

# ORANGE COUNTY BUSINESS JOURNAL

Vol. 40, No. 42

THE COMMUNITY OF BUSINESS™

October 16-22, 2017 • \$1.50

## Patent Venue After TC Heartland: Is Your Business Safe From the Long Arm of the Eastern District of Texas?

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In the era of "patent trolls," most sophisticated businesses have been sued or at least know that they could be sued for patent infringement in the Eastern District of Texas. After a recent decision by the U.S. Supreme Court known as *TC Heartland*, you probably thought your company would never again be sued in Marshall, Texas, or in other districts where your company is not incorporated or headquartered.<sup>1</sup>

**Not so fast.** While the Supreme Court has clarified that 28 U.S.C. § 1400(b) controls venue in patent cases, there is a relative lack of authority on what constitutes a "regular and established place of business," and courts are grappling with what that means, particularly in the age of electronic business.

Section 1400(b), the patent venue statute, provides that an alleged patent infringer may be sued where it "resides" or where it "has committed acts of infringement and has a regular and established place of business." Before *TC Heartland*, the Federal Circuit held that a general venue statute, 28 U.S.C. § 1391(c), modified the patent venue statute so that an alleged infringer could be sued in any district in which it was subject to the court's personal jurisdiction, **including any district where it committed an alleged infringement.** That construction has profoundly influenced U.S. patent litigation for over twenty years, making the Eastern District of Texas the world's most popular venue for patent infringement actions, drawing more than 40% of all patent infringement cases in 2015.

In *TC Heartland*, the Supreme Court reversed the Federal Circuit's expansive interpretation of the patent venue statute and held that Section 1400(b) is **not** modified by Section 1391(c). Patent venue will now be limited to districts where a business "resides" – i.e., the state of its incorporation or headquarters – and those "where it has committed acts of infringement and has a regular and established place of business." But because patent venue was so much easier to establish under the Federal Circuit's previous formulation, there is a relative lack of authority regarding the meaning of "a regular and established place of business," and much of that authority hails from a time before a vast amount of business was conducted electronically, including over the internet.

In June of 2017, the nation's busiest patent judge, who in 2015 alone picked up more than 1,600 patent cases, waded into the fray. Not surprisingly, Judge Gilstrap's decision in *Raytheon v. Cray* drew much attention from businesses, patent practitioners, commentators, and, of course, the Federal Circuit.<sup>2</sup> Judge Gilstrap found that Cray could be sued in the Eastern District, despite the lack of a physical office there, based primarily on the sales activities of a Cray employee within the district. Judge Gilstrap also noted the "jumbled" and "irreconcilable" case law in this area and suggested that the "protean" "forces and directions of the Internet" may further complicate the venue analysis.

Less than three months later, the Federal Circuit reversed Judge Gilstrap's decision.<sup>3</sup> The Federal Circuit first noted that litigants and lower courts are raising with increased frequency the question of where a defendant has a "regular and established place of business," and recognized the need for greater uniformity on this issue. Emphasizing the statutory language and guided by the statutory history, the Federal Circuit required the following three elements: "(1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant."

Significantly, the Federal Circuit's *Cray* inquiry does not directly consider the *size* of the place of business, the amount of *revenue* generated by the business, or the *nature* of the business being conducted in the district. The court's emphasis was on the **existence** of such a place of business. Specifically, while the place need not be a named or formal presence in the district, in the sense of a formal office or store, the court requires a *physical* location in the district from which the business of the defendant is carried out. Steady, uniform, and orderly business operation may establish venue, but sporadic, temporary, or singular activity does not. Importantly, the court required that the *place* be that of the *defendant*, not solely a place of the *defendant's employee*.

Thus, while *Cray* places limits on the meaning of a "regular and established place of business," the analysis is highly fact intensive and uncertainty still remains, particularly for businesses operating in an electronic world. Indeed, the only certainty is that litigation on this issue will continue.

For these reasons, responsible businesses should take a break from basking in the glory of *TC Heartland*, and perform a careful assessment of whether they can still be sued for patent infringement in districts other than their home districts and should consider steps to limit that possibility. The obvious starting point is to understand the districts in which a business maintains physical locations, such as office space, a warehouse, a brick and mortar store, and other physical facilities. If maintaining such a physical place makes good business sense, most businesses will live with the risk of being sued in such districts. Businesses should note that

the existence of a regular and established place of business is determined at the time the alleged infringement occurred (provided an action is filed within a reasonable time).

More subtle, however, is the effect of sales employees or representatives in a district that are not officed at a physical location owned or rented by the business. The fact that a business *allows* its employees to work from their home in the district has been found insufficient to establish venue unless the employer owned, leased, or rented any portion of the employees' home in that district, or controlled or *played a part in selecting the employee's physical location.* Businesses may consider adding a layer of protection by explicitly stating in agreements with such employees that they are not required to maintain a physical location in a particular district, but they may do so solely for their personal convenience. Businesses should be careful in deciding whether or not to subsidize or actively facilitate an employee's location. Businesses should also consider where any physical inventory sold in the district is maintained.

Another example of a business unwittingly subjecting itself to venue occurred in *Snyders v. St. Jude*.<sup>4</sup> In that case, the defendant argued that clinical trial activities within a district did not subject it to venue because such activities are not acts of infringement under the safe harbor of 35 U.S.C. 271(e)(1). But the court held that this safe harbor is an *affirmative defense*, and that a plaintiff would not be deprived of its chosen venue based on an affirmative defense.

In sum, *TC Heartland* certainly lessened the likelihood of being sued in the Eastern District of Texas and other "unintended" venues. However, patent venue remains far from certain, and businesses should affirmatively assess where they can be sued for patent infringement, and take steps to limit the possibility they will be sued somewhere they would rather not be.

<sup>1</sup> *TC Heartland LLC v. Kraft Foods Gr. Brands LLC*, 137 S. Ct. 1514 (2017).

<sup>2</sup> *Raytheon Co. v. Cray, Inc.*, Case No. 2-15-cv-01554-JRG (E.D. Tex., June 29, 2017).

<sup>3</sup> *In re Cray Inc.*, 2017 U.S. App. LEXIS 18398, 2017 WL 4201535 (Fed. Cir. Sep. 21, 2017).

<sup>4</sup> *Snyders Heart Valve LLC v. St. Jude Medical S.C., Inc.*, Case No. 4:16-cv-00812-ALM-KPJ (E.D. Tex. Aug. 29, 2017).

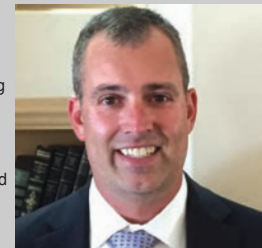
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