The Effect of *TC Heartland* on Patent Venue

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28 U.S.C. § 1400(b)

"Any civil action for patent infringement may be brought in the judicial district where the defendant **resides**, or where the defendant has committed acts of infringement and has a regular and established place of business."

VE Holding Corp. (1990)

In 1990, the Federal Circuit interpreted Congress' rewriting of a related venue statute to change the meaning of "resides" from a corporation's state of incorporation to anywhere the company was subject to personal jurisdiction.

VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (Fed. Cir. 1990).

VE Holding Corp. (1990)

- As a result of *VE Holding Corp.*, venue was assumed to be proper in essentially any district in which an entity did business in patent cases as it is all other cases under the general venue statute.
- Thus, over the past 27 years, the first option under § 1400(b) rendered the second largely moot.

TC Heartland (2017)

- On May 22 of this year, the Supreme Court set aside that interpretation and held that for domestic corporations, "resides" means only the state of incorporation.

TC Heartland LLC v. Kraft Foods Grp Brands, LLC, 2017 WL 2216934, at *3 (U.S. May 22, 2017).

Background: Venue in Patent Cases

Venue in Federal Courts in Patent Cases

- Until 2008, federal courts had broad discretion in ruling on motions to transfer, and defendants had a substantial burden to obtain a transfer.
- In 2008 in *In re Volkswagen,* 545 F.3d. 312 (5th Cir. 2008*)* (en banc) the Fifth Circuit narrowed courts' discretion and revised the analysis in substantial ways, including
  - (1) eliminating the plaintiff's choice of forum as a separate consideration; and
  - (2) revising factors in ways that made transfers easier to obtain.

Venue in Federal Courts in Patent Cases

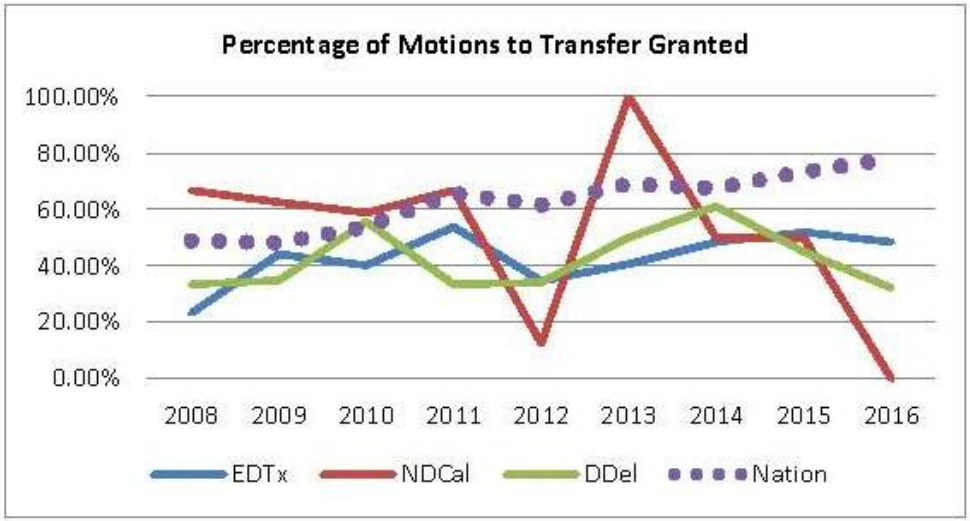
- In *In re TS Tech USA Corp.*, 557 F.3d. 1315 (Fed. Cir. 2008) the Federal Circuit applied *In re VW,* making it easier to obtain transfers in patent cases filed in Texas.
- This began several years of Federal Circuit cases establishing the current standards for motions to transfer in patent cases filed in Texas.

Transfer Rate – 2008-2016

- The transfer rate in the Eastern District of Texas rose from 23% in 2008 before *In re VW* to over 40% after *In re VW*, and by 2011 it reached approximately 50%,

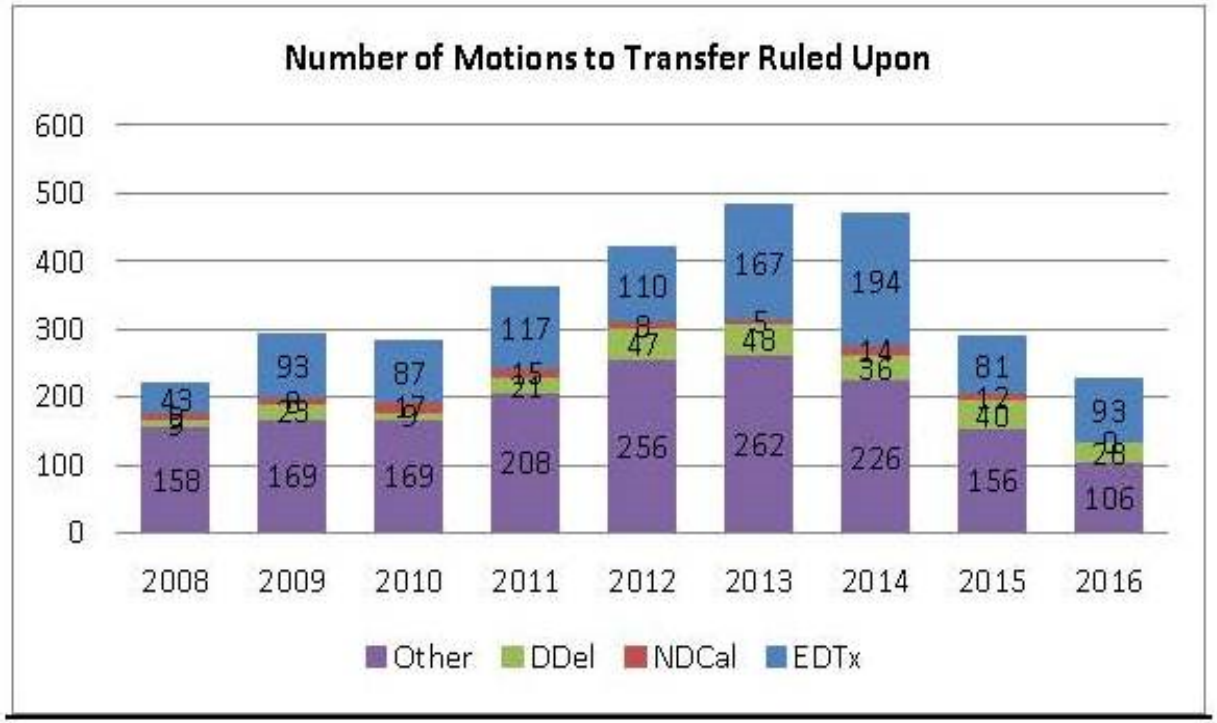
Percentage of Motions to Transfer Granted

	2008	2009	2010	2011	2012	2013	2014	2015	2016
EDTx	23.26%	44.09%	40.23%	53.85%	34.55%	40.72%	48.45%	51.85%	48.39%
NDCal	66.67%	62.50%	58.82%	66.67%	12.50%	100.00%	50.00%	50.00%	NA
DDel	33.33%	34.78%	55.56%	33.33%	34.04%	50.00%	61.11%	45.00%	32.14%
Nation	48.86%	48.12%	53.90%	65.65%	61.52%	69.09%	67.45%	73.36%	77.97%



Motions to Transfer – 2008-2016

- Beginning in 2015 the number of motions to transfer in EDTX dropped about half – from almost 200 to less than 100.



TC Heartland

TC Heartland

- In *TC Heartland*, the Court reaffirmed that as a result of its decision in *Fourco Glass Co. v. Transmirra Products Corp*., 353 U.S. 222 (1957), the term "where the defendant resides" in the patent venue statute means only the state in which the defendant is incorporated.
- The court expressly left unanswered the effect of its decision on unincorporated associations such as partnerships and limited liability corporations or foreign entities.

TC Heartland

- Where previously a corporate entity could be sued anywhere it sold or offered an accused product for sale – subject to a motion to transfer - now it can only be sued where it has a committed infringing acts and has a "regular and established place of business" or in its state of incorporation.

Effect of *TC Heartland* on Motions to Transfer

Eastern District of Texas and Beyond

Effect of *TC Heartland* on Motions to Transfer

- Within days after the decision there were reportedly 350 motions to transfer/dismiss filed in the Eastern District of Texas.
- The success rate of motions to transfer venue out of Eastern Texas in the 90-day period before *TC Heartland* was decided had been 40 percent, but that increased to 84 percent in the 90 days after *TC Heartland*.
- In all other districts, the success rate of motions to transfer venue pre-*TC Heartland* was 48 percent and rose to 70 percent post-*TC Heartland*.

Effect of *TC Heartland* on Filing Trends

Effect of *TC Heartland* on Filing Trends

- In 2016 Professors Colleen V. Chien & Michael Risch estimated what impact a stricter venue ruling in *TC Heartland* would have on district court filings. *See* *Recalibrating Patent Venue, 77 Maryland Law Review* (forthcoming 2018).
- Taking a sample of 1,000 randomly chosen patent cases from 2015, they assessed whether they could have been brought in the plaintiff's chosen venues under (1) proposed legislative changes in the patent venue statue; and (2) *TC Heartland* if the petition for mandamus was granted.

Effect of *TC Heartland* on Filing Trends

- The Chien/Risch study estimated that post a *TC Heartland* grant, NPE filings in the Eastern District of Texas would drop from 64% to 19%, and operating company cases from 78% to 46%.

Effect of *TC Heartland* on Filing Trends

Table 7: Predicted Most Popular Districts, by Reform Option

District	2015 Actual	Heartland	VENUE Act
D.Del	9%	23.8%	19.5%
E.D.Tex.	44%	14.7%	14.9%
N.D.Cal.	4%	13.0%	12.8%
C.D.Cal.	5%	6.1%	4.6%
D.N.J.	5%	5.3%	4.6%

Effect of *TC Heartland* on Filing Trends

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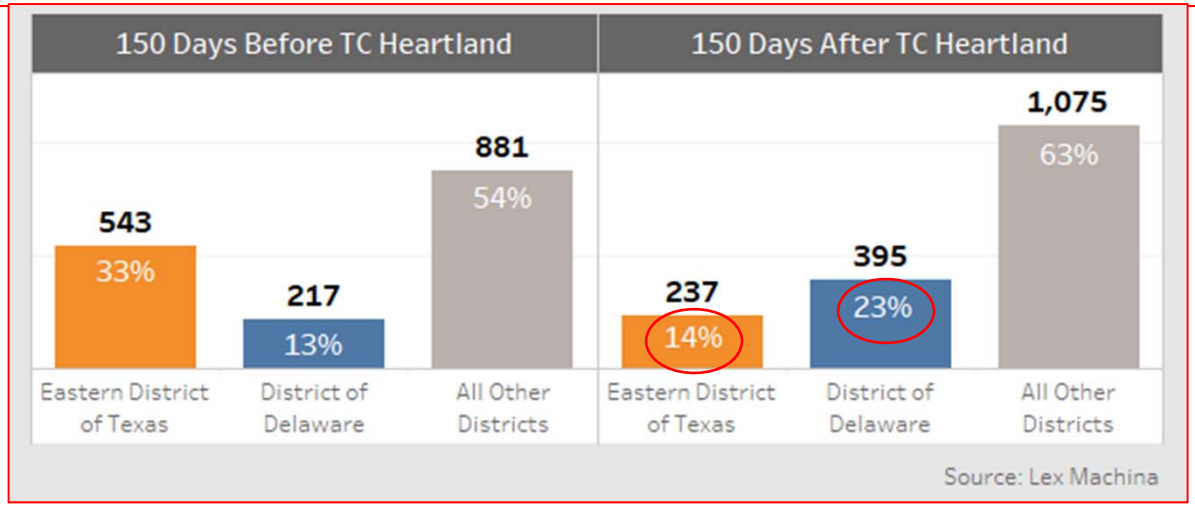
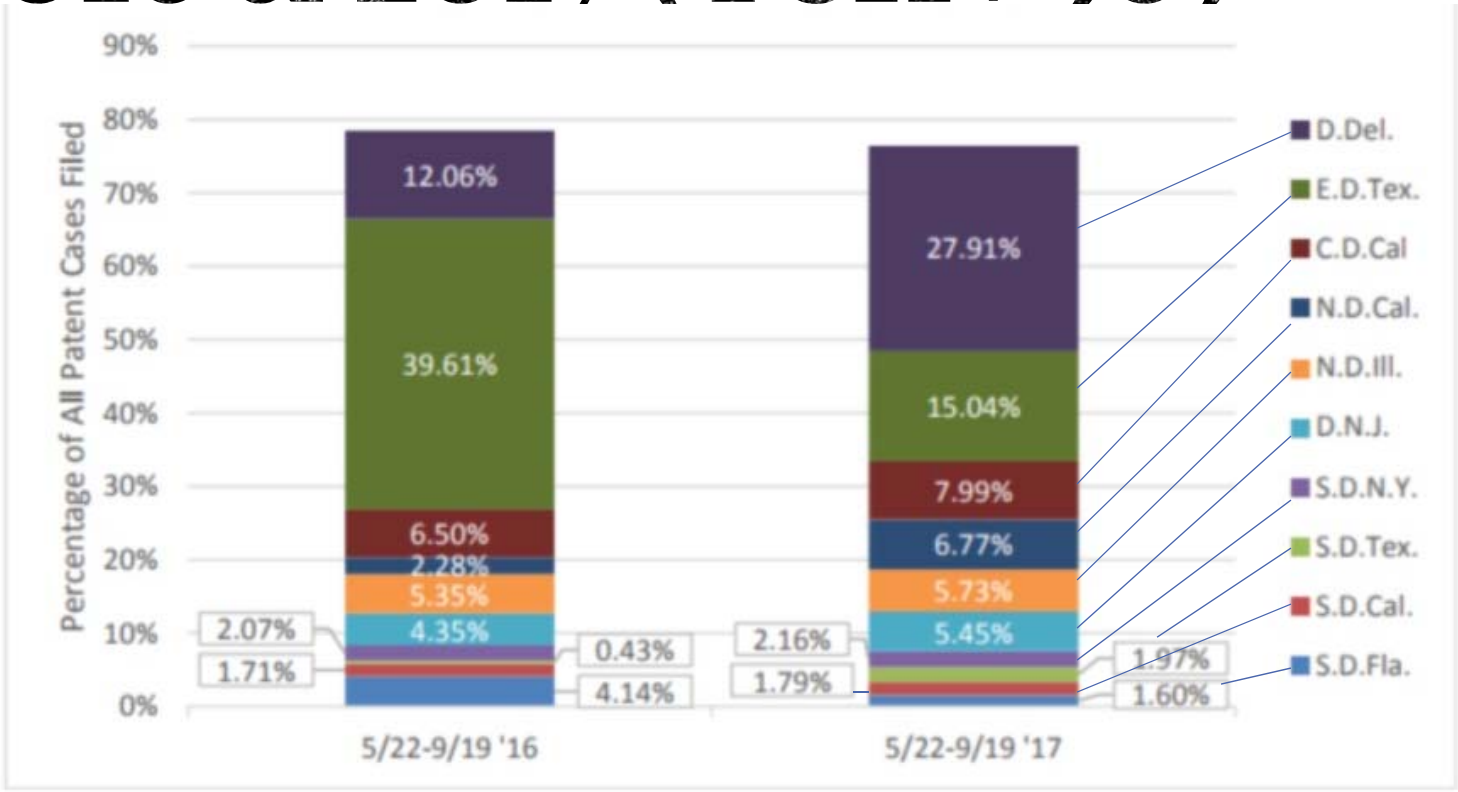


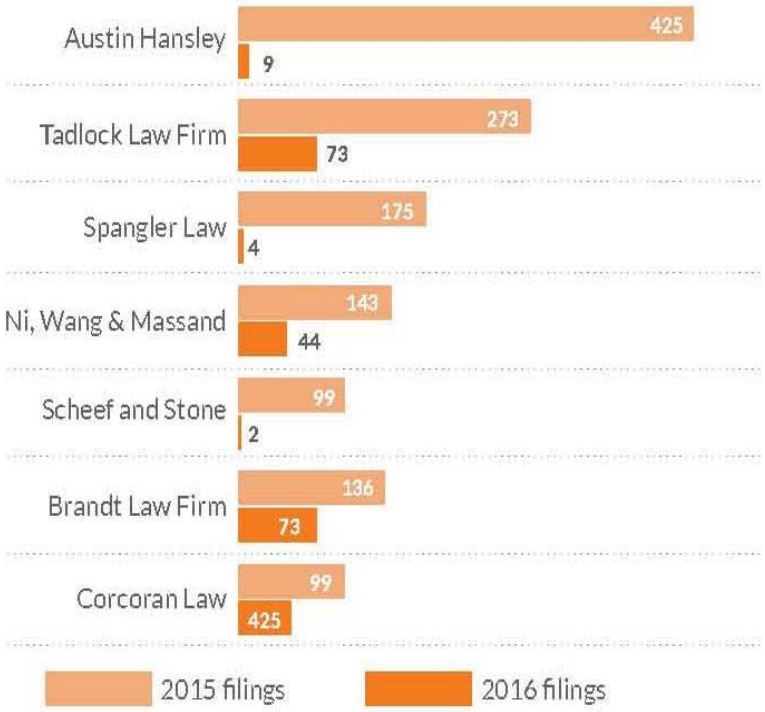
Top 10 Patent Districts: 2016 & 2017 (TCH+90)



Source: Fried Frank, Into The *Heartland* Resource Center – 10/3/17

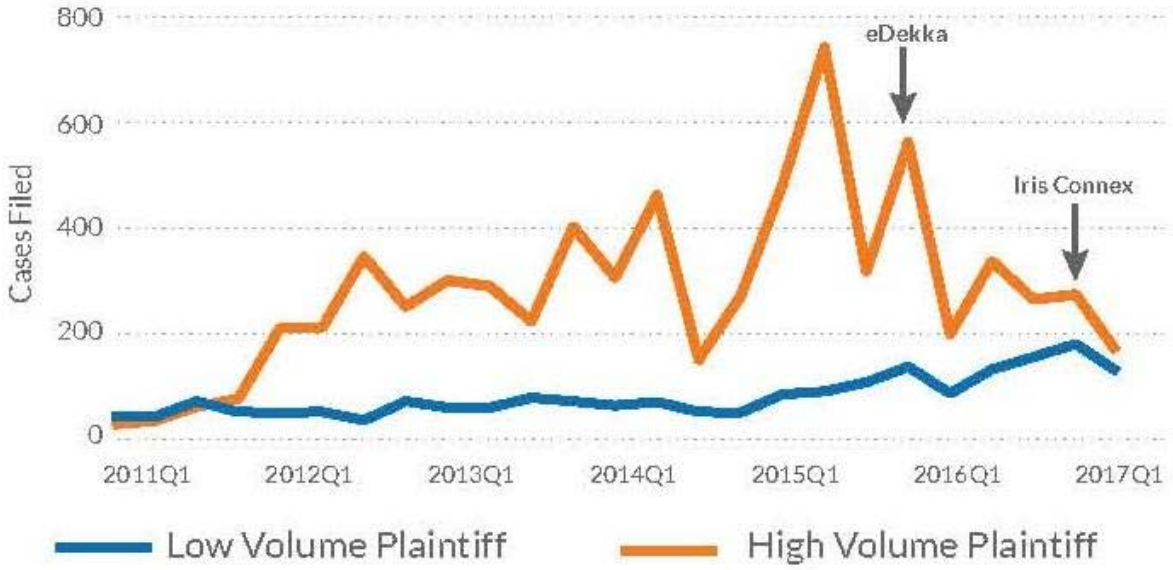
Effect of *TC Heartland* on Filing Trends

- Filings were already down in the Eastern District before *TC Heartland*. Dropped by approximately a third in 2016, from 2,548 cases to 1,679.
- The drop came disproportionately from "bulk filers." In 2015, the top three filing firms filed over 800 cases in the Eastern District, over 1/3 of the docket. In 2016, these 3 firms filed only 86 cases <u>combined</u> in the district.



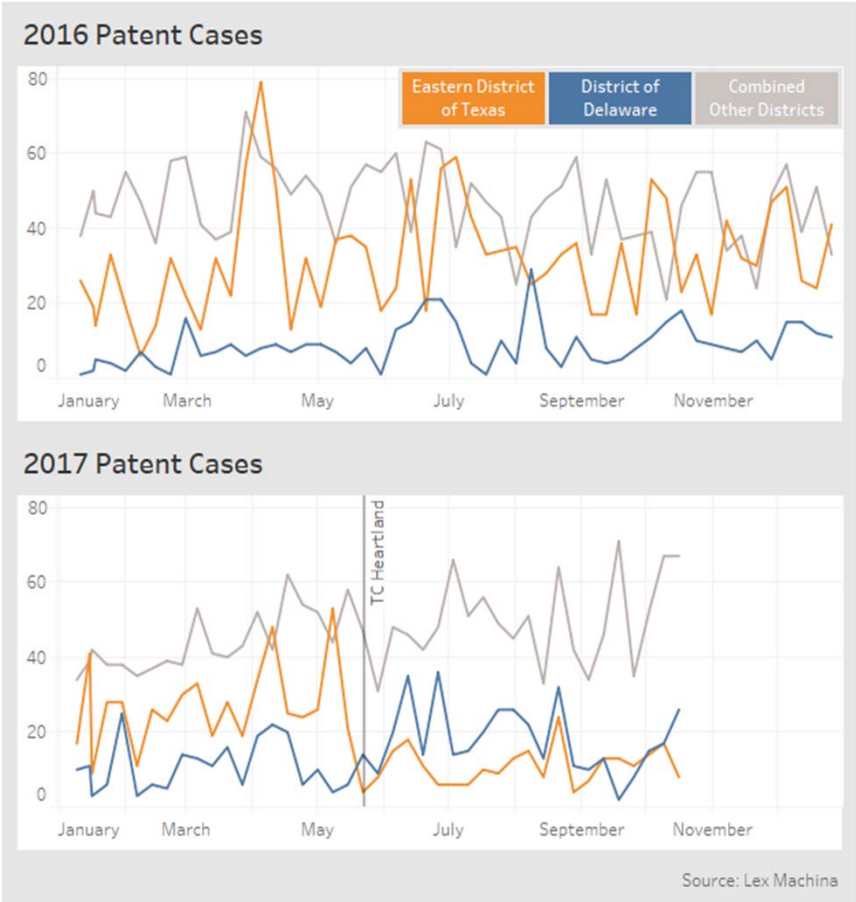
Effect of *TC Heartland* on Filing Trends

- A likely reason for the drop was the substantial sanctions awards from Judge Rodney Gilstrap in the *eDekka* and *Iris Connex* cases in January of 2016 and 2017, respectively. Thus the spike in high volume filings in the EDTX had almost disappeared by the end of the second quarter of 2017, when *TC Heartland issued.*



Effect of *TC Heartland* on Filing Trends

- Immediately after the Supreme Court's holding, filings in the Eastern District dropped by approximately one-half.
- Filings in Delaware approximately doubled.



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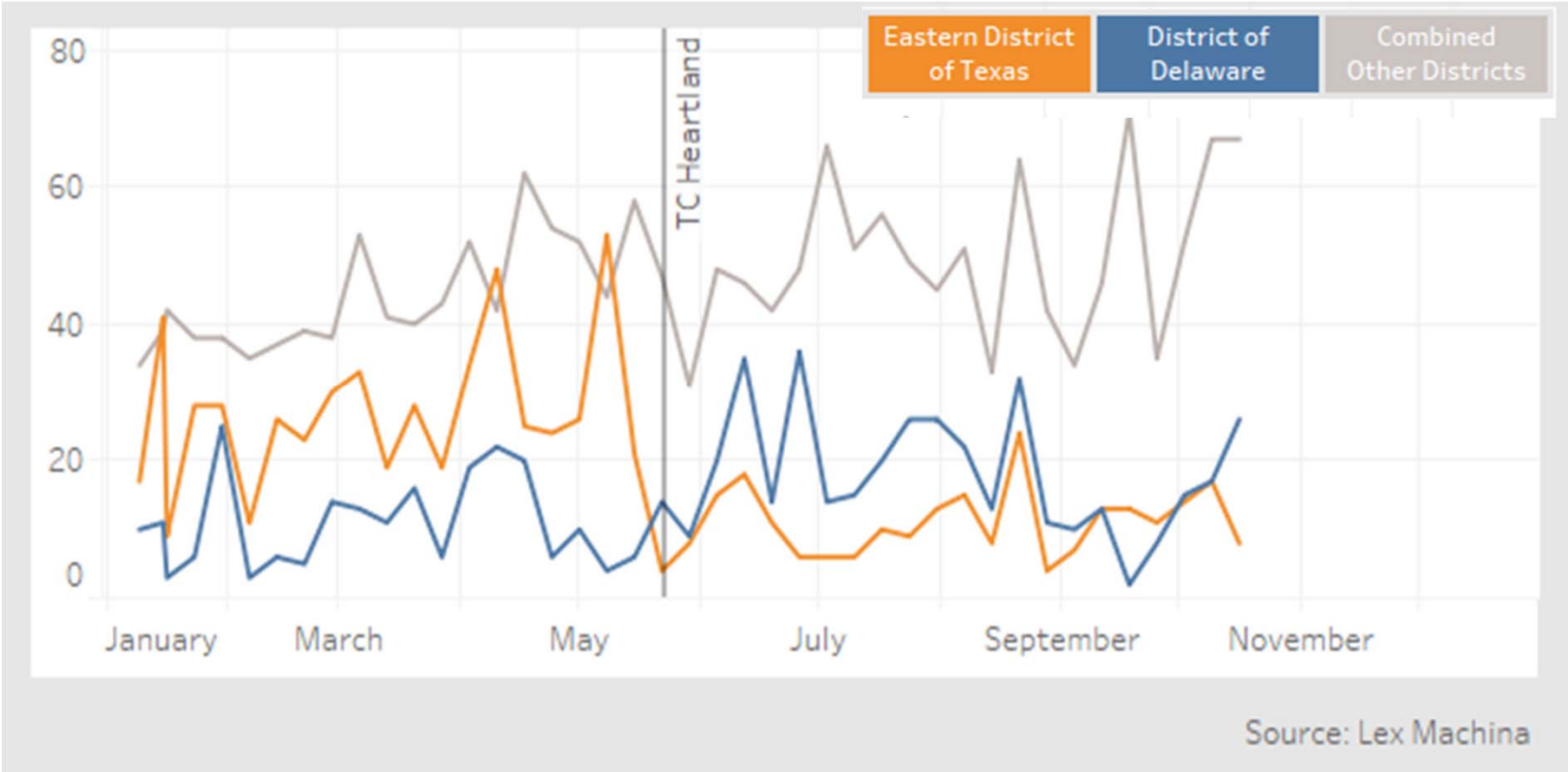

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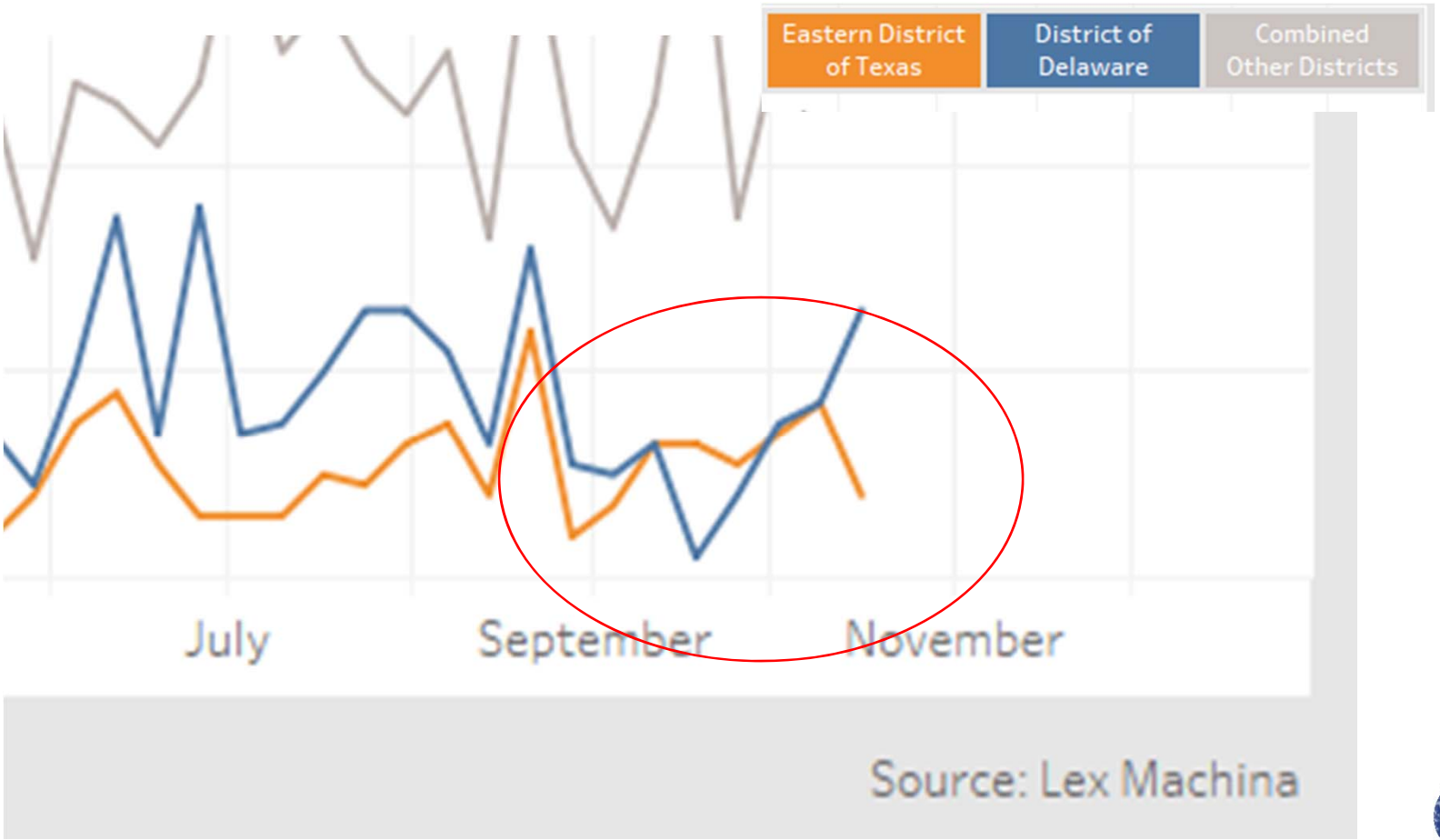


Delaware

Delaware

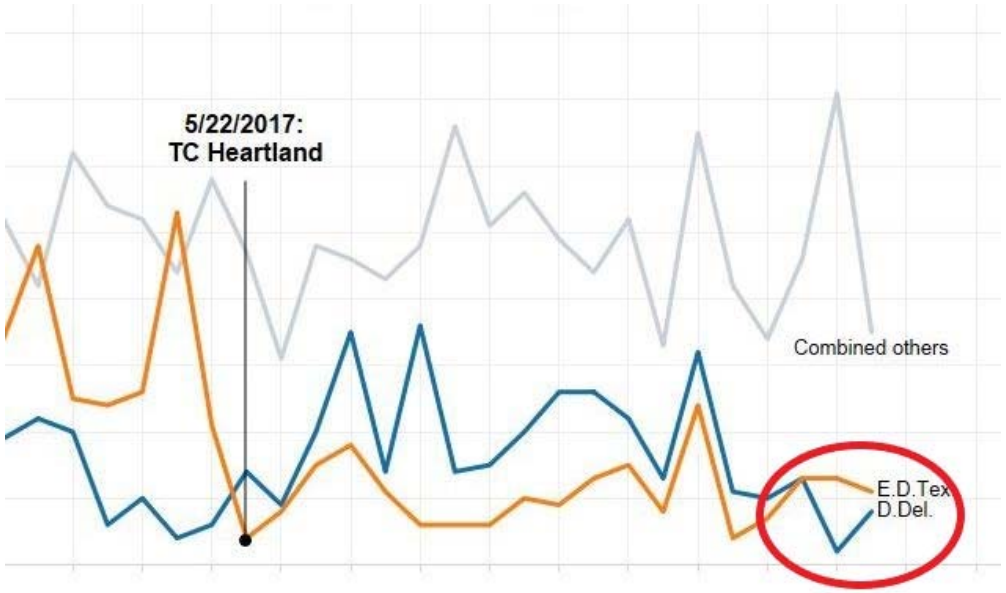
- 64% of corporations incorporate in Delaware, including more than 50% of all U.S. publicly traded companies and 63% of the Fortune 500.
- Franchise taxes on Delaware corporations supply about one-fifth of its state revenue.
- In Delaware, there are more than a million registered corporations, meaning there are more corporations than people.
- The district of Delaware's 2015 population is 945,934, and it just has one district and the sole place of court is Wilmington, population is 71,442, which is 7 percent of the district's jury pool. (For comparison purposes, Marshall makes up 15.6% of the Marshall Division).

Delaware

- Since incorporation in Delaware provides a basis for venue under the patent statute, venue will therefore be proper for 64% of corporations.
- But personal jurisdiction might not be - especially after *In re Daimler Chrysler*, which largely eliminated general personal jurisdiction. As a result, even though venue might be proper, a corporation whose contentions with this very small state are insufficient for specific personal jurisdiction will nonetheless be immune from suit there.
- (Remember, there are more Apple stores in Collin County alone than in Delaware).

Delaware

- At TCH+90 Delaware had received 26% of new case filings.
- But between August 22 and September 30 new case filings dropped in Delaware enough to change its post-*TC Heartland* percentage from 26% to 21.6%.
- The gap between the two districts began narrowing in late July, and in the last three weeks of September, filings in Eastern District of Texas either matched or exceeded Delaware filings.
- Two factors …



Double-counting of transferred cases

- Each new patent case opened in a federal district court counts as a "case filing" in both major patent legal data services. So when the Eastern District of Texas as well as other courts began granting large numbers of transfers in the days and weeks after *TC Heartland*, the filings in Delaware and other courts rose correspondingly.
- As things settled down in TCH+60-90, while the Eastern Texas numbers did not change from the 14-16% range, Delaware's numbers began trending downward.
- This makes it likely that part of bump in post-*TC Heartland* filings in Delaware as well as other courts was at least somewhat the effect of pending cases being transferred, not new case filings.

Patent case filings are down

- Despite this padding of the filings, the overall number of patent filings has dropped significantly when compared to the same time period in 2016.
- From May 22, 2017 (the date of *TC Heartland* decision) to September 19, 2017, there were 1,181 new patent cases compared to 1,401 cases during the same period in 2016, a 15.7% decrease in filings.

But back to Delaware …

Delaware

- On September 15, the District of Delaware granted a motion to transfer venue under in *MEC v. Apple*, and transferred what it characterized as a Texan's claims against a California company to California.
- The Delaware court had previously held that venue was proper as a result of its retail outlet, i.e. Apple has a "regular and established place of business" in Delaware.
- The court balanced the relevant factors and concluded that transfer was warranted, but it provided the following unsolicited analysis:

Delaware

- “While neither party addresses this factor [The relative administrative difficulty in the two fora resulting from court congestion], we do because this District is now reduced to two active district court judges with judges from other busy districts sitting as visiting judges to help address the busy docket until new district court judges are sworn.”
- “Given the limited resources, we find it difficult to justly allocate judicial resources in this District to resolve a dispute between California and North Dakota citizens where there is no connection here other than Apple's single retail location.”

Delaware

- The next week Delaware patent filings dropped to single digits for the first time since *TC Heartland*, and stayed there the next week.
- Filings in Delaware and the Eastern District of Texas remained neck and neck for the first half of October, but as of this writing (Nov. 8) the filings for the first five weeks of the third quarter have Delaware at 113 cases and the Eastern District of Texas at 66.
- (N.D. Cal. is at 40, C.D. Cal. at 35, and N.D. Illinois at 41 in the same period).

Delaware

- Interestingly, some defendants are finding Delaware to be less congenial to their clients' interests as well.
- Plaintiff and the defendant in a pending Delaware patent case *Encoditech v. Virgin Pulse*, 1:17cv1283 RGA jointly sought transfer to the Eastern District of Texas, Tyler Division, stating:
  - "The Parties believe and agree that the Eastern District of Texas is a more convenient forum for many recognized reasons, including: (1) Plaintiff is incorporated and located in the Eastern District of Texas, (2) Defendant's witnesses for the purposes of this matter are closer to Texas than Delaware, and (3) the transferee district is currently less congested than this District."

Delaware

- **Mandatory local counsel retention.** While useful in larger cases, some lawyers and clients find retention of a second set of counsel cost-prohibitive in smaller cases or for smaller clients.
- **Median recoveries** in Delaware substantially exceed those in the Eastern District, and win rates are not far behind, making Delaware an uncomfortably attractive forum for plaintiffs, at least from a defendant's perspective. *See* Perry, Chase, *Stats on How TC Heartland is Affecting Patent Litigants*, Law 360 (November 7, 2017).

Table 3: Actual and Adjusted Patent Holder Win Rates

Actual Data	EDTX	All Others	Total
# of Cases	963	3,191	4,154
Patent Holder Win Rate	54%	27%	**33%**

Adjusted Data	EDTX	All Others	Total
# of Cases	385	3,769	4,154
Patent Holder Win Rate	54%	27%	**29%**

Table 4: District Rankings by Patent Holder Success Rate

District	Patent Holder Success Rate	Median Years to Trial	Median Damages
EDTX	54%	2.2	$9,948,569
NDTX	47%	2.4	$4,793,384
DDE	41%	2.1	$16,162,113
DNJ	38%	2.7	$16,164,179
EDVA	29%	1.0	$32,684,334
NDCA	27%	2.6	$5,402,099
CDCA	26%	2.3	$3,066,008

Source: Perry, Chase, *Stats on How TC Heartland is Affecting Patent Litigants*, Law 360 (November 7, 2017).

Table 5: District Rankings by Risk-Adjusted Damages

District	Median Years to Trial	Risk-Adjusted Median Damages
EDVA	1.0	$9,478,457
DDE	2.1	$6,626,466
DNJ	2.7	$6,142,388
EDTX	2.2	$5,372,227
NDTX	2.4	$2,252,890
NDCA	2.6	$1,458,567
CDCA	2.3	$ 797,162

Source: Perry, Chase, *Stats on How TC Heartland is Affecting Patent Litigants*, Law 360 (November 7, 2017).

Delaware

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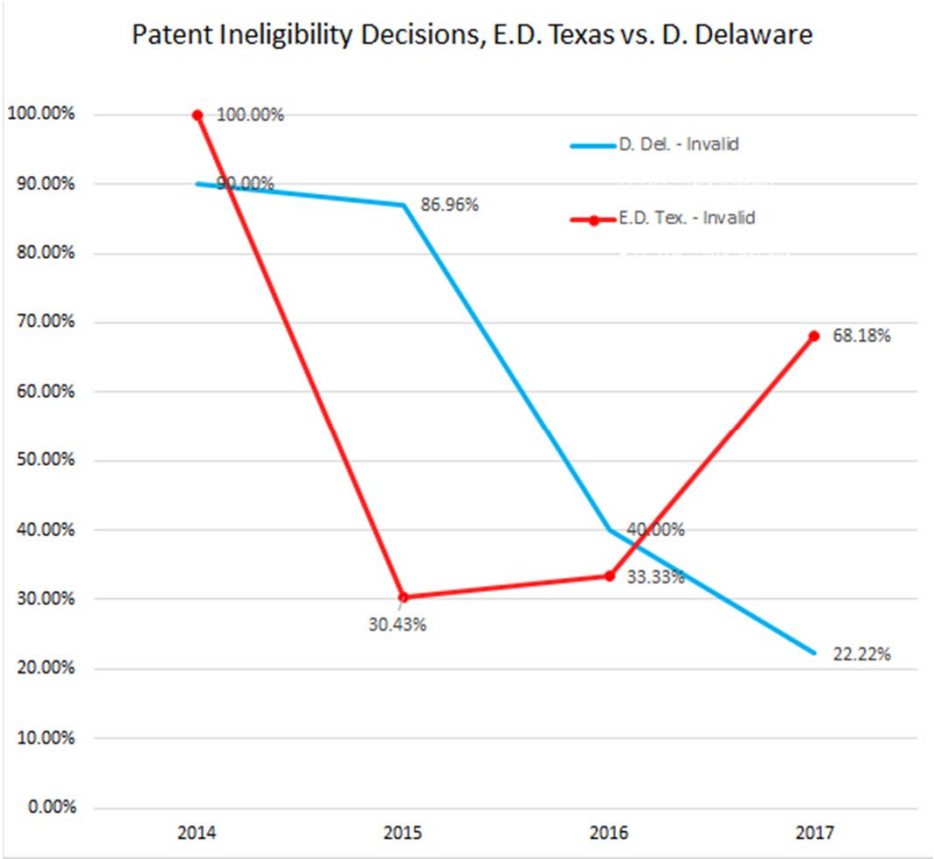
- **Win rates in Section 101 motions**.

Delaware

§ 101

- **Nationally** - down from 70% to 49% in late 2016, then mid-50's in 2017.
- **Delaware** down from 68% to 35% in 2017, <u>significantly below the national average</u>
- **EDTX** – <u>up from 32% to 60%</u>.
- The recent flip in filings between EDTX and D.Del. as a result of *TC Heartland* means that the combined grant rate in 101 motions between the top two districts handling 40% of patent filings should <u>drop</u> from 51% to 43%.



“Regular and Established Place of Business”


In Re Cordis

In Re Cordis

When considering the "regular and established place of business" requirement, "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."

In re Cordis Corp., 769 F.2d 733 (Fed. Cir. 1985)

In Re Cordis - EDTX

- In *Raytheon Co. v. Cray*, --- F.Supp. ---, 2017 WL 2813896, at *4 (E.D. Tex. June 29, 2017) Judge Rodney Gilstrap held that venue was proper pursuant to *In re Cordis* under the facts of the case.
- In dicta (included primarily to help guide venue discovery), the Court set forth a four factor test to guide the analysis of when a defendant had a regular and established place of business.

In Re Cordis - EDTX

- **Physical Presence** - the extent to which a defendant has a physical presence in the district, including but not limited to property, inventory, infrastructure or people.
- **Defendant's Representations** - the extent to which a defendant represents, internally or externally, that it has a presence in the district.
- **Benefits Received** - the extent to which a defendant derives benefits from its presence in the district, including but not limited to sales revenue.
- **Targeted Interactions with the District** - the extent to which a defendant interacts in a targeted way with existing or potential customers, consumers, users, or entities within a district, including but not limited to through localized customer support, ongoing contractual relationships, or targeted marketing efforts

Raytheon Co. v. Cray, 2017 WL 2813896 (E.D.Tex. June 29, 2017)

In Re Cray

In Re Cray - background

- *Raytheon v. Cray* is a patent case filed in Marshall that spent the winter of 2016-17 preparing for trial before Judge Payne, with the actual trial to be before Judge Gilstrap in March, 2017.
- In February, 2017, the plaintiff sought and obtained a continuance of the original March 2017 trial setting to August 2017, which had the effect of postponing trial until after the Supreme Court ruled in *TC Heartland*.
- After *TC Heartland* came out on May 22, defendant Cray sought and obtained an expedited briefing schedule, for its renewed motion to dismiss for improper venue.
- Over the plaintiff's objections, Judge Payne set a schedule that gave the plaintiff fourteen days to respond, Cray five days for a reply, and departed from Judge Gilstrap's default order for post *TC Heartland* briefing by giving the plaintiff a surreply, which was to be filed three days later. *See* 2:15-cv1554, Docket #260.

In Re Cray – time line

- **June 22** -Briefing closed
- **June 26** - case was reassigned to Judge Gilstrap (eliminating the delays associated by a ruling by Judge Payne followed by an appeal to Judge Gilstrap)
- **June 29** – motion to dismiss for improper venue denied (*Raytheon v. Cray* – 4 factors test)
- **July 14** - Cray filed its petition for writ of mandamus
- **July 18** – Judge Gilstrap *sua sponte* stays case
- ~~August 16 – jury selection~~

In Re Cray

- The Federal Circuit accepted petitioner Cray's invitation to not just rule on whether the district court's ruling should be corrected by mandamus, but to provide a test for courts to use to consider whether venue is proper under Section 1400(b).
- The court focused on Judge Gilstrap's reliance on its opinion in *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985) and concluded that he had "misunderstood the scope and effect of our decision in *Cordis*, and [ ] misplaced reliance on that precedent led the court to deny the motion to transfer, which we find to have been an abuse of discretion."

In Re Cray

- In *Cordis*, the Federal Circuit wrote the following language, which the district court quoted in its opinion denying transfer:

  "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."

- (Emphasis added). In *Raytheon* it truncated the above quote as follows, dropping the language **bolded** above.

  "The court [in *Cordis*] did state that the "appropriate inquiry" is not "whether [*Cordis*] has a fixed physical presence in the sense of a formal office or store.""

In Re Cray

- What the Court previously held to be the "appropriate inquiry" was never stated, and *Cordis* was essentially limited to its holding. Instead, the Court set forth "three general requirements relevant to the inquiry":
  - **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.**
- The Court stated that "[i]f any statutory requirement is not satisfied, venue is improper under § 1400(b)." (Emphasis added).

In Re Cray

- In *Cray*, although the employee was paid a salary and corresponded with customers listing a phone number in the forum district, those facts were held insufficient to establish that the employee's home was a place of business "of" the defendant.
- The defendant in *Cray* did not own, lease or rent any portion of its employee's home; did not have any role in selecting where its employee live; did not require its employee to reside in the district; and did not publicly identify its employee's home as a place for transacting business with the defendant.

In Re Cray

- The Federal Circuit's opinion in *In re Cray* provides litigants with substantial guidance on the issue of what can be argued to constitute – or not - a "regular and established place of business" under Section 1404(b)'s second option.

The guidance includes the following:

Back to the 1890's

- "We recognize that the world has changed since 1985 when the *Cordis* decision issued …[b]ut, notwithstanding these changes, in the wake of the Supreme Court's holding in *TC Heartland*, effectively reviving Section 1400(b) as the focus of venue in patent cases, we must focus on the full and unchanged language of the statute, as *Cordis* did not consider itself obliged to do." *Cray* at *6. (Emphasis added).
  - "In the late 1800s, when § 1400(b)'s predecessor was being considered …"
  - "To resolve the uncertainty, Congress enacted §1400(b)'s predecessor in 1897 …"
- "Courts should be mindful of this history in applying the statute and be careful not to conflate showings that may be sufficient for other purposes, e.g., personal jurisdiction or the general venue statute, with the necessary showing to establish proper venue in patent cases." *Id.* at * 9. (Emphasis added).

Analysis Must Be "Closely Tied to the Language of the Statute"

- "We stress that the analysis must be closely tied to the language of the statute. . . . *Id.* at * 10-11 (emphasis added).

Let's Get "Physical"

- ". . As noted above, when determining venue, the first requirement is that there "must be a physical place in the district." The district court erred as a matter of law in holding that "a fixed physical location in the district is not a prerequisite to proper venue." *Id.* at * 10-11 (emphasis added).
- *Note:* The quotation "must be a physical place in the district" is not to the statute, which does not say "physical", nor to any prior decision, but to language at p. 8 of the opinion.

What Can a "Physical Place" Be?

- "While the "place" need not be a "fixed physical presence in the sense of a formal office or store," there must still be a physical, geographical location in the district from which the business of the defendant is carried out. In *Cordis*, for example, a defendant used its employees' homes to store its "literature, documents and products" and, in some instances, like distribution centers, storing inventory that the employees then directly took to its clients. Defendant also engaged a secretarial service physically located in the district to perform certain tasks." *Id.* at *11 (internal citations omitted).

What Can a "Physical Place" Be?

- *Cordis'* holding that the "place" need not be a "fixed physical presence in the sense of a formal office or store" survives, but the place must nonetheless be "physical".
- But we know that examples that can meet the statute include: (1) employees' homes; and (2) secretarial services, both of which may have important implications as parties and courts evaluate what facilities not owned by the defendant can count as the "physical place."

It Must be "Regular"

- "The second requirement for determining venue is that the place "must be a regular and established place of business." . . . A business may be "regular," for example, if it operates in a "steady[,] uniform[,] orderly[, and] methodical" manner. (1891 dictionary). In other words, sporadic activity cannot create venue. (1941 9th Circuit case citing 1922 Michigan district court case). Indeed, "[t]he doing of a single act pertaining to a particular business will not be considered engaging in or carrying on the business; yet a series of such acts would be so considered." (1891 Black's law dictionary)." *Id.* at *11

It Must be "Established"

- The "established" limitation bolsters this conclusion. The word contains the root "stable," indicating that the place of business is not transient. It directs that the place in question must be "settle[d] certainly, or fix[ed] permanently."(1891 Black's law dictionary). As an example, one court held that a business that semiannually displayed its products at a trade show in the district had only a temporary presence. On the other hand, a five-year continuous presence in the district demonstrates that the business was established for purposes of venue. . . . Accordingly, while a business can certainly move its location, it must for a meaningful time period be stable, established. *Id.* at *12 Cleaned up & emphasis added).

It Must be "Established"

- The examples provide some indication of the outer boundaries regarding whether the location is established.
- Plaintiffs may push back on the language that equates the statutory term "established" with "stable", which arguably sets a higher bar than the statutory language. *See Cray* at *10-11 ("We stress that the analysis must be closely tied to the language of the statute.")
- Dictionary definitions for "established" focus on the act of becoming established, not stability, so the imposition of a requirement that a business "must for a meaningful time period be stable, established" may add a requirement of "stability" that is not in the text of the statute. (Emphasis added).

It Must be "Established"

"I have established a business"

versus

"I have an established business"

- Both use the same word – one usage has a durational requirement and one does not.

It Must Be The Place "Of The Defendant"

- "Finally, the third requirement when determining venue is that "the regular and established place of business" must be "the place of the defendant." As the statute indicates, it must be a place of the defendant, not solely a place of the defendant's employee. Employees change jobs. Thus, the defendant must establish or ratify the place of business. It is not enough that the employee does so on his or her own.
- Relevant considerations include: …

It Must Be The Place "Of The Defendant"

- whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place. One can also recognize that a small business might operate from a home; if that is a place of business of the defendant, that can be a place of business satisfying the requirement of the statute.

It Must Be The Place "Of The Defendant"

- Another consideration might be whether the defendant conditioned employment on an employee's continued residence in the district or the storing of materials at a place in the district so that they can be distributed or sold from that place. . . . Marketing or advertisements also may be relevant, but only to the extent they indicate that the defendant itself holds out a place for its business.

It Must Be The Place "Of The Defendant"

- a defendant's representations that it has a place of business in the district are relevant to the inquiry. Potentially relevant inquiries include whether the defendant lists the alleged place of business on a website, or in a telephone or other directory; or places its name on a sign associated with or on the building itself. But the mere fact that a defendant has advertised that it has a place of business or has even set up an office is not sufficient; the defendant must actually engage in business from that location.

It Must Be The Place "Of The Defendant"

- A further consideration for this requirement might be the nature and activity of the alleged place of business of the defendant in the district in comparison with that of other places of business of the defendant in other venues.* Such a comparison might reveal that the alleged place of business is not really a place of business at all.
- [*] … a relative comparison of the nature and activity may reveal, for example, that a defendant has a business model whereby many employees' homes are used by the business as a place of business of the defendant.

What Does *Cray* Exclude Compared to *Raytheon*?

Cray & ~~online activity~~

- Prior to *Cray*, commentators at seminars on *TC Heartland* were asked questions like
  - "[t]o what extent do you think courts will consider a "virtual" presence in light of evolving technology?" and
  - "[s]hould it matter if an online retailer makes substantial sales that displace permanent brick and mortar retailers?"
- After *Cray*, online activity appears to be a moot point. Apart from its focus on the 19th century sources, *Cray* disapproved the idea that "virtual space[s]" or "electronic communications from one person to another" could satisfy the "place" requirement of the statute.

Cray & ~~online activity~~

- In *Lites Out v. OutdoorLink*, 4:17-CV-00192 (E.D. Tex. 11/2/2017) defendant OutdoorLink provided digital monitoring services for billboards, and sold surveillance computers to billboard owners which it installs itself, and then maintains through independent contractors.
- While Outdoor monitors over two thousand billboards in the EDTX, it doesn't have facilities or employees here - it ships the units into the district, and sends employees or contractors - none of whom reside in the district - to install and maintain the units.

Cray & ~~online activity~~

- EDTX Judge Amos Mazzant concluded that the defendant's commercial presence in the district was insufficient to satisfy the test for patent venue.
- "Outdoor virtually monitors and controls many billboards in this District through SmartLink units," Judge Mazzant noted. "Such activity, however, falls within the virtual spaces and electronic communications from one person to another that cannot be “a physical place” of business for patent venue purposes.

Cray & ~~online activity~~

- In *Talsk Research Inc. v. Evernote Corp.*, 16-cv-2167 (N.D. Ill. Sept. 26, 2017), the Northern District of Illinois held that a software company did not have a "physical, geographical location" in Illinois sufficient to establish venue, despite having a network of independent contractors in the district who promoted the allegedly infringing products.
- Talsk is yet another in what will likely be a long line of decisions that attempt to apply the *In re Cray* test to technology companies that conduct much of their business online.

Venue Discovery

Venue Discovery

- In the days after *TC Heartland* came out, parties and courts became increasingly involved with the question of venue discovery.
- In an order issued *sua sponte* shortly after *TC Heartland* was decided in cases in which the *Fourco* improper venue defense had been raised, Judge Gilstrap ordered the parties to file supplemental briefing regarding Defendants' motions to dismiss for improper venue addressing the effect, if any, of *TC Heartland* on Defendants' currently pending motions, as well as whether the parties anticipated a need for venue related discovery, thus explicitly raising the issue.
- The issue of venue discovery also played a central role in Judge Gilstrap's order in *Raytheon v. Cray* - in fact it was the reason for the creation of the "four factors" test.

Venue Discovery

- After determining that the motion should be denied under *In re Cordis*, Judge Gilstrap noted that "[s]ince the Supreme Court's decision in *TC Heartland*, this Court has received a number of motions to dismiss or transfer based on improper venue. It is evident from these motions, and their subsequent briefing, that there is uncertainty among the litigants regarding the scope of the phrase "regular and established place of business." As a result, litigants have cited numerous cases, each of which seems to employ a different analysis as to whether a regular and established place of business exists in a particular case. The Court has also received a number of requests for venue related discovery. Litigants have further expressed uncertainty regarding the appropriate scope of such venue discovery." (Emphasis added).

Venue Discovery

- "For the benefit of such litigants and their counsel, the Court has conducted a thorough analysis of the existing case law regarding regular and established place of business," Judge Gilstrap wrote, and noted the tendency of the venue analysis to devolve into "an exploratory examination of a defendant's behavior" which often delved into "minute details."
- "This Court finds such factual minutia inappropriate," he concluded. "Such encourages both gamesmanship, as well as excessive and costly venue discovery. This ultimately amounts to a distraction from the merits of the case. As the Supreme Court's recent admonition in *Hertz Corp. v. Friend* makes clear, administration of a threshold statute such as a venue statute should remain "as simple as possible." 559 U.S. 77, 80 (2010)." Finding that "[t]he Supreme Court's focus on administrative simplicity in *Hertz* is compelling in the venue context," Judge Gilstrap concluded that "[s]eeking to follow such a mandate, this Court now attempts to provide guideposts to point the venue analysis in a single coherent direction." (Emphasis added).

Venue Discovery

- "The following factors, gleaned from prior courts and adapted to apply in the modern era, serve two purposes. First, they focus the regular and established place of business analysis such that parties may address only the relevant facts of the case and avoid costly and far-flung venue discovery, wherever possible.
- Second, while promoting administrative simplicity, they nonetheless encompass the flexibility earlier courts found appropriate when interpreting the statutory text in light of diverse business structures and practices which evolve with advances in technology. In sum, these guideposts are intended to provide a tailored "totality of the circumstances" approach to venue, guided by the important goal of administrative simplicity." (Emphasis added).

Venue Strategies Post *TC Heartland*

“Lifeboat” jurisdictions

- There are other forums that, like Delaware are more receptive to plaintiffs than other jurisdictions, and these have seen a large number of filings.
- Most large defendants are likely to have multiple physical locations.
- Plaintiffs likely have numerous venues to choose from, rather than accept a perceived unfavorable forum.

"Regular and established place of business" in EDTX

- Although the Eastern District of Texas has a image in the legal media of a very rural sparsely populated wasteland, it is actually one of the nation's fastest growing areas.
- Large numbers of companies have, if not headquarters, at least physical facilities in ED Texas.
- Major top tier retail malls with virtually ever retail option offered anywhere in the nation are scattered across ED Texas.

Corporations With EDTX Headquarters/Corporate Facilities Include:

Toyota, FedEX, JC Penney, Pizza Hut, Yumi Restaurants International (Chipotle), Frito-Lay, Dr. Pepper Snapple Group, Ericsson, NTT Data Services (formerly Dell Services), Rent-A-Center, Capital One Finance, Cigna, Netscout (formerly Tektronix Communications), Huawei Technologies, Coca-Cola North America, Argon Medical Services, Hilton North America, Siemens PLM Software, HP Enterprise Services … .

Source: Date from Plano & Frisco Economic Development Organizations

EDTX 2015 Population Estimate: 3.9 Million Residents

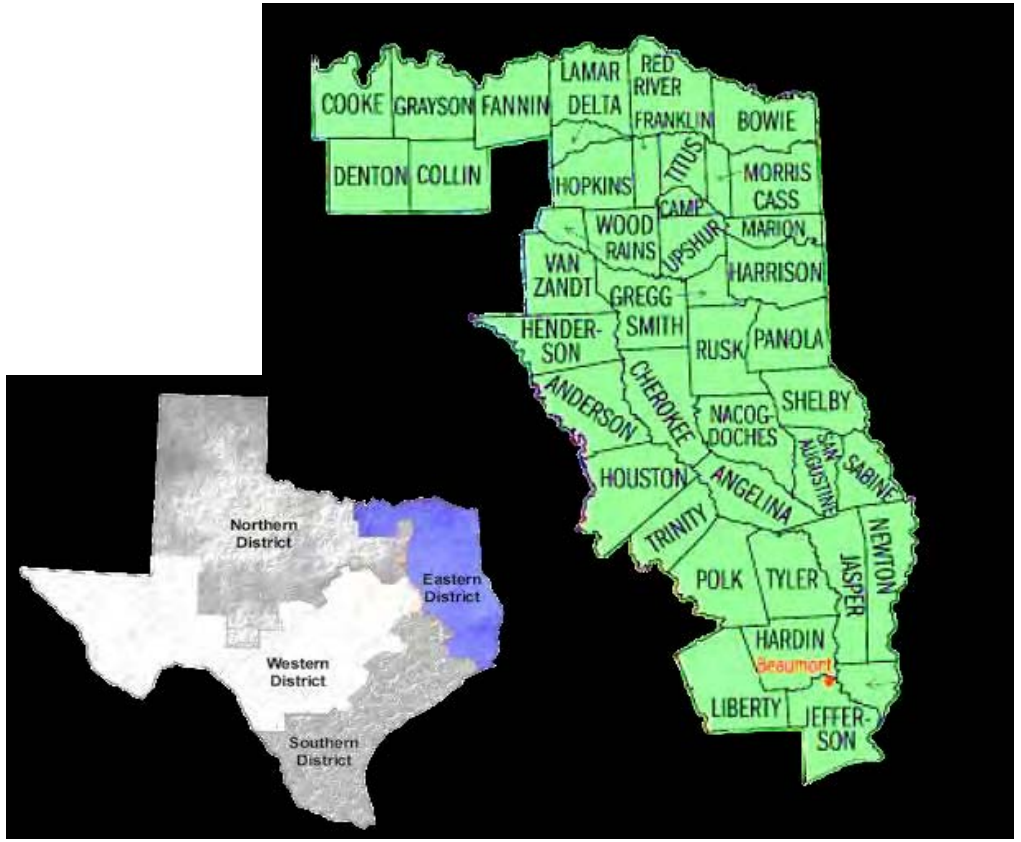
4 x Population of State of Delaware

How Big Is East Texas?

- Area: 32,316 sq. mi.
- Density: 116 people per mi2.

How Big is State of Delaware?

- Area: 1,981 sq. mi.
- Density: 442.6 per mi2.



Change Parties Sued

- Because the patent statute provides that "whoever without authority makes, uses, offers to sell, or sells any patented invention … infringes the patent," a potential outcome of *TC Heartland* is that some plaintiffs may shift from suing domestic corporations that "make" a patented invention to the entities within the distribution chain that use, sell, or offer for sale the patented invention, and have a "regular and established place of business" in the preferred district.
- While this does not appear to have happened with any frequency, it is an option.
- Who is sued can affect how much sales activity can be accused in a particular case.
- Suits against retailers run the risk of being stayed under the "customer suit" doctrine at least when the patent plaintiff is subject to specific jurisdiction in the forum in which the declaratory action is filed.

Pendent Venue

- Under "pendent venue" if a plaintiff can establish venue over one claim, then the plaintiff may seek to add other claims for which venue would otherwise be improper under *TC Heartland*. For example, a plaintiff could assert a non-patent claim—where venue would be determined under the broader provisions of § 1391—and then argue there is "pendent venue" over additional patent claims.
- In *Omega Patents, LLC v. CalAmp Corp.*, 6:13-cv-1950 (M.D. Fla. Sept. 22, 2017), Judge Byron of the Middle District of Florida relied on "pendent venue" to deny a motion to vacate a jury verdict due to improper venue. In particular, the court found that venue was proper with respect to all of the plaintiff's claims because the defendant had previously consented to venue with respect to one of the claims.
- Some pre-*TC Heartland* decisions suggest that this is not viable.

Burden of Proof?

- Chief Judge Stark recently held that this is a procedural matter decided by the regional circuit and that, in the Third Circuit, the movant bears the burden. Similarly, in the 4th Circuit, plaintiff bears the burden of establishing that venue is proper. *Smithfield Packing Co. V. V. Suarez & Co.*, 857 F. Supp. 2d 581, 584 (E.D. Va. 2012).
- However, other courts, including the Eastern District of Texas, have held that the burden of establishing improper venue lies with the defendant, *See, e.g.*, *Soverain IP, LLC v. Apple, Inc.*, 2:17-cv-207-RWS-RSP (E.D. Tex. July 25, 2017) ("Because an objection to venue is a personal privilege that offers protection from inconvenience, the burden of establishing improper venue lies with the defendant.").

New Issues

Application to Foreign and Noncorporate Entities

- In *TC Heartland*, the Court stated that "In *Fourco*, this Court definitively and unambiguously held that the word 'reside[nce]' in § 1400(b) has a particular meaning as applied to domestic corporations: It refers only to the State of incorporation. 137 S. Ct. at 1520 (footnote omitted, emphasis added)."
- In a footnote, Justice Clarence Thomas wrote that the court did not "express any opinion on this court's holding" in *Brunette Machine Works, Lts. v. Kockum Indus.*,406 U.S. 706 (1972) or on the implications of the decision on foreign corporations.

Application to Foreign and Noncorporate Entities

- In *Brunette*, the Supreme Court distinguished *Fourco* by treating foreign and domestic defendants differently. In 1972, when *Brunette* was decided, old § 1391(d) provided that foreign defendants could be sued in any judicial district. Accordingly, the court held that a foreign defendant "cannot rely on § 1400(b) as a shield against suit in" a particular district.
- It would appear that foreign companies without an established place of business in the U.S. can be sued anywhere personal jurisdiction is found.
- A potential battleground could therefore be whether the Supreme Court's ruling in *Brunette* remains good law. This could lead to another case on venue similar to *TC Heartland*, but specifically relating to foreign defendants.

Application to Foreign and Noncorporate Entities

- Thus for companies with a U.S. subsidiary, plaintiffs may target just the foreign parent, to keep cases in preferred districts.
- A significant problem with this is strategy, though, is that there must still be personal jurisdiction against the foreign defendant.
- With general personal jurisdiction largely unavailable after *In re Daimler Chrysler*, there must be specific personal jurisdiction over the foreign defendant, meaning that it must have engaged in patent infringement in the district of suit.
- Depending on the structure of the defendant, the foreign entity may not be engaging in sales or offers for sale in the district of suit, and as Judge Payne noted in *Soverain v. AT&T*, the standard for imputing contact is a difficult one.

Imputing Corporate Activity

- In *Soverain IP, LLC v. AT&T et al*., 2:17cv0293 (October 31, 2017) Judge Payne concluded that the three requirements of *In re Cray* had not been met for defendant AT&T, Inc., which was shown to be a holding company.
- The plaintiff had argued that the contacts of AT&T Services should be imputed to AT&T, Inc., but Judge Payne concluded that for any "regular and established place of business" of AT&T Services to be imputed to AT&T Inc., AT&T Services and AT&T Inc. must lack formal corporate separateness, which is a difficult standard to meet." (Emphasis added).

Imputing Corporate Activity

- Judge Payne wrote that "[w]hen separate, but closely related, corporations are involved . . . the rule is similar to that applied for purposes of service of process. So long as a formal separation of the entities is preserved, the courts ordinarily will not treat the place of business of one corporation as the place of business of the other. On the other hand, if the corporations disregard their separateness and act as a single enterprise, they may be treated as one for purposes of venue. *Federal Practice & Procedure* § 3823 & nn.24-26 (citations omitted).

Imputing Corporate Activity

- In apparent contrast to the decision in cases such as *Symbology* and *Soverain v. AT&T,* Judge Stark in Delaware has recently hinted that venue may be based on the operations of a corporate affiliate. *See Bristol-Myers Squibb Co. v. Mylan Pharmaceuticals Inc.*, C.A. No. 17-cv-0379 (D. Del. Sept. 11, 2017) (venue could be proper in Delaware where a West Virginia company belonged to a corporate family with 40 Delaware entities).

Imputing Corporate Activity

- In *American GNC Corp. v. ZTE Corp*., Civ. No. 4:17-cv-620-ALM-KPJ (E.D. Tex. Oct. 4, 2017) *affirmed by district judge* (E.D. Tex. Nov. 7, 2017), the magistrate judge's report and recommendation found that that a call center in Plano, Texas operated by a third party, iQor, should be considered a regular and established place of business of ZTE.

Imputing Corporate Activity

- The court noted that iQor has more than sixty customer service representatives dedicated to ZTE USA, that ZTE USA has at least two full-time supervisor employees on site, and that ZTE's website seamlessly integrates with the support center. Thus, the court was "not persuaded by ZTE USA's argument that the call center is not a regular and established place of business simply because ZTE USA has chosen to delegate its call center operations to a third party."

Imputing Corporate Activity

- While the magistrate judge's opinion opinion does not cite or discuss the *In re Cray* decision, Judge Mazzant's affirmance found *Cray* factually distinguishable, in that the location at issue in *Cray* was an employee's home.
- In *Cray*, the Federal Circuit did not consider the issue of whether a business location established in partnership with a third party—as was the case here—qualified as a regular and established place of business.
- The Court found that the call center was in fact a "physical place" from which the defendant "actually engaged in business."

Effect on NPEs

- According to Lex Machina data, the primary driver of increased litigation levels in Delaware post- *TC Heartland* was high-volume plaintiffs, which it defines as entities filing 10 or more patent cases within a year's time.
- "Bulk filers" had been a major contributor to Eastern Texas' dominance in the patent litigation landscape leading up to *TC Heartland*, but as the data also shows, high-volume plaintiff filings in the EDTX have been in sharp decline since the beginning of 2016 anyway.
- Following *TC Heartland*, high-volume plaintiff filings dipped below filings from low-volume plaintiffs in the EDTX for the first time since the third quarter of 2011. Conversely, high-volume plaintiff filings in Delaware began closing the gap with low-volume plaintiffs through 2017's third quarter.

Effect on NPEs

- The number of cases filed by "high-volume plaintiffs" has decreased, both in number and in proportion, from 714, or 50.1% of all cases filed from May to September 2016, to 332, or 31.2% of the cases filed from May to September 2017.
- That is a drop of over 50% in absolute terms and 40% in terms of percentage of overall filings.
- Whether the drop is attributable to *TC Heartland* or to other factors that are causing a drop in patent case filings is not certain at this point.

The End