Venue Decisions and Trends Post- *TC Heartland* (March 2019 Update)

Rachel C. Hughey & Ian G. McFarland
TC Heartland

Supreme Court finds the way district courts have been evaluating venue in patent cases for 27 years is wrong
### TC Heartland

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Reference</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 U.S.C. § 1400: “[a]ny civil action for patent infringement may be brought in the judicial district, …”</td>
<td>… where the defendant resides …</td>
<td>… or where the defendant has committed acts of infringement AND has a regular and established place of business.”</td>
<td></td>
</tr>
<tr>
<td>VE Holding (1990)</td>
<td>“venue in a patent infringement case includes any district where there would be personal jurisdiction over the corporate defendant at the time the action is commenced”</td>
<td>(recognized that “wherever a corporate defendant commits acts of infringement and has a regular and established place of business, it will necessarily be subject to personal jurisdiction there”)</td>
<td></td>
</tr>
<tr>
<td>TC Heartland (2017)</td>
<td>“[A] domestic corporation ‘resides’ only in its State of incorporation for purposes of the patent venue statute.”</td>
<td>???</td>
<td></td>
</tr>
</tbody>
</table>
TC Heartland – “resides”
TC Heartland – “resides”
TC Heartland – “resides”
TC Heartland – “resides”
TC Heartland

• If suit is not brought in defendant’s state of incorporation, then two elements must be satisfied for venue: (1) “committed acts of infringement” and (2) a “regular and established place of business” in the chosen district
  • 28 U.S.C. § 1400(b)
Venue Post-TC Heartland

Filing trends
Choice of Venue Has Changed

Source: Lexmachina 2017 Patent Litigation Year in Review
Choice of Venue Has Changed

Choice of Venue Has Changed

Case Filings One Year Prior to TC Heartland Versus Filings One Year After TC Heartland

Case Filings 1 Year Prior
(May 23, 2016 – May 22, 2017)

Case Filings 1 Year After
(May 23, 2017 – May 17, 2018)

Choice of Venue Has Changed

Figure 15: Grant rate of motions to transfer, E.D. Tex. vs national, motions filed within 180 days of TC Heartland

Source: Lexmachina 2017 Patent Litigation Year in Review
Venue Post-TC Heartland

Federal Circuit considers what it means to “commit[] acts of infringement” and have a “regular and established place of business” ... aka the In re cases
Venue Analysis Post-TC Heartland

• Analysis under 28 U.S.C. § 1400(b):
  • there must be a **physical place** in the district,
  • it must be a **regular and established** place of business, and
  • it must be the place of the defendant
    o *In re Cray, Inc.*, 871 F.3d 1355 (Fed. Cir. 2017)

• “Regular and established place of business”:
  • “A business may be ‘regular,’ for example, if it operates in a steady, uniform, orderly, and methodical manner. In other words, sporadic activity cannot create venue.”
  • “[T]he defendant must establish or ratify the place of business. It is not enough that the employee does so on his or her own.”
    o *In re Cray, Inc.*, 871 F.3d 1355 (Fed. Cir. 2017)
It’s Official: The Law Changed

The prevailing law on venue **changed**

- **In re Micron Technology, Inc.,** 875 F.3d 1091 (Fed. Cir. 2017)
  “We conclude as a matter of law . . . [that the] 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 lack of venue.”

- **In re Oath Holdings Inc.,** 908 F.3d 1301 (Fed. Cir. 2018)
  “The district court's principal ground for [finding waiver], however, rests on its failure to follow our directly controlling *Micron* precedent addressing the issue of waiver under Rule 12(g)(2) and (h)(1) as applied to *TC Heartland*'s rejection of this court's earlier, longstanding *VE Holding* precedent.”

  - See also *Realtime Data v. Hewlett Packard*, 6:18-383,-384 (E.D. Tex. Sep. 24, 2018) (“[F]orfeiture inquiry should begin and focus on a defendant’s post- *TC Heartland* conduct”)


It’s Official: The Law Changed

… although the court still has discretion

- *In re Telebrands*, No. 18-140 (Fed. Cir. Aug. 15, 2018) (denying defendants’ petition for mandamus because of the parties’ history of litigating their disputes before the Eastern District of Texas; gave deference to the district court’s finding that defendants waived their venue defense; finding defendants could raise their venue challenge after final judgment)

  - See also *Red Carpet Studios v. Midwest Trading Group*, 1:12-501 (S.D. Ohio Sep. 10, 2018) (finding defendants forfeited their venue objection by waiting 6 months after the decision in TC Heartland to file their motion)
Venue Post-TC Heartland

- Plaintiffs bear the burden of establishing proper venue
  - *In re ZTE (USA) Inc.*, 890 F.3d 1008 (Fed. Cir. 2018)
    
    “Section 1400(b)”s intentional narrowness supports placing the burden of establishing proper venue on the Plaintiff.”

- No impact on foreign defendants
  - *In re HTC Corp.*, 889 F.3d 1349 (Fed. Cir. 2018)
    
    “[T]his court . . . will not broadly upend the well-established rule that suits against alien defendants are outside the operation of the federal venue laws.”

- See also *AU Optronics Corp. of Am. v. Vista Peak Ventures*, 4:18-4638 (N.D. Cal. Feb. 19, 2019) (”[T]he Federal Circuit has expressly permitted [patent] suits under the alien-venue rule against foreign corporations . . . . TC Heartland does not alter this conclusion.”)
In states with multiple judicial districts, a corporation can only reside in one judicial district.

- *In re BigCommerce, Inc.*, 890 F.3d 978 (Fed. Cir. 2018)
  
  “A domestic corporation incorporated in a state having multiple judicial districts ‘resides’ ... 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”

- See also *Frac Shack Inc. v. Alaska Fuel Dist.*, 1:18-660 (W.D. Tex. Jan. 29, 2019) (granting motion to transfer case to a different division within the same district under § 1404(a))
The Federal Circuit is beginning to deny more mandamus petitions


Venue Post-TC Heartland

District courts put the pieces together
What constitutes a “regular and established place of business”?

- operating multiple retail stores in the district (YES)
- using Amazon Warehouse for storage and fulfilment
- selling products through third-party retail distributors
- registering to do business in a foreign state
- providing maintenance services for owners of stadium
- having a subsidiary headquartered in the district (??)

Deere & Co. v. AGCO Corp., 1:18-827, 828 (D. Del. Jan. 9, 2019) (“neither the Supreme Court nor the Federal Circuit has ruled on whether a defendant’s subsidiary’s ‘place of business’ could be one that ‘the defendant has’ for purposes of § 1400(b).”)
What constitutes a “regular and established place of business”?

- employees working from their personal residences (??)

*In re Cray* elements and sub-factors

- *Khan v. Hemosphere, 1:18-5368 (N.D. Ill. Jan. 23, 2019)* (No because corporations did not contribute to employees’ housing)

- *Zaxcom v. Lectrosonics, 1:17-3408 (E.D.N.Y. Feb. 1, 2019)* (No because corporation did not own/lease/control employee’s home office nor condition his employment on continued residence)

- *But see RegenLab v. Estar Techs., 1:16-08771 (S.D.N.Y. Aug. 15, 2018)* (denying venue motion when evidence demonstrated defendant wanted employee to live there and contact customers in district)
Venue Post-TC Heartland

What constitutes a “regular and established place of business”?

- a virtual space
- electronic communications
- servers / data centers (??)

- *Treehouse Avatar v. Valve Corp.*, No. 15-427 (D. Del. 2017) (location of online video game provider’s customers' servers within the district was "too remote to establish the physical presence required")


Venue Post-TC Heartland

Must there be a nexus between the “regular and established place of business” identified and the “acts of infringement” alleged in the district?

- Probably not
Venue Post-TC Heartland

What does committed “acts of infringement” mean?

- Acts of direct or indirect infringement, as alleged in complaint
  
  - *Symbology Innovations, LLC v. Lego Sys., Inc.*, 158 F. Supp. 3d 916 (E.D. Va. Sept. 28, 2017) (“The acts of infringement required to support venue in a patent infringement action need not be acts of direct infringement, and venue does lie if the defendant only induced the infringement or contributed to the infringement’ in the forum.”)
  
  - *Am. GNC Corp. v. GoPro, Inc.*, No. 18-968 (S.D. Cal. Nov. 6, 2018) (“A complaint’s well-pled factual allegations of infringement may satisfy the requirement in Section 1400(b)’s second clause.”)
Does this decision impact declaratory judgment venue?

• No

  o *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (1990) ("It has long been held that a declaratory judgment action alleging that a patent is invalid and not infringed—the mirror image of a suit for patent infringement—is governed by the general venue statutes, **not** by § 1400(b).")

  o *Shure, Inc. v. ClearOne, Inc.*, No. 17-3078 (N.D. Ill. March 16, 2018) (applying *TC Heartland* for infringement action; conducting separate analysis for declaratory judgment action)
Venue Post-TC Heartland

When must the defendant have a regular and established place of business?

• At the time the lawsuit is filed
  o *Level Sleep LLC v. Dormeo N.A., LLC*, 2:18-120 (E.D. Tex. Feb. 1, 2019) (“Plaintiffs have not established that Defendants should be held amenable to suit four months after their lease in this district expired.”)

• At the time the claim accrued & filed within a reasonable time thereafter
What about residency of related entities?

• Courts recognize alter-ego and veil piercing, but standard is high
  
  o *Bristol-Meyers Squibb Co. v. Aurobindo Pharma USA, Inc.*, Nos. 17-374, -379 (D. Del. Oct. 18, 2018) (“Corporate residency . . . may be imputed if entities had freely disregarded their separateness – e.g., where one corporation acts as the alter ego of the other or if corporate veil is pierced.)

  o *Interactive Toy Box v. Walt Disney Co.*, 1:17-1137 (W.D. Tex. Oct. 24, 2018) (no venue because Disney’s retail stores in Austin were owned and operated by separate corporation, and public statements about “Disney-owned stores” was insufficient to meet alter ego standard)
Venue Post-TC Heartland

What about ANDA?

• Submission of ANDA or other acts the applicant non-speculatively intends to take if its ANDA receives final FDA approval (D. Del.)

  o *Bristol-Meyers Squibb Co. v. Aurobindo Pharma USA, Inc., Nos. 17-374, -379 (D. Del. Oct. 18, 2018)* (“By filing a Hatch-Waxman patent infringement action, Plaintiffs obtained the benefit of the automatic 30-month stay of FDA approval of [Defendant’s] ANDA, a benefit to which Plaintiffs would not have been entitled if their cause of action were anything other than a claim for patent infringement.”)

• The forum “where the ANDA submission itself was prepared and submitted” (N.D. Tex.)

  o *Galderman Labs., L.P. v. Teva Pharm. USA, Inc., 290 F. Supp. 3d 599 (N.D. Tex. 2017)*
Venue Post-TC Heartland

What about pendant venue?

• Okay (M.D. Fla.)
• Nope (D. Minn., N.D. Cal., S.D.N.Y, W.D. Wash., C.D. Cal.)

    (“Every court that has addressed the issue following TC Heartland . . . has found that there is no ‘pendent’ venue over a patent infringement claim unless there is ‘original’ venue over a separate patent-infringement claim under § 1400(b).”)
Venue Post-TC Heartland

- Requesting Venue Discovery?
  - Not frivolous = okay
  - Frivolous = nope
Questions?

Contact us:
Rachel Hughey, rhughey@merchantgould.com
Ian McFarland, imcfarland@merchantgould.com