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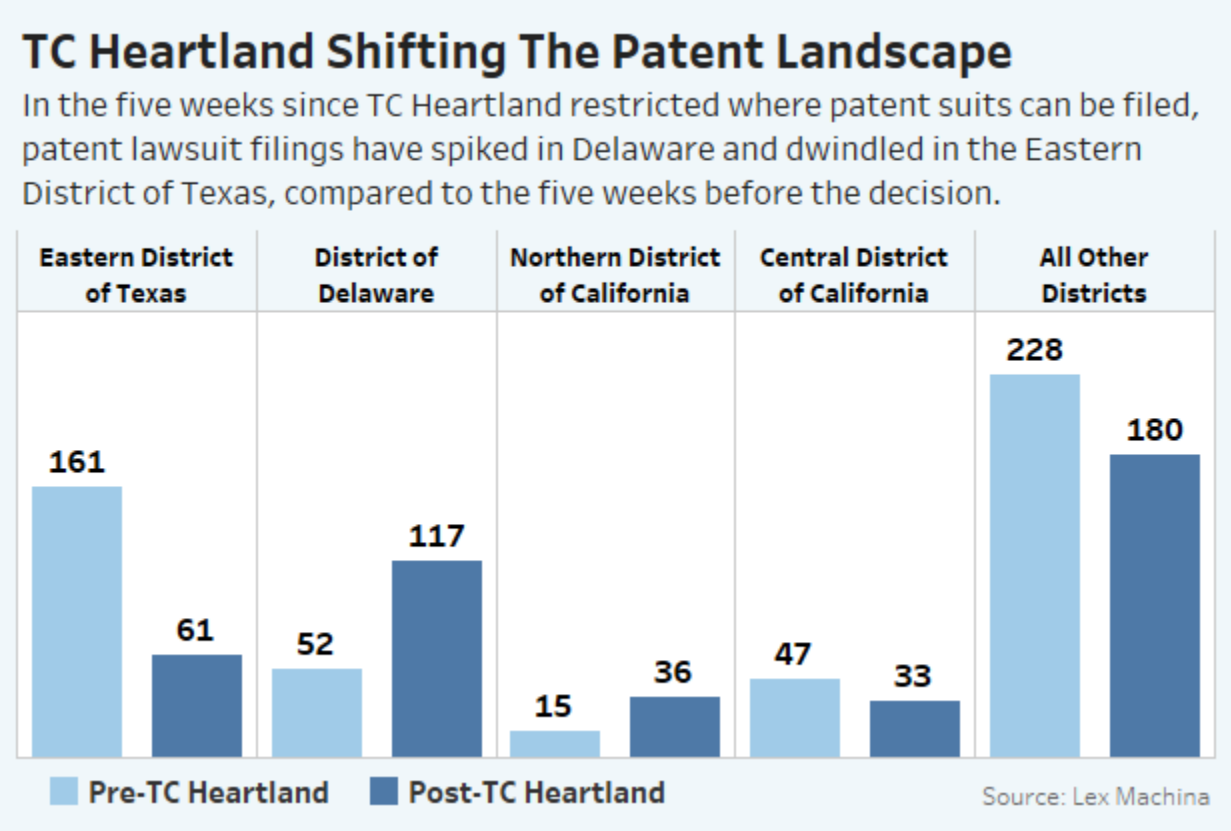
TC Heartland Is Already Remaking The Patent Litigation Map

By **Ryan Davis**

Law360, New York (July 5, 2017, 5:03 PM EDT) -- It's only been a few weeks since the U.S. Supreme Court's TC Heartland decision restricted where patent lawsuits can be filed, but new data shows the decision has already shifted litigation trends, with patent suits spiking in Delaware and dwindling in the Eastern District of Texas.

The high court shook up the patent world on May 22 by discarding precedent that allowed companies to be sued for patent infringement effectively anywhere they make sales. That rule had prompted many suits to be filed in the reputedly plaintiff-friendly Eastern District of Texas.



The Supreme Court decided in TC Heartland LLC v. Kraft Foods Group Brands LLC that patent suits can be

filed only where an accused infringer is incorporated or where it has an established place of business. That has spurred a sharp drop in new complaints in the Eastern District of Texas, a venue to which many defendants have tenuous ties, and a significant increase in suits in Delaware, where most companies are incorporated.

According to data from legal analytics firm Lex Machina, there were 161 patent suits filed in the Eastern District of Texas in the 38 days before the TC Heartland decision, or 32 percent of the suits filed during that time. In the same period after the decision, through June 29, only 61 patent cases were filed in the district, or 14 percent of all new complaints.

In contrast, the number of suits filed in Delaware grew from 52 in the period preceding TC Heartland, or 10 percent of all cases, to 117, or 27 percent of filings, after the decision. The total number of suits filed across the country held fairly steady, with 503 suits before the high court's ruling and 427 suits after.

"What stood out to me is that it looks like a complete flip in the volume of cases filed in the Eastern District of Texas and in Delaware, which is in line with what people were expecting," said Byron Pickard of Sterne Kessler Goldstein & Fox PLLC. "I was also surprised by the relatively high volume of cases that were still filed in the Eastern District of Texas."

The expectation that more patent suits would be filed in Delaware because it is easy to establish venue over companies incorporated in the state appears to be confirmed by the data. Days after TC Heartland, the Delaware court, which has two vacancies, began preparing for an expected influx of patent cases by inviting four Eastern District of Pennsylvania judges to help hear cases.

Delaware has a strong patent track record, making it attractive to plaintiffs who want cases heard by knowledgeable judges while avoiding fights over venue, said Arminda Bepko of Cleary Gottlieb Steen & Hamilton LLP.

"The district has patent-savvy judges who are used to complex cases and keep their docket moving," she said. "Having more patent cases shouldn't be that difficult for them."

The TC Heartland decision also had a noticeable impact on the Northern District of California, which is home to many tech companies that are often involved in patent litigation. There were 15 cases filed there in the weeks before TC Heartland and 36 after, possibly as plaintiffs sought to avoid venue disputes by suing companies where they are located.

However, when it comes to patent venue, all eyes are on the Eastern District of Texas.
Many expected that a Supreme Court decision restricting venue in patent cases could significantly reduce, if not outright eliminate, patent litigation in the collection of small cities east of Dallas.

While fewer suits were filed in the district in the days after TC Heartland, they have certainly not dried up completely, likely because the high court left many questions about venue unsettled, creating openings for patent owners to continue to sue there. Plaintiffs who have long embraced the Eastern District of Texas appear to be betting that they can keep their suits there, and that judges in the district will want to hold onto their extensive patent docket.

"It makes sense for a nonpracticing entity that really likes the district and expects to sue there in the future to take a shot," said David Herrington of Cleary Gottlieb. "They can try a few test cases and see what might stick."

Under the standard the Supreme Court discarded, there was often no reason to litigate venue issues: Most major companies make sales in every district in the U.S., so many accused infringers did not even try to argue that venue was improper in Texas.

The patent venue statute says a company can be sued where it resides or where it has infringed and has a regular and established place of business. The Federal Circuit had previously held that a company resides where it makes sales, but the high court said in TC Heartland that companies reside only where they are incorporated. That placed a renewed focus on the "place of business" option.

"We're going to see a lot of litigation over the second proviso under the statute," Pickard said. "What does a 'regular and established place of business' mean? That's where the action is going to be over the next few years."

In many suits filed in the Eastern District of Texas since the high court's ruling, plaintiffs emphasize the defendants' connections to the district. For instance, suits against Samsung Electronics America Inc. and Cisco Systems Inc. note that those companies have offices in the Dallas suburb of Richardson, which is in the district. Suits against Apple Inc. point to Apple stores in malls in the district, while suits against Wal-Mart Stores Inc., AT&T Inc. and Capital One Bank NA note that those companies have retail outlets in the district.

Some plaintiffs have made an aggressive push for an even more expansive reading of "place of business," including a June complaint by Uniloc USA Inc. against Google Inc. The prolific nonpracticing entity, which filed 87 patent suits in 2016 — nearly all of them in the Eastern District of Texas — spent 30 pages of the 48-page complaint detailing numerous reasons it argued that the California-based tech giant has a regular and established place of business in the district.

For instance, it noted that Google sells goods and services to Eastern District of Texas consumers through its website, provides services to a Texas A&M University campus in the district, and even had a car pass through "almost every stretch of road" in the district to take photos for its Google Maps Street View feature, including of the federal courthouse in Marshall.

It remains to be seen whether Eastern District of Texas judges or the Federal Circuit will accept such arguments, or agree that an office or store in the district is sufficient to secure venue. If they do, the Texas court could largely maintain its status as a patent litigation hotspot, where around 40 percent of patent suits were filed in recent years.

"If those arguments end up working, it could open a door right back to the Eastern District of Texas and there could still be a lot of suits filed there," Herrington said.

Eastern District of Texas Judge Rodney Gilstrap, who handles by far the most patent cases in the country, suggested in a decision last week that he will take a broad view of what constitutes a place of business.

In denying a motion to transfer Raytheon Co.'s suit against Cray Inc. under TC Heartland, the judge set a four-factor test he said he will use to determine if a company has a regular and established place of business in the district. It looks at whether a defendant has a physical presence in the district, including retail stores and warehouses, and the benefits it derives from that presence, including sales revenue.

Yar Chaikovsky of Paul Hastings LLP said there will be extensive legal battles over place of business in the months to come, reminiscent of fights nearly a decade ago after a series of Federal Circuit decisions transferred patent cases out of the Eastern District of Texas and parties disputed which cases belonged there going forward.

“That required a lot of litigation in the form of discovery and depositions," Chaikovsky said. "The patent litigation bar needs to be ready for very similar litigation as to the regular and established place of business.”

While at the time, many expected those decade-old rulings would shift most patent litigation out of the Eastern District of Texas, its caseload only got heavier after the law settled, he noted. And following TC Heartland, there is a great deal of room for venue standards to develop.

“People have to establish what regular and established place of business means, and right now there’s not enough case law out there,” he said.

--Editing by Philip Shea and Aaron Pelc.
