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'Place Of Business' To Be New Patent Venue Battleground

By **Ryan Davis**

Law360, New York (May 26, 2017, 8:57 PM EDT) -- Following the U.S. Supreme Court's decision limiting where patent suits can be filed, attorneys foresee heated battles in court over what constitutes a company's "place of business" for venue purposes, as patent owners aim to blunt the ruling's impact and keep cases in their favored districts.

Under the patent venue statute, suits can be filed where the defendant resides or where it has infringed and has a "regular and established place of business." The Federal Circuit had held since 1990 that a company "resides" just about anywhere it makes sales, but the Supreme Court ruled May 22 that the term refers only to where it is incorporated.

The Federal Circuit's interpretation of residence was so broad that for decades, courts rarely needed to analyze the alternative "place of business" part of the venue statute. But the phrase is open to interpretation, and patent owners will now likely do whatever they can to argue that accused infringers have a place of business in reputedly plaintiff-friendly venues like the Eastern District of Texas.

"There was no litigation and no case law on it for 30 years, but now I think it will be a very important issue," said S. Gregory Herrman of Blank Rome LLP. "People are going to be looking for another venue besides the place of incorporation, and there is some uncertainty here for sure. It will give plaintiffs more options when trying to decide where to file a case."

Under the high court's ruling in TC Heartland v. Kraft Foods, patent suits can clearly be filed where the accused infringer is incorporated, which for most companies is Delaware. According to the Delaware Division of Corporations, 66 percent of all publicly traded companies are incorporated in the state, which is expected to see a surge in new patent suits following the ruling.

For patent owners who don't want to sue in Delaware, due either to concerns about a swelling docket or because they want to be in a court they view as more sympathetic to their case, the "place of business" prong of the venue statute provides ample opportunities for legal wrangling. It's possible that a company could have multiple regular and established places of business, permitting it to be sued in many districts.

While many observers have predicted that the TC Heartland decision will dramatically limit where patent suits can be filed, Edward Reines of Weil Gotshal & Manges LLP said that view overstates the effect of the ruling.

"So many of the prognostications have been more sweeping than I think is justified by the situation," he said, adding that "there has been a perception of narrowness of the second prong that is not what I anticipated."

While there is little case law on what satisfies the regular and established place of business prong of the patent venue statute, the precedent that does exist interprets the phrase quite broadly. The Federal Circuit ruled on the issue in a 1985 case known as In re: Cordis Corp., which held that a regular and established place of business does not even need to be a physical location.

“The appropriate inquiry is whether the corporate defendant does its business in that district through a permanent and continuous presence there and not ... whether it has a fixed physical presence in the sense of a formal office or store,” the court wrote.

The court held that Cordis had a place of business in the District of Minnesota and could be sued there because it employed two salespeople who worked from home and kept inventory in their houses in the district. Five years later, the Federal Circuit adopted its broad view of residence for patent venue in a case known as VE Holding, and place of business became a non-issue.

Following the high court's decision, the issue will now come roaring back, as patent owners try to identify any aspects of a defendant’s operations that could be interpreted as giving them a place of business in the Eastern District of Texas — which sees by far the most patent suits of any district — or other districts viewed as favorable to patentees.

"Plaintiffs will look at every potential contact, no matter how remote," said Hector Gallegos of Morrison & Foerster LLP.

Patent owners will zero in on stores, warehouses, regional offices or other locations a company has in a given district that could be used to establish venue, as well as remote salespeople or other non-physical connections to the district like those in Cordis.

"A big physical establishment that you own is probably a regular and established place of business, being permanent and where you do business," said John Murphy of BakerHostetler. "All the in-between cases are where it gets tricky."

Plaintiffs seeking a broad interpretation of venue rules will likely lean heavily on the Cordis case, but it is important not to read too much into that decision, Reines said.

“One needs to be careful not to confuse regular and established place of business with regularly doing business,” he said.

While the Eastern District of Texas is often portrayed as a remote outpost where few companies sued for patent infringement actually have ties, some major companies like Ericsson, JCPenney and Frito-Lay have headquarters within the district in Plano, Texas, and the district has major facilities for several other large corporations.

One of the companies that is sued most often in the Eastern District of Texas, Apple Inc., has a few Apple Store retail outlets in the district that could potentially give rise to venue for the many patent suits involving iPhones and iPads.

For companies that don't have their own dedicated shops and sell their products through national chains or other third-party businesses, it may be difficult for plaintiffs to argue that the sales made by a defendant in a given district constitute a "place of business."

"I think the historical cases tend to support the idea that if a defendant owns and operates a physical facility in a district, that is a regular and established place of business," Murphy said. "It gets to be more of a question mark situation when the facility selling the product is not owned and operated by the defendant."

The fact that the most relevant Federal Circuit precedent on the place of business issue is from 32 years ago will present complications for courts grappling with the issue going forward. For instance, the Cordis decision predates modern business practices like the internet.

Existing decisions were "squarely in the context of brick and mortar locations," Gallegos said. "They did not address e-commerce business models, which will be a fertile area for litigation."

Attorneys expect enterprising plaintiffs to argue that since anyone can buy products through a company's website, that company has a place of business everywhere. They may point to the holding in Cordis that a physical presence is not required to argue that a virtual presence is enough. That will meet fierce resistance from defendants whose business is primarily online, and may be a stretch for judges to accept.

"Regular and established place of business connotes that the defendant has a place in the district that's real," Murphy said. "But it could make for very interesting and difficult disputes."

For the time being, plaintiffs may look to Delaware when filing patent suits, since the vast number of companies incorporated there will keep venue disputes from arising. That may change as the law on what constitutes a place of business becomes clearer, if it becomes evident that the Supreme Court's ruling is not as restrictive on venue as many expect, Reines said.

"The law on regular and established place of business has atrophied over the years after VE Holding, but it's going to be brought up to the internet era in the coming months and years, and a lot is going to be learned from that," he said.

The case is TC Heartland LLC v. Kraft Food Brands Group LLC, case number 16-341, in the Supreme Court of the United States.

--Editing by Philip Shea and Breda Lund.
