



TC Heartland – one year on

With the one-year anniversary of *TC Heartland v Kraft Foods*, the impact of the Supreme Court of the US' landmark patent venue decision becomes clearer. **Eric M Acker, John R Lanham and Reid R Gardner** explain

One year on from the Supreme Court of the US' decision, it comes as no surprise that, the patent docket in the Eastern District of Texas has shrunk, though it still remains a leading forum for newly-filed suits. The District of Delaware supplanted the Eastern District of Texas as the top forum for new patent litigation, and it is likely to remain a top venue choice at the same time that vacancies from the Delaware bench strain the district's resources. We review the specific number of cases being filed in the key patent litigation districts and the impact of those numbers on how quickly cases are being resolved. We also examine several trends emerging in the application of *TC Heartland* by district courts and the Federal Circuit.

By now, the general implications of *TC Heartland* among patent litigators are well known. In a unanimous decision, the Supreme Court found that the patent venue statute, 28 USC § 1400(b) – not the general venue statute, 28 USC § 1391(c) – supplies the venue rules for patent infringement cases. Under the general venue statute, residence for defendant legal entities is coextensive with personal jurisdiction. The patent venue statute, in comparison, provides that an action may be brought only in the judicial district where (1) the

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defendant resides or (2) where the defendant has committed acts of infringement *and* has a regular and established place of business. A subsequent Federal Circuit decision, *In re Cray*, defined the “regular and established place of business” test to require “a physical place, of business, of the defendant.”

Patent litigation trends post-TC Heartland

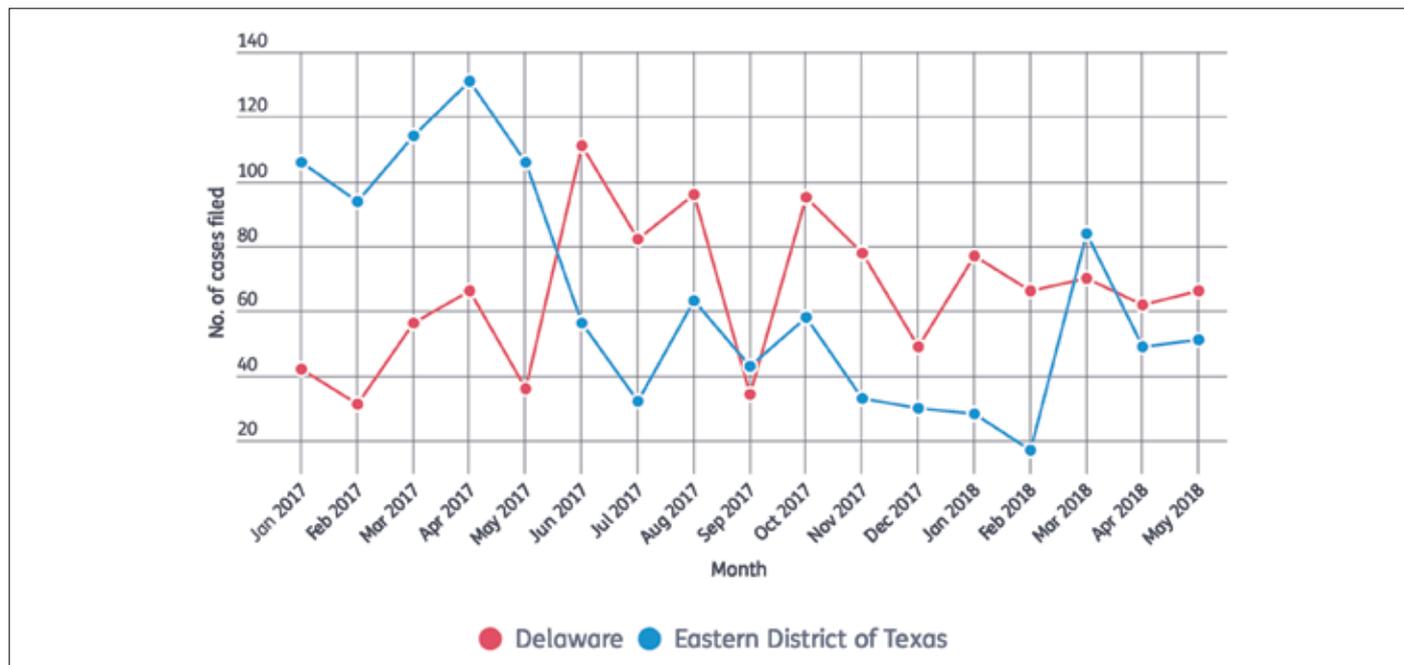
Before the *TC Heartland* decision, the leading patent litigation venues were, in order, the Eastern District of Texas, the District of Delaware, the Central District of California, and the Northern District of California. While each of those districts remains a top choice for patent plaintiffs, their order has changed in ways that will impact the litigation landscape for years to come. Just prior to *TC Heartland*, the Eastern District of Texas saw an average of over 100 patent cases filed per month. Immediately after *TC Heartland*, the docket dropped below 60 new cases per month. After the *In re Cray* decision, new patent cases in the Eastern District of Texas dropped even further to below 40 per month. Although recently there has been an uptick in Eastern District case filings, the overall trend appears decidedly lower for the Eastern District (see figure 1).

Delaware

Meanwhile, the District of Delaware has seen nearly the inverse impact. Since more than 1.2m legal entities – and nearly 67% of Fortune 500 companies¹ – are incorporated in Delaware, many defendants are subject to venue there under the place of incorporation test. New

Figure 1: Patent case filings, by month

Source: LegalMetric



patent cases in the District of Delaware jumped from under 40 filings in May 2017 to over 100 filings in June 2017, immediately after the *TC Heartland* decision, though recent months have seen a downward trend in new filings. The Delaware patent docket has grown sufficiently to have an impact on the national statistics for patent litigation. In the year prior to *TC Heartland*, Delaware handled 12.3% of the patent cases in the country. In the year after, Delaware's docket increased to 23.5% of the country's patent cases.²

The shift of caseload to the District of Delaware will have a real-world impact on litigants. The Eastern District of Texas has resolved patent cases faster than any other popular forum, attributable in part to tighter case schedules and a faster timetable at each major step of the patent litigation process, although this pace has slowed in recent years as the caseload in the Eastern District of Texas impacted case schedules. Delaware's patent litigation process has historically been slower than the Eastern District of Texas. Moreover, Delaware has lost two of its four district court judges: Judge Robinson retired in the summer of 2017, and Judge Sleet has reassigned much of his docket in advance of his retirement later this year. Maryellen Noreika and Colm Connolly have been nominated to fill the Delaware vacancies and have completed their confirmation hearings but, as of the time of this article, the confirmation process for those nominees is ongoing. To help manage its caseload in light of these changes, the District of Delaware is relying more heavily on its magistrate judges and has enrolled a group of

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district and appellate judges from other federal districts to sit by designation. At least for the short term, then, parties to Delaware litigation are faced with the potential of slower and less consistent case progress.

California

California venues have likewise seen changes, though less dramatic than the shift between Texas and Delaware. Prior to *TC Heartland*, the Central District held a consistent lead in patent filings over the Northern District (perceived by some as less friendly to patent plaintiffs).

Following the Supreme Court's decision, both Northern District and Central District filings have seen a marked increase, with the Northern District starting to close the gap with the Central District. Comparing the year before *TC Heartland* with the year after, the Central District docket increased from 6.1% to 9.0% of the country's patent cases filed. The Northern District docket increased from 3.4% of patent filings to 7.4%.³

LegalMetric data on time to various case milestones is largely consistent with the shift in filing volume. For example, the time to summary judgment in Delaware patent cases has gone from an average of 30.5 months pre-*TC Heartland* to over 45 months following the decision. The Central District of California has seen a more modest increase in the timetable from an average of 18.1 months to an average of 23.4 months, while the Eastern District of Texas and Northern District of California have experienced slightly faster paths to summary judgment – 24.7 down to 20.7 months and 24.1 down to 19.5 months, respectively.

In another notable result from analysis of patent litigation trends, *TC Heartland* may not be merely shuffling caseloads between venues but may actually be driving down the overall volume of patent litigation. The more restrictive venue rules will often force patent-holding companies and non-practising entities to pursue multiple defendants in districts across the country, rather than suing batches of defendants in a single district. Lex Machina's statistics reflect a nearly 80% drop in filings by “high volume” plaintiffs post-*TC Heartland* (23 May 2017 to 11 April 2018)

as compared to the same period prior to *TC Heartland*.⁴ While it is too early to make a final determination, and while the Supreme Court's decision is unlikely to be the sole cause for this drop, the data nonetheless suggests that aggressive patent plaintiffs may be less active in a post-*TC Heartland* world.

The more restrictive venue test required under *TC Heartland* has also led to increased focus on the established place of business test, with a developing body of case law. We examine some emerging trends below.

Foreign corporate entities

The Supreme Court's *TC Heartland* opinion expressly declined to reach the issue of venue for foreign corporations or the court's prior holding on foreign corporation venue under *Brunette Machine Works Ltd v Kockum Industries, Inc* (S Ct 1972), leading to some uncertainty over where foreign companies could be sued. The Federal Circuit has now provided guidance. Denying a writ of *mandamus* in *In re HTC Corporation* (Fed Cir 2018), the Federal Circuit held that foreign corporations sued for patent infringement are subject to the nationwide venue provisions of Section 1391(c)(3), rather than the patent-specific venue statute Section 1400(b). *In re HTC* raises similar questions of Supreme Court precedent and statutory interpretation as *TC Heartland*, and it is possible that the issue of patent venue may once again appear before the Supreme Court. For the time being, however, foreign corporations should assume that they may be subject to a patent suit in any district that has personal jurisdiction with respect to the action.

Developing venue case law

In general, district court decisions since *In re Cray* have narrowly interpreted the "established place of business" test for venue in a patent suit. For example, in *Post Consumer Brands, LLC v General Mills, Inc* (ED Mo 2017) and *Unity Opto Tech Co v Lowe's Home Centers LLC* (WD Wis. 2018), courts rejected plaintiffs' arguments that defendants were subject to venue based on the presence of a corporate affiliate. In *General Mills*, the court found no venue based on the presence of an affiliate's factory, even where the defendant had its name on the factory and associated itself with the factory in regulatory filings. In *Lowe's*, the court found no venue over one of the defendants even where it was a corporate affiliate of another defendant (which was subject to venue) and worked closely with that defendant. Similarly, in *Precision Fabrics Group, Inc v Tietex Int'l Ltd* (MDNC 2017), the court applied *Cray* and found no venue based on a home office of defendant's employee in

the district. It appears that courts will continue to strictly construe Section 1400(b) to require physical presence of the defendant entity itself.

Indeed, since *TC Heartland*, courts have ruled in favour of plaintiffs in very few patent cases contesting venue. In two exceptions, the Eastern District of Texas denied motions to dismiss for venue in *American GNC Corp v ZTE Corp* (ED Tex 2017) and *GEODynamics, Inc v DynaEnergetics US, Inc* (ED Tex 2017). But the Federal Circuit vacated the *American GNC Corp* decision, holding that the district court failed to fully consider the factors related to venue. In *GEODynamics*, the Eastern District denied the defendant's motion to dismiss based on a narrow circumstance in which the corporation's president seemingly indicated in a prior case between the two parties that the defendant corporation has or is planning a presence in the district.

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For the most part, courts have carefully avoided a "liberal construction" of Section 1400(b) and dismissed cases where venue is in question. Courts have found that venue is not established by a local phone number printed on an employee's business cards,⁵ limited quantities of promotional literature in employees' home offices,⁶ online services using a third party-controlled server,⁷ a remotely controlled billboard,⁸ and leased shelf space in the district.⁹ Note, however, that the defendant's physical presence in the district may not necessarily need to be connected with the acts of infringement for venue to apply. In *Plexikon Inc v Novartis Pharm Corp* (ND Cal 2017), defendant was alleged to lease and operate two facilities within the district, though defendants argued that there was

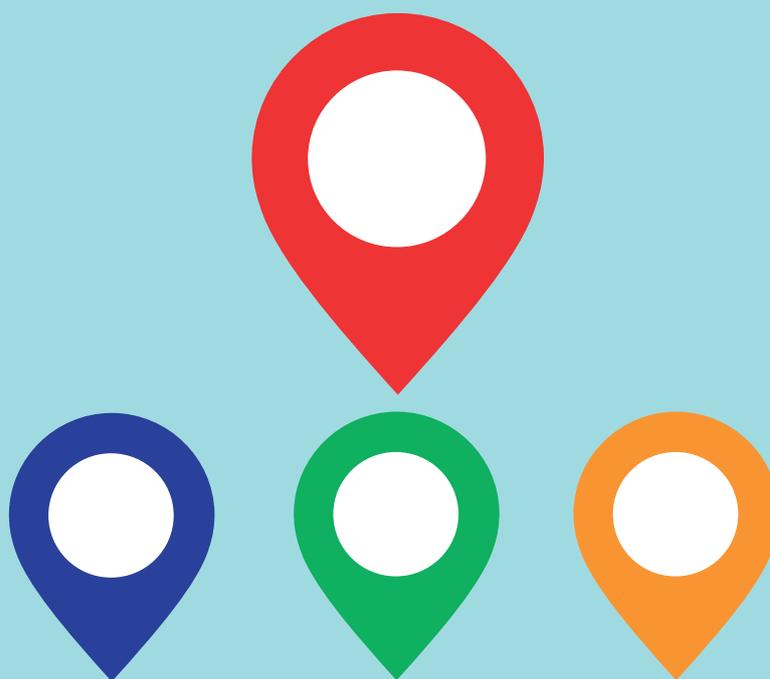
no connection between the alleged acts of infringement and those facilities. The court declined to read a "nexus" requirement into Section 1400(b) and denied defendants' venue challenge.

Furthermore, under the place of incorporation test, the Federal Circuit recently held that venue is only appropriate in the district of incorporation, rather than in any district in the state.¹⁰ If the company has a physical headquarters within the state, that will identify the district of incorporation. But, if it does not, the Federal Circuit has instructed courts to look to the location of the company's registered office for purposes of incorporation. This ruling provides another basis for defendants seeking to transfer a case out of the Eastern District of Texas and will also have significant impacts on venue selection for California companies.

Finally, federal courts will be faced with new venue challenges for declaratory judgment actions. *Under VE Holding Corp v Johnson Gas Appliance Co* (Fed Cir 1990), which was overruled in part by *TC Heartland*, "[i]t 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)." Similarly, Section 1400(b) applies to "civil action[s] for patent infringement," rather than actions for declaratory judgment. Should this standard continue to apply, an accused infringer could seek an appropriate (and favourable) venue under the broader general venue rules by seeking declaratory judgment before being sued for infringement. A patent holder could likewise attempt to structure its suit as a declaratory judgment action to alter the venue rules. While declaratory judgment actions bring their own standing and jurisdictional challenges, they may provide a different venue path for creative litigants.

The Hatch-Waxman dilemma

TC Heartland has triggered a split of authority for venue in generic drug patent litigation. The Hatch-Waxman Act provides a process through which generic drug companies can file an Abbreviated New Drug Application (ANDA) to secure approval to market a generic version of a brand-name drug. The Act creates an artificial act of infringement for generic companies that use the ANDA process to certify that patents associated with the brand-name drug are invalid, not enforceable, or not infringed by the drug at issue. The brand-name drug sponsor may then sue the generic company for patent infringement, prior to any manufacture or sale of the generic product taking place. However, Section 1400(b)



provides for venue only where “defendant *has committed* acts of infringement and has a regular and established place of business.” The incongruity between the pre-manufacture posture of ANDA litigation and the past-tense verb in the patent venue statute has led to split authority over where the lawsuit may be filed.

Recent cases from the District of Delaware and District of New Jersey hold that the “has committed” test is satisfied when the ANDA applicant plans to market the generic drug within the district. In *Bristol-Myers Squibb Co v Mylan Pharm Inc* (D Del 2017), Judge Stark of the District of Delaware characterised the inconsistency between the ANDA procedure and the language of the patent venue statute as “an almost impenetrable problem”. After comparing the purpose of the two laws, and relevant Federal Circuit authority, Judge Stark determined that the ANDA filer’s “future, intended acts must be included as part of the ‘acts of infringement’ analysis for purposes of determining if venue is proper under the patent venue statute.” Thus, the court may consider the ANDA filer’s non-speculative plans to market the subject drug within the district. Judge Stark has since incorporated this reasoning in several other venue decisions. In *Celgene Corp v Hetero Labs Ltd* (DNJ 2018), Judge Salas in the District of New Jersey also recently adopted Judge Stark’s reasoning.

The Northern District of Texas implemented a different approach. In *Galderma Labs, LP v Teva Pharm USA, Inc* (ND Tex 2017), Chief

Judge Lynn considered the standard adopted in the District of Delaware but focused on Congress’s past tense use of “has committed”. Applying this language, the court concluded that future marketing plans should not be considered for venue, which instead should be determined by looking to where the ANDA submission itself was prepared and submitted. As of the time of this article, the narrower *Galderma* venue standard has not been applied in other courts but has been cited in briefings on pending venue motions in other districts. If adopted more broadly, the *Galderma* standard could effectively limit Hatch-Waxman litigation venues to the generic company’s place of incorporation or place of ANDA filing preparation. More case law, and possibly Federal Circuit intervention, will be necessary to resolve this split.

Footnotes

1. Delaware Division of Corporations 2016 Annual Report, available at <https://corp.delaware.gov/2016AnnualReport.pdf>
2. Data courtesy of LegalMetric.
3. *Id.*
4. Lex Machina defines a “high-volume plaintiff” as a party has filed at least 10 patent cases (excluding ANDA cases) within a 365-day period.
5. *Nike, Inc v Skechers USA, Inc*, No 3:16-CV-007-PK, 2017 US Dist LEXIS 217302, at *20-21 (D Or 14 November 2017).
6. *Regents of Univ of Minnesota v Gilead Scis, Inc*, No 16-CV-2915 (SRN/HB), 2017 US Dist LEXIS

174093, at *23 (D Minn 20 October 2017).

7. *Pers Audio, LLC v Google, Inc*, 280 F Supp 3d 922, 934-35 (ED Tex 2017).
8. *Lites Out, LLC v OutdoorLink, Inc*, No 4:17-CV-00192, 2017 US Dist LEXIS 181917, at *11 (ED Tex 2 November 2017).
9. *Peerless Network, Inc v Blitz Telecom Consulting, LLC*, No 17-CV-1725 (JPO), 2018 US Dist LEXIS 49628, at *11 (SDNY 26 March 2018).
10. *In re BigCommerce, Inc*, 890 F.3d 978, 986 (Fed Cir 2018).

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