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Northern California Poised for Patent Suit Resurgence

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Since 2010, the Northern District of California has been a top five patent dispute venue by percent of nationwide suits filed in the district.[1] This makes sense, given that California, and the Northern District in particular, is an important hub for business and technology. Among large states, California has the highest Startup Activity according to the Kauffman Index.[2] The Kauffman Index also ranks California 9th regarding established small business activity, and 11th regarding the rate at which new businesses grow.[3] In addition to its startup and small business activity, in 2015 California hosted the second highest number of Fortune 1000 companies in the United States, and the third highest number of Fortune 500 companies.[4]

Within the Northern District, the Kauffman Index ranks San Francisco and San Jose as the 14th and 16th most active metropolitan areas for startup activity. Of the 101 Fortune 1000 companies in California in 2015, 62 were located in the bay area. While the bay area is known for its Silicon Valley technology companies, it also hosts a diverse range of life sciences and financial services businesses.

It makes sense for a district with a dense and diverse array of businesses to be a major patent dispute venue. The Northern District's share of the nation's patent suits, however, has steadily declined over the last seven years. In 2010, the Northern District hosted 9 percent of the nation's patent disputes. By 2016 that number had been more than halved to 4 percent. It may seem counterintuitive that the district's share of patent lawsuits declined over the same period that the overall number of patent suits substantially increased. The reason, however, is clear: most plaintiffs filed their patent suits in the Eastern District of Texas.

Plaintiff's ability to choose the Eastern District of Texas as the forum for suit, however, has been complicated by the recent Supreme Court decision *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*.[5] The decision changed the standard for securing venue in patent cases, and is widely thought to have made securing venue in the Eastern District more difficult. While the precise extent of *TC Heartland*'s effect on the Eastern District is not yet clear, what is clear is that many of the patent disputes that would have been filed in the Eastern District must now be filed elsewhere or face dismissal. The Northern District, for the reasons discussed in this article, can expect an increase in patent cases as the nation's patent disputes are redistributed in light of *TC Heartland*.

The Eastern District of Texas

Several factors explain the prominence of the Eastern District in patent litigation disputes. Since 2000, plaintiffs in the Eastern District have gone to trial in an average of 768 days, which is 47 days faster than the national average. A compressed schedule puts increased pressure on defendants, which can give plaintiffs an edge in settlement negotiations. The district's damages awards are also very high compared to the national average. From 2000 to 2017, the national average for the reasonable royalty awarded to victorious plaintiffs was $29.5 million. In the Eastern District, it was $50.1 million. Likewise, the national average for general damages awarded to a winning plaintiff was $3.5 million, which is about one third of the $9.8 million the average winning plaintiff in the Eastern District was awarded.

Finally, the Eastern District's reputation for plaintiff-friendly jurors and procedures has played a role in its prominence. Of particular note is the district's well-known local rule that requires parties to seek permission before filing for summary judgment. This rule,

coupled with the district's low summary judgment grant rate, reduces the risk to plaintiffs that their suits will be defeated or truncated before trial.[6]

TC Heartland

For the last 27 years, a broad interpretation of the word "residence" in the first prong of the patent venue statute has made venue proper virtually anywhere a product accused of infringement was sold.[7] This often includes the Eastern District of Texas, especially for companies that sell products over the Internet. The Supreme Court's recent decision in *TC Heartland*, however, overturned this broad understanding of residence, which is now limited to the state of incorporation.[8] After *TC Heartland*, venue is only proper in districts where a defendant is not incorporated if plaintiffs can show the second prong of the venue statute is met because defendant "has a regular and established place of business" there.[9] Now that *TC Heartland* has curtailed the role of residence, this prong of the venue statute has taken on newfound prominence.

After *TC Heartland*, Eastern District judges were arriving at different conclusions regarding what constituted a regular and established place of business. In *Realtime Data LLC v. Acronis, Inc.*, for instance, Judge Schroeder dismissed the case for improper venue based on a report and recommendation by Magistrate Judge Love because defendant Acronis did not have a regular and established place of business in the district.[10] In the recommendation, Judge Love relied on *In re Cordis*, a 1985 Federal Circuit decision that held that to have a regular and established place of business within the district, a defendant's business activities must be "permanent and continuous."[11] Critically, the defendant did not own, lease, or rent property in the district, nor did it employ personnel in the district.[12]

Judge Gilstrap, who has by far the largest case load in the Eastern District, took a broader view. In *Raytheon Co. v. Cray, Inc.*, he developed a four factor test for determining the existence of a regular and established place of business.[13] While he listed physical presence as a factor, Judge Gilstrap explicitly noted that it was not dispositive.[14] To Judge Gilstrap, benefits defendants derive from presence in the district (including sales revenue) and their behavior in targeting the district were equally important considerations.[15] Using his test, Judge Gilstrap found that the Eastern District was a proper venue for the suit despite Cray's insistence that its only connections to the district were the private residence of a Cray employee and its reimbursement of that employee when he used personal belongings for business.

Cray petitioned for a writ of mandamus vacating Giltrap's order, which the Federal Circuit granted on September 29, 2017.[16] In its order, the Federal Circuit acknowledged the confusion surrounding the definition of "regular and established place of business."[17] The court then held that a regular and established place of business requires: (1) a physical location (2) that is a regular and established (*i.e.*, not temporary or sporadic) place of business, and (3) that the location "must be the place of the defendant" (*i.e.*, the defendant should exercise ownership or control over the property in some meaningful way).[18] Looking at the facts of the case, particularly the fact that Cray did not advertise its employee's home as a Cray location or exercise control over the home, the court held that venue was not proper in the Eastern District under the regular and established business prong of the patent venue statute.[19]

It is too early to tell exactly how the newly clarified "regular and established business" standard will affect the number of patent suits in the Eastern District. What is clear, however, is that *In re Cray*'s focus on the existence of, and control over, a physical location represents a higher barrier to establishing venue than what existed before *TC Heartland* and *In re Cray*. The overall effect of these decisions is likely a reduction in the number of patent cases filed and adjudicated in the Eastern District.

Early statistics are bearing this out. Four months after *TC Heartland*, Docket Navigator is predicting that the Eastern District will host 561 fewer patent suits this year than it did in 2016, which is 44 percent below its 2016 case load.[20] This is despite the fact that, nationwide, Docket Navigator predicts the number of patent suits to increase this year compared to last. Docket Navigator also is predicting that, by the end of 2017, defendants will file 146 venue-related motions in the Eastern District, more than double the 62 venue motions filed in 2016. Finally, according to Lex Machina, the Eastern District's percentage of nationwide patent suits for 2017 is currently sitting at 26 percent, already 11 percent below the previous year. It is clear that, to an extent not yet fully known, the Eastern District's share of patent cases is going to shrink.

California Can Expect an Increased Role after *TC Heartland*

While it remains unclear exactly how much the Eastern District's patent docket will change in light of *TC Heartland* and *In re Cray*, what is clear is that many patent cases that would have been litigated in the district before these rulings must now be filed elsewhere. Because of this, the Northern District of California is very likely to see an increase in the amount of patent disputes on its docket.

First, the Northern District has a critical mass of both established and startup businesses that, from a sheer

numbers perspective, make it likely that a plaintiff's chosen litigation target will have the type of contacts with the district that will satisfy venue. For instance, the defendants in both cases discussed above, Acronis in *Realtime Data*, and Cray in *Raytheon*, have physical locations within the Northern District of California. This makes it likely that, should the plaintiffs choose the Northern District as their Texas alternative, venue will be proper.

Second, plaintiffs may now view the Northern District as more strategically viable than they have in the past. It is a commonly held belief that the Northern District favors defendants. This can be seen, for instance, in the Eastern District's venue transfer motion statistics. In 2016, 36 percent of all transfer motions filed in the Eastern District listed the Northern District as the destination venue.[21] In 2015, the Northern District was the desired destination 44 percent of the time. Despite this pro-defendant reputation, some statistics indicate that the Northern District might actually provide some plaintiff-friendly advantages as well. Compared to the national average, Northern District patent disputes go to trial more often, result in plaintiff victories more often, and award victorious plaintiffs with higher damages.[22] These statistics, taken together with a greater likelihood of securing venue in the Northern District, are likely to increase the Northern District's strategic value in the eyes of at least some plaintiffs.

Finally, the Northern District is a historically well-regarded patent venue. Its patent local rules were the first of their kind, and have been a strong influence on the local rules of other major patent venues, including the Eastern District.[23] The Northern District also has been a busy patent venue for decades, which indicates that litigants have consistently seen value in choosing the Northern District as the host of their patent disputes.

All of these considerations make it likely that the Northern District will see an increase in patent suits as plaintiffs file in venues other than the Eastern District.

Final Thoughts

After *TC Heartland* and *In re Cray*, patent litigation is likely to concentrate in districts that contain established commerce centers and robust startup activity, that is, districts where patent defendants have physical locations and significant operations. The Northern District of California, encompassing the bay area and Silicon Valley, contains a vibrant startup hub along with many of the country's leading companies. The fact that venue often will be proper in the Northern District, coupled with its potential desirability for both plaintiffs and defendants, as well as its historical status as a major patent venue, make it likely that the district's prominence as a patent venue will only grow as the patent landscape shifts in response to *TC Heartland* and *In re Cray*.

Companies anticipating a patent dispute, as either plaintiff or defendant, should familiarize themselves with the district and their options for counsel with a reputation for success in this venue, as the likelihood of a patent dispute in the district has increased in light of 2017's venue decisions.

1. Statistic in this article come from Lex Machina, *https://lexmachina.com/* (last visited Aug. 29, 2017), unless otherwise noted.
2. The Kauffman Index, *http://www.kauffman.org/kauffman-index/rankings?report=startup-activity&indicator=se-rate&type=larger* (last visited Aug. 29, 2017).
3. The Kauffman Index, *http://www.kauffman.org/kauffman-index/profiles?loc=6&name=california&breakdowns=startup-activity|overall,main-street|overall,growth|overall* (last visited Aug. 29, 2017).
4. Caitlin Dempsey, "Geography of Fortune 1000 Companies in 2015," *Geolounge* (Jul. 25, 2015), *https://www.geolounge.com/geography-of-fortune-1000-companies-in-2015/*; Robert Hackett, "States with the Most Fortune 500 Companies," *Fortune* (Jun. 15, 2015) *http://fortune.com/2015/06/15/states-most-fortune-500-companies/*.
5. TC Heartland LLC v. Kraft Foods Grp. Brands LLC, 137 S. Ct. 1514, 1521 (2017).
6. *Id.*
7. 28 U.S.C. § 1400 (b)
8. *TC Hearland*, 137 S. Ct. at 1521.
9. 28 U.S.C. § 1400 (b). Note that *TC Heartland* makes it clear that plaintiffs have the option, as they always have, of bringing suit in the district where the defendant is incorporated. *TC Heartland*, 137 S. Ct. at 1521.
10. Realtime Data LLC v. Acronis, Inc., No. 6:17-CV-118, Dkt. No. 31 (E.D. Tex. Aug. 1, 2017).
11. Realtime Data LLC v. Acronis, Inc., No. 6:17-CV-118, Dkt. No. 29 at 2 (E.D. Tex. Jul. 14, 2017) (*quoting* In re Cordis Corp., 769 F.2d 733, 737 (Fed. Cir. 1985)).
12. Realtime Data LLC v. Acronis, Inc., No. 6:17-CV-118, Dkt. No. 29 at 3.
13. Raytheon Co. v. Cray, Inc., No. 2:15-CV-01554-JRG, Dkt. No. 298 at 22-27 (E.D. Tex. Jun. 29, 2017).
14. *Id.* at 22.
15. *Id.* at 24-26.
16. *In re Cray Inc.*, No. 2017-129, slip op., (Fed. Cir. Sep. 21, 2017).
17. *Id.* at 6.
18. *Id.* at 8-14.
19. *Id.* at 14-19.
20. Docket Navigator, *https://www.docketnavigator.com* (last visited Aug. 30, 2017).
21. Statistics in the paragraph were obtained from Docket Navigator.
22. Statistics were obtained from Lex Machina, and are the result of comparing the Northern District to the national average from 2010-current.
23. Sruli Yellin, "Inside Northern District of California's New Patent Rules," *Law 360* (Feb. 6, 2017), *https://www.law360.com/articles/887334/inside-northern-district-of-california-s-new-patent-rules*.