUTES IN ALREADY PENDING CASES: WAS *TC HEARTLAND* A CHANGE IN LAW?

Immediately following *TC Heartland*, many challenges were raised to venue in already pending district court cases. Improper venue is a defense that must be raised in a pre-answer motion or responsive pleading.[8] Thus, courts had to decide whether parties had waived their right to challenge venue or whether the intervening change of law exception to waiver applied in view of the *TC Heartland* decision.[9] Most courts initially found that *TC Heartland* was not an intervening change of law and rejected venue challenges are untimely.

One of the earliest decisions came from the Eastern District of Virginia two weeks after *TC Heartland*. In *Cobalt Boats*, the defendant, who had not contested venue during the two years since the complaint was filed, sought to transfer venue.[10] The district court found that *TC Heartland* did not qualify for the intervening law exception since it merely affirmed the Supreme Court's decision in *Fourco*. According to the district court, *Fourco* continued to be good law since 1957 and was available for any defendant to rely on in a venue challenge.

A minority of the district courts disagreed and found that *TC Heartland* was an intervening change in law. In *Columbia Sportswear*, the district court found that *TC Heartland* constituted an intervening change in law excusing waiver of the defendant's venue objection.[11] The district court reasoned that the defendant could not have reasonably been expected to make an argument contrary to twenty-seven years of binding Federal Circuit precedent and to ultimately convince the Supreme Court where it had already denied certiorari on the same issue.

Other courts permitted venue challenges as a matter of equity. In *Hand Held Products*, the district court held that *TC Heartland* was not an intervening change in the law.[12] However, the district court noted that waiver is an equitable doctrine. It was reasonable for litigants to rely on the Federal Circuit's interpretation of the patent venue that lived on for 27 years. Since it was early on in the case and the

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[7] *Id. at* 1521.
[8] Fed. R. Civ. P. 12(b).
[9] See, e.g., *Holland v. Big River Minerals Corp.*, 181 F.3d 597, 605 (4th Cir. 1999).
[10] *Cobalt Boats, LLC v. Sea Ray Boats, Inc.*, 254 F.Supp.3d 836 (E.D. Va. 2017).
[11] *Columbia Sportswear North America, Inc. v. Seirus Innovative Accessories*, 265 F.Supp.3d. 1196 (D. Ore. 2017).
[12] *Hand Held Products, Inc. v. Code Corp.*, 265 F.Supp.3d 640 (D.S.C. 2017).

plaintiff would not be prejudiced, the defendant's motion to transfer venue was granted.

In November 2017, the Federal Circuit weighed in on the issue and concluded, in *Micron Tech*, that *TC Heartland* was an intervening change in the law, thus permitting venue challenges in cases that were pending before the decision came down.[13] According to the Federal Circuit, district courts were bound by its precedent interpreting the patent venue statute. The Supreme Court's ruling in *Fourco* addressed a version of § 1391 available in 1957 while the Federal Circuit's decision in *VE Holding* concerned later amendments. Thus, *VE Holding* was binding on district courts such that the objection to venue was not available to litigants before *TC Heartland*.

III. VENUE OPTIONS FOR NEW PATENT INFRINGEMENT CASES

TC Heartland has significantly changed where new patent cases are being and can be filed. In 2016, 37% of the over 4,500 patent cases filed in the United States were filed in the Eastern District of Texas.[14] This number dropped dramatically after the *TC Heartland* decision in May 2017. In the second half of 2017, only 13% of all patent cases were filed in the Eastern District of Texas.

Not surprising, the District of Delaware, where many corporations are incorporated, has seen an over two-fold rise in patent cases. In the second half of 2017, 22% of all patent cases were filed in the District of Delaware as compared to only 10% in 2016. However, the fact that Delaware's rise is not nearly as great as the Eastern District of Texas' decline indicates that other districts are also seeing increases in new patent cases.

Prior to *TC Heartland*, venue was proper over a corporate defendant in any judicial district in which it was subject to personal jurisdiction. In the aftermath of *TC Heartland*, plaintiffs seeking venue options beyond the defendant's state of incorporation must rely on the second prong of § 1400(b). As one district court recently put it, the long-dormant "regular and established place of business" prong of § 1400(b) has made a comeback.[15]

Even under the second prong of § 1400(b), a plaintiff's venue options are limited. The regular and established place of business standard requires more than the minimum contacts necessary for establishing personal jurisdiction or for satisfying the "doing business" standard of the general venue provision and the

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

[14] Lex Machina Patent Litigation Year in Review 2017.

[15] *Peerless Network, Inc. v. Blitz Telecom Consulting, LLC*, No. 17-CV-1725 (JPO), 2018 WL 1478047, at *2 (S.D.N.Y. Mar. 26, 2018).

showings for each cannot be conflated.[16] While venue may have previously been an afterthought to personal jurisdiction, choosing venue now requires a careful analysis of all forums in which the defendant may have committed acts of infringement *and* engaged in activity sufficient to constitute a regular and established place of business.

IV. ATTEMPTS TO CIRCUMVENT *TC HEARTLAND*

Judge Rodney Gilstrap in the Eastern District of Texas, Marshal Division, has historically received more patent cases than any other district court judge in the country. He drew criticism last year for allegedly attempting to circumvent *TC Heartland* by imposing a new four-part test to find venue proper in the Eastern District of Texas under the second "regular and established place of business" prong of § 1400(b).[17]

In *Raytheon v. Cray*, Judge Gilstrap denied a motion to transfer venue out of the Eastern District of Texas based on the defendant having a sales representative who worked from home in the district.[18] The first prong of the patent venue statute, as interpreted in *TC Heartland*, was not met because the defendant was incorporated in Washington and therefore did not reside in the district. The court then considered whether the defendant committed acts of infringement and had a regular and established place of business in the district to satisfy the second prong of § 1400(b).

After finding that the patent venue statute did not define "regular and established place of business," Judge Gilstrap set out four factors for courts to determine whether one exists. The factors were intended to provide administrative simplicity in view of technological advances that have changed the way businesses operate in the modern era.

The first factor considered whether the defendant had any physical presence in the district, including property, inventory, infrastructure or people. According to Judge Gilstrap, a fixed physical location in the district is not prerequisite for venue. The second factor considered whether the defendant made any representations, either internally or externally, that it had a presence in the district. The third factor considered whether the defendant received any benefits from the district, such as sales revenue. Finally, the fourth factor considered whether the

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[16] *In re Cray*, 871 F.3d 1355, 1361 (Fed. Cir. 2017).

[17] See, e.g., comments from Congressmen Issa and Goodlatte in the House Subcomittee on Courts, Intellectual Property and the Internet, July 13, 2017 (https://judiciary.house.gov/hearing/impact-bad-patents-american-businesses/).

[18] *Raytheon Co. v. Cray, Inc.*, 258 F.Supp.3d. 781 (ED Tex. 2017).

defendant interacted in a targeted way with any existing or potential customers in the district.

Judge Gilstrap concluded that venue was proper in *Raytheon v. Cray* primarily because the defendant had a sales representative working from home in the district. The sales representative also contacted customers using a telephone number with an Eastern District of Texas area code, and he listed that telephone number on customer invoices.

In September 2017, on a petition for writ of mandamus, the Federal Circuit vacated Judge Gilstrap's order denying transfer of venue.[19] The Federal Circuit held that Judge Gilstrap's test was not sufficiently tethered to the statutory language. Most notably, the Federal Circuit found that not requiring a physical location in the district impermissibly expands the patent venue statute.

The Federal Circuit outlined general requirements for determining whether there is a regular and established place of business for the purposes of the patent venue statute. First, there must be a physical place in the district, i.e., a physical, geographical location from which business of the defendant is carried out. Second, it must be a regular and established place of business. Business is regular if it, e.g., operates in a steady, uniform, orderly, and methodical manner. Third, it must be the place of the defendant, i.e., not solely a place of an employee.

Shortly after *Cray*, Judge Gilstrap applied the Federal Circuit's factors in denying a motion to transfer venue in *Intellectual Ventures v. FedEx*.[20] He then denied a motion by FedEx to stay the case while they petition for a writ of mandamus in the Federal Circuit.[21] Judge Gilstrap acknowledged that *Micron* and *Cray* may still leave unanswered questions in patent venue law, but indicated that he will not stay every case while we await a perfect refinement of the standards articulated in *Cray* and *Micron*.

V. UNRESOLVED VENUE ISSUES AFTER *TC HEARTLAND*

There are at least two unresolved issues to watch going forward. First, there is disagreement among some district courts as to how to determine proper venue under the first prong of § 1400(b), i.e., "the judicial district where defendant resides," when there is more than one federal district in the defendant's state of incorporation. Judge Gilstrap in the Eastern District of Texas has held that a

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

[20] *Intellectual Ventures II LLC v. FedEx Corp.*, No. 2:16-CV-00980-JRG, 2017 WL 5630023 (E.D. Tex. Nov. 22, 2017).

[21] *Intellectual Ventures II LLC v. FedEx Corp.*, No. 2:16-CV-00980-JRG, 2017 WL 6559172 (E.D. Tex. Dec. 22, 2017).

defendant incorporated in the state of Texas "resides" in *all* districts within the state.[22] Other courts have held that a corporate defendant "resides" only in the judicial district in which it maintains it principal place of business, not all judicial districts in its state of incorporation.[23] This issue is currently before the Federal Circuit on a petition for writ of mandamus.[24]

Second, there is a disagreement as to the timing of the defendant's activities for the purposes of determining venue. In *Personal Audio v. Google*, Judge Clark in the Eastern District of Texas recently found venue improper because, although Google maintained an office in the district for several years, it closed the office before the complaint was filed and no longer had a regular and established place of business in the district.[25] Applying strict statutory construction, he reasoned that venue under § 1400(b) should be analyzed based on the facts and circumstances that exist on the date suit is filed.

In *ParkerVision v. Apple*, Judge Davis in the Middle District of Florida denied a motion to transfer for improper venue where the defendant had a regular and established place of business in the district when the cause of action accrued.[26] However, the defendant closed its office several weeks before the complaint was filed and argued it was improper to reach back in time to find venue. In rejecting this argument, the court noted that that the rule proposed in *Personal Audio*, using the exact date of the filing of the complaint, was too rigid.

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[22] *Diem LLC v. BigCommerce, Inc.*, No. 6:17-CV-00186, 2017 WL 3187473 (E.D. Tex. July 26, 2017).

[23] *See, e.g., Realtime Data LLC v. Nexenta Systems, Inc.*, No. 2:17-cv-7690-SJO (C.D. Cal. Jan. 23, 2018); *Maxwell, Ltd. v. Asustek Computer Inc.*, No. 2:17-cv-7528-R (C.D. Cal. Mar. 20, 2018).

[24] *In re BigCommerce*, Appeal Docket Nos. 18-120, 18-122 (Fed. Cir. 2018).

[25] *Personal Audio, LLC v. Google, Inc.*, 280 F.Supp.3d 922 (E.D. Tex. 2017).

[26] *ParkerVision, Inc. v. Apple Inc. et al*, 3-15-cv-01477 (M.D. Fla. Mar. 8, 2018).

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General Venue Statute - 28 USC 1391

- A civil action may be brought in -
  - a judicial district in which defendant ***resides***, or
  - a judicial district in which a substantial part of events or omissions giving rise to claim occurred, or a substantial part of property that is subject of the action is situated.
- An entity deemed to ***reside*** in any judicial district in which such defendant is subject to the court's personal jurisdiction.

Patent Venue Statute - 28 USC 1400(b)

- A civil action for patent infringement may be brought in -
  - judicial district where defendant ***resides***, or
  - where defendant has committed acts of infringement and has a regular and established place of business.
- *VE Holding* (Fed Cir 1990) - "resides" interpreted as defined in § 1391.

TC Heartland Decision

- *Fourco* (US 1957) held that "resides" in § 1400(b) means state of incorporation and is not supplemented by §1391.
- Subsequent amendments to §1391 do not apply to §1400(b).
- "Resides" still means state of incorporation.

Venue After *TC Heartland*

- E.D. Texas - 37% of patent cases in 2016 down to 12% ⇩
- Delaware - 10% of patent cases in 2016 up to 22% ⇧
- Plaintiffs seeking venue options turn to second prong of §1400(b) - *where defendant committed acts of infringement and has regular and established place of business*

Attempts to Circumvent *TC Heartland*

- *Raytheon v. Cray* (ED Tex) - Judge Gilstrap
  - 4 factor test for "regular and established place of business":
    - Any physical presence in the district (property, inventory, infrastructure or people)? - *fixed physical location not required*
    - Has defendant represented, either internally or externally, that it has a presence in the district?
    - Received any benefits from the district (sales revenue)?
    - Interacted in a targeted way with any existing or potential customers in the district?

Attempts to Circumvent *TC Heartland*

- *In re Cray* (Fed Cir) - vacated *Raytheon v. Cray*
  - "Regular and established place of business" requires:
    - Physical place in district, i.e., a physical, geographical location from which business of defendant is carried out.
    - Must be a regular and established place of business (operated in steady, uniform, orderly, and methodical manner).
    - Must be a place of the defendant, i.e., not solely a place of an employee.

Unsettled Issues

- Is venue proper in *any* judicial district in defendant's state of incorporation?
- Is venue determined at the time the cause of action arises or the time the complaint is filed?