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TC Heartland's Impact In 2018

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The U.S. Supreme Court decided TC Heartland LLC v. Kraft Foods Group Brands LLC on May 22, 2017, revitalizing the patent venue statute.[1] This article reviews the impact of TC Heartland over the past year and a half.

Background

28 U.S.C. § 1400(b) provides that "[a]ny civil action for patent infringement may be brought in the juridical district (1) where the defendant resides, or (2) where the defendant has committed acts of infringement and has a regular and established place of business."[2] The Federal Circuit essentially obviated that statute in its 1990 decision VE Holding.[3] In VE Holding, the Federal Circuit found that, for the purposes of Section 1400(b), a defendant "resides" anywhere it is subject to personal jurisdiction. This effectively obviated this patent-case specific venue statute, as option one swallowed option two, now that the personal jurisdiction analysis would resolve the venue analysis. Twenty-seven years later, in May 2017, the Supreme Court, in TC Heartland, resurrected this statute by overturning VE Holding. "As applied to domestic corporations, 'reside[nce]' in § 1400(b) refers only to the State of incorporation."[4] All eyes have turned to option two, and what it meant for a company to have "a regular and established place of business" in a venue.

Federal Circuit

The Federal Circuit has directly addressed Section 1400(b) three times since the TC Heartland decision. First, in September 2017, the Federal Circuit decided In re Cray, stating the obvious that the "regular and established place of business" must be a physical place and "of the defendant."[5] The Cray court also fleshed out what would qualify as "a regular and established place of business," providing examples while emphasizing the fact-dependent nature of the inquiry.[6] Second, in May 2018, in In re BigCommerce Inc., the Federal Circuit found that "a corporate defendant shall be considered to 'reside' only in the single judicial district within that state where it maintains a principal place of business, or, failing that, the judicial district in which its registered office is located."[7] Third, also in May 2018, in In re ZTE, the Federal Circuit held that "the Plaintiff bears the burden of establishing proper venue."[8] Collectively, these Federal Circuit decisions raised the venue bar even higher for patentee-plaintiffs.

District Courts: Trends

No place is the impact of TC Heartland seen more than in the statistics regarding where patent plaintiffs have been filing their infringement actions. Here are venue-by-venue statistics for new patent filings in the year prior to the TC Heartland decision, the year subsequent, and in 2018 through the end of November — focusing on the four most popular venues of 2018.[9]

NEW PATENT FILINGS

	Year Prior to *TC Heartland*	Year After to *TC Heartland*	2018 (YTD)
E.D. Tex.	37.8%	14.7%	14.2%
D. Del.	12.6%	22.3%	24.0%
N.D. Cal.	3.4%	7.9%	10.1%
C.D. Cal.	6.0%	9.3%	8.2%
All Other Venues	40.2%	45.8%	43.5%

Clearly, the impact of TC Heartland on the geography of new patent filings has been significant. There has been a huge swing away from the Eastern District of Texas — formerly the venue for over one-third of all new filings, now roughly one-seventh. And there has been a corresponding swing toward the District of Delaware — formerly the venue for about one-eighth of new filings, now inching up to one-quarter. Also, significantly, Texas' loss is not necessarily Delaware's gain, as the two venues' collective share of new cases has dropped — from about half of all new filings to a little over one-third. This makes sense, now that proper venue only exists where a domestic corporation has a material presence, either having incorporated there or by having "a regular and established place of business."

Additionally, the impact of TC Heartland on venues other than the big two —that is, the Eastern District of Texas and the District of Delaware — cannot be understated. The percentage of new filings going to the Northern District of California has roughly tripled, and new filings in the Central District of California have increased roughly by half. There have been similar increases in the District of New Jersey and the Southern District of New York

District Courts: Unresolved Issues in 2018

Despite TC Heartland's clarity, there are a number of venue-related issues that remain unresolved on the district court level.

One example is the question of when one has waived an objection to improper venue. The Central District of California recently denied a motion to transfer and held the defendant waived its objection to improper venue on the grounds that waiting seven months after TC Heartland to challenge venue reflected a "tactical wait-and-see … paradigm for when an objection to venue could be waived."[10] However, one day later, the Middle District of North Carolina granted a similar motion despite a seven-month delay because "the Court [could not] discern any … prejudice to Plaintiff."[11]

Another example relates to the time period that matters for determining whether venue is proper under Section 1400(b). Some district courts have ruled the § 1400(b) "place of business" determination should be made based on the time the complaint was filed, while others have ruled the determination should be made based on when the cause of action accrued.[12]

District courts have also disagreed regarding how to interpret the venue where one "has committed acts of infringement" in Section 1400(b) in the context of Hatch-Waxman/abbreviated new drug application, or ANDA, suits. Some courts have interpreted this broadly, to include places where the generic drug manufacturer plans to market the accused product, while others have stated venue is only proper in the forum where the ANDA was prepared and submitted.[13]

Finally, it's worth noting that the fact-intensive nature of the § 1400(b) "regular and established place of business" inquiry. District courts are deciding this issue on increasingly nuanced and potentially conflicting grounds. For instance, one court declined to find a regular place of business for the defendant's "partner stores," while another court found a regular place of business for defendant's authorized dealers that the defendant did not "own or control."[14] In both cases, the defendant advertised affiliation with the vendors on their websites.[15] More notoriously, the Eastern District of Texas found venue proper in a suit against Google, based on the fact that Google exercised strong control over certain servers in the venue, and their physical location.[16]

Conclusion

TC Heartland has had a profound impact, causing significant changes in where patent plaintiffs are suing. Now a year and a half out from the decision, regional filing rates have begun to stabilize, with a significant decrease in the number of suits being filed in the Eastern District of Texas, with suits that would otherwise have been filed there now being filed in Delaware, California and elsewhere. That said, there remains significant litigation over what constitutes a proper venue, with multiple issues still unresolved and subject to splits among the district courts.

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[1] 137 S.Ct. 1514 (May 22, 2017).

[2] 28 U.S.C. § 1400(b) (bracketed numbers and emphasis added).

[3] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (1990).

[4] 137 S.Ct. at 1521.

[5] 871 F.3d 1355, 1360 (Sept. 21, 2017)

[6] 871 F.3d at 1362-3.

[7] Nos. 2018-120, 2018-122.

[8] 890 F.3d 1008, at 1013.

[9] Data collected from Lex Machina.

[10] Order Re Defendants' Mot. to Dismiss or Transfer for Lack of Venue at 6, Adrian Rivera v. Remington Designs LLC, No. LA CV16-04676 JAK (SSx) (C.D. Cal. June 19, 2018).

[11] Order on Mot. to Transfer for Improper Venue at 6, Blue Rhino Global Sourcing Inc. v. Best Choice Products a/k/a Sky Billiards Inc., No. 1:17CV69 (M.D.N.C. June 20, 2018).

[12] See, e.g., Infinity Computer Products Inc. v. OKI Data Americas Inc., 2018 WL 1035793, at *9-10 (E.D. Pa. Feb. 23, 2018) (time complaint filed); cf. Order on Mot. to Transfer Venue at 16-17, ParkerVision Inc. v. Apple Inc. et al., C.A. No. 3:15-cv-1477 (M.D. Fla. March 8, 2018) (time cause of action accrued).

[13] See, e.g., Celgene Corp. v. Hetero Labs Ltd., 2018 WL 1135334, at *3 (D.N.J. March 2, 2018) (intent to market generic product in district was sufficient); cf. Galderma Labs. LP v. Teva Pharms. USA Inc., 290 F. Supp. 3d 599, 608 (N.D. Tex. Nov. 17, 2017) (looking only to "where the ANDA submission itself was prepared and submitted").

[14] See, e.g., Order Denying Defendant's Mot. to Dismiss for Lack of Personal Jurisdiction or Improper Venue or, in the Alternative, to Transfer at 15, Blitzsafe Texas, LLC v. Bayerische Motoren Werke AG, et al., No. 2:17-CV-00418-JRG (E.D. Tex. Sept. 6, 2018) (authorized dealers were sufficient); cf. Order Granting Defendant's Motion to Dismiss at 6, Inhale Inc. v. Gravitron LLC, No. CV 18-3883 PSG (KSx) (C.D. Cal. Sept. 5, 2018) (partner stores were insufficient).

[15] See id.

[16] Seven Networks LLC v. Google LLC, 315 F. Supp. 3d 933 (E.D. Tex. 2018), mandamus denied In re Google LLC, 2018-152 (Fed. Cir., Oct. 29, 2018).