Interpretations of *TC Heartland* Add Uncertainty to Patent Litigation

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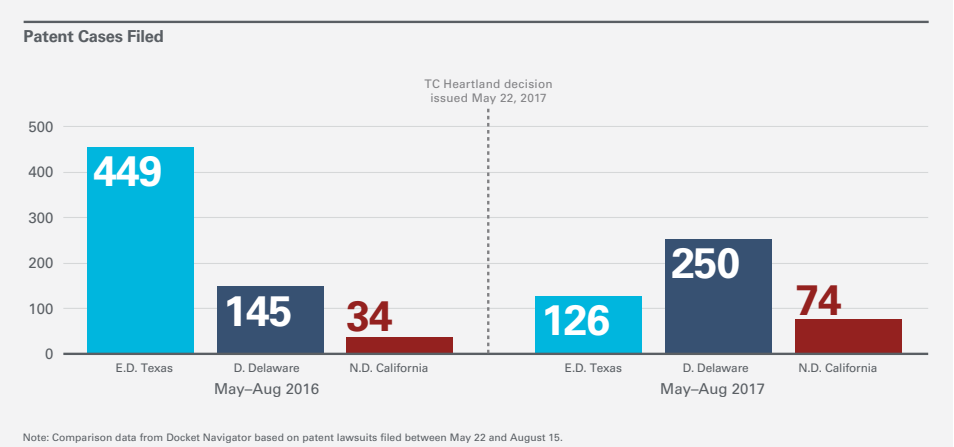
In May 2017, the U.S. Supreme Court in *TC Heartland v. Kraft Foods* reversed more than 25 years of Federal Circuit precedent when it held that for venue purposes a corporation is resident only in its state of incorporation. In the approximately three months since the ruling, patent lawsuits appear to be on a downward trend, and there has been a noticeable shift in where they are now being filed.

Under the first prong of the patent venue statute, an infringement action can be filed in any federal judicial district where the defendant is resident. Prior to *TC Heartland*, courts had long deemed that a corporation was resident in a particular district if it was subject to personal jurisdiction there. For most large companies with a national reach, that meant almost any judicial district was proper.

The post-*TC Heartland* shift is most apparent in a few key districts. The U.S. District Court for the Eastern District of Texas, traditionally regarded as a plaintiff-friendly jurisdiction and as a result a popular district for filing claims, has experienced a 72 percent drop in new patent lawsuits compared to the same period last year, according to data from the research database Docket Navigator through August 15, 2017. Meanwhile, in Delaware — where over half of all *Fortune* 500 companies are incorporated — patent lawsuits in the U.S. District Court for the District of Delaware have increased 72 percent. The U.S. District Court for the Northern District of California also experienced a 118 percent increase in new patent lawsuits compared to the same period last year, though the large percentage increase is partly due to the relatively fewer patent cases that it had on its docket to begin with because of patent assertion entities' preference for the Eastern District of Texas.



Note: Comparison data from Docket Navigator based on patent lawsuits filed between May 22 and August 15.

Courts handling pending patent litigation have had to decide whether *TC Heartland* was an intervening change in law. The results have not been uniform, with some defendants having more success challenging venue than others. For newly filed cases, courts are still developing the contours of the venue statute, which could be contributing to the decrease in filings. Patent owners may be temporarily deferring litigation while they wait for the courts to provide additional clarity.

Practitioners should watch for three important issues as courts and patent litigants continue to define the bounds of the *TC Heartland* decision.

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Test for 'Regular and Established Place of Business'

The second prong of the patent venue statute allows for filings in any judicial district where the defendant has infringed and has a "regular and established place of business," which the Federal Circuit previously held means a "permanent and continuous presence." To date, courts have addressed this provision infrequently because — prior to *TC Heartland* — litigants could easily establish venue under the first prong.

In June 2017, Judge Rodney Gilstrap, a district judge in the Eastern District of Texas who has the largest patent docket in the country, issued a decision in *Raytheon Co. v. Cray Inc.* setting forth a four-part test to determine when a company has a regular and established place of business. The test considers factors including physical presence in the district, whether the company promotes a presence in the district, whether the company derives benefits from the district, and interactions between the company and customers in the district. If broadly adopted, this test likely will reduce the impact of *TC Heartland* and keep patent cases in the jurisdictions in which they are filed. Some companies have already sought to challenge this test by filing *amicus* briefs in the Federal Circuit.

In September 2017, Chief Judge Leonard P. Stark of the District of Delaware held that some physical presence is required to establish a regular and established place of business in the district. The court stated that such a physical presence does not need to be a formal office or store, but that registering to do business in the district, maintaining a website that is accessible in the district, or shipping goods to unaffiliated individuals or third-party entities in the district are all insufficient to establish venue under this prong.

Undoubtedly, it will fall to the Federal Circuit to resolve the interdistrict differences in the interpretation of the "regular and established place of business" prong of the patent venue statute.

Impact on Businesses With a Retail Presence

Retail businesses are physically located in the judicial districts in which they operate. They also attract customers, hire employees to sell products and derive revenue in those districts. As such, retail businesses are likely to be minimally impacted by *TC Heartland* and remain susceptible to lawsuits in any district where they have a physical location. Recently, a court in the District of Delaware appeared to endorse this view, finding that a single retail store in the state was sufficient to establish a regular and established place of business.

Effect on Foreign Corporations

Foreign companies and companies that are not incorporated are presumably unaffected by the Supreme Court's decision and remain subject to lawsuits in any judicial district where they are subject to personal jurisdiction.

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Beyond the jurisdiction of the courts, companies that have long been dissatisfied with being subjected to lawsuits in jurisdictions like the Eastern District of Texas may petition Congress to amend the venue statute. In fact, the House Judiciary Committee's Subcommittee on Courts, Intellectual Property and the Internet held a hearing on the subject in June 2017. With the recent attention brought by the *TC Heartland* decision, Congress may be inclined to act.

Meanwhile, the ultimate impact of the *TC Heartland* decision remains to be seen. As courts further clarify questions surrounding venue, defendants in patent cases may find travel to the Eastern District of Texas a thing of the past, or they could find themselves back where they started thanks to the statute's second prong.