

# Venue in Patent Cases: The Sea Change Continues

## Intellectual Property



When the Supreme Court issued its landmark *TC Heartland* decision in 2017, it changed the venue calculus for patent plaintiffs and defendants and reshaped the patent litigation landscape. But two years later, some important issues are still being worked out in the lower courts.

Until recently, the Eastern District of Texas was the favored venue for patent owners suing corporations for infringement, and particularly for so-called patent trolls. This was based largely on a perception, generally supported by the statistics, that East Texas juries were more likely to find for a patent plaintiff and award significant damages than juries in other jurisdictions. In addition, the court had established local patent rules that required parties to do a significant amount of work early in a case, “and that put pressure on defendants to settle low-value cases quickly because they would otherwise have to start incurring significant defense costs almost right away,” says [Mark Supko](#), a partner in Crowell & Moring’s [Intellectual Property Group](#). “The court typically was not receptive to early summary judgment motions to dispose of seemingly weak patent assertions. The Court of Appeals for the Federal Circuit had simultaneously interpreted the patent venue law quite broadly, essentially requiring only that a defendant had sold the infringing product in the district.”

In 2017, however, the Supreme Court’s *TC Heartland* decision rejected the Federal Circuit’s interpretation of the patent venue law, holding that in order to bring a patent lawsuit against a company in a given district, that company must either reside in that district or have a “regular and established place of business” and have committed an act of alleged infringement there. As many expected, the decision led to patent cases shifting to other courts. Most notably, as the number of cases being filed in the Eastern District of Texas has decreased, Delaware—where many corporations are incorporated—has become the top venue for patent cases nationally.

For many defendants, this change sounded like good news. “There is a general perception among many practitioners that the District of Delaware provides a more level playing field for patent defendants,” says Supko. “It is generally viewed as a neutral court where parties are going to get a fair shake regardless of which side of the ‘v’ they’re on.” For example, the Delaware court does not have local patent rules like those in the Eastern District of Texas. And with so many companies

being incorporated in Delaware, the court was a popular venue for patent litigation even before *TC Heartland*. “The judges there know how to handle patent cases and do a good job of keeping them moving,” he says. “Many of the judges have developed their own specialized procedures for patent cases, they are very comfortable with patents and technology, and they keep abreast of developments in the patent law. So there is a welcome level of predictability when you are faced with litigation there.”

## The End of the Patent Death Squad?

Following creation of the *inter partes* review procedure in 2012, the USPTO’s Patent Trial and Appeal Board quickly gained a reputation as a “patent death squad,” as the board invalidated a high percentage of challenged patents. But the PTAB appears to be no longer living up to that reputation. “A higher percentage of patents appear to be surviving IPR challenges,” says Crowell & Moring’s Mark Supko. That’s partly because the PTAB implemented some rule changes that some view as making institution of an IPR more difficult, but also because the quality of patents being asserted in litigation has generally improved as plaintiffs have reacted to changes in the law calling into question the validity of patents directed to business methods and computer software-implemented processes.

This does not mean that the PTAB is not a workable forum for companies that want to challenge patents asserted against them. While it can no longer be considered a relatively surefire defense strategy, the PTAB is still more likely to invalidate a patent than is a jury. Moreover, there are potential downsides to factor in when considering whether to pursue an IPR. “In particular, a seemingly expanding statutory estoppel applies when a party attacks a patent through an IPR and loses,” Supko says. “So later, in litigation, the party can’t assert any prior art that it raised or reasonably *could have raised* in the IPR.” Several district courts have grappled with the meaning of the “could have raised” provision of the estoppel law, and a broad interpretation could mean the stakes are even higher if an IPR fails.



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That said, the perceived differences between the two courts may not be that significant. Supko and the Crowell & Moring Intellectual Property Group recently analyzed the outcomes of patent cases and certain types of motions at the two courts over the past two years. “There are certainly procedural advantages that the Eastern District of Texas provides to patent plaintiffs, but once cases get rolling, the two courts are similar in many respects,” he says.

For example, the analysis looked at the win rates for motions to transfer based on an inconvenient or improper venue, as well as for motions to stay cases pending resolution of an *inter partes* review or other post-grant validity challenge at the Patent Office. “The percentages were similar for the two courts, and generally in line with national averages,” he says. The only real difference this analysis suggested “was that the District of Delaware is significantly more prone to grant motions to dismiss for failure to state a claim than the Eastern District of Texas. That’s in keeping with the reputation of the Texas court.” Overall, he says, some observers have noted that the pendulum at the Eastern District of Texas had already started to swing toward being less pro-patent plaintiff before *TC Heartland*, and this analysis appears to bear that out.

### Hammering Out the Details

Despite the Supreme Court’s effort to bring clarity to the patent venue issue, some of what constitutes a proper venue is still being sorted out in the courts more than two years after *TC Heartland*. “The ‘residence’ requirement for patent venue is easy to apply and generally only requires looking to where a defendant is incorporated or headquartered,” says Supko. “Figuring out what constitutes a ‘regular and established place of business’ has proven to be far more challenging as plaintiffs try to push the boundaries outward, and that’s where the action is today.” That’s especially true for internet-based businesses, where online and cloud-based operations do not necessarily fit neatly within traditional concepts about the location of a business.

For example, in 2017, the Eastern District of Texas ruled that Google content servers housed in a third-party data center qualified as an established place of business for Google for venue purposes (*Seven Networks LLC v. Google LLC*). While some viewed that decision as an effort by the Eastern District of Texas to push the venue envelope in order to keep more cases there, says Supko, the court supported its decision with

a detailed analysis of the principles for determining what constitutes a “regular and established place of business” that the Federal Circuit had spelled out in its *In re Cray* decision. More recently, the Northern District of New York ruled that “lockers” that an online retailer installed at third-party business locations for customers to pick up or return ordered goods were its regular and established places of business and therefore supported venue in that district.

The courts haven’t heard the last of these issues, says Supko, who expects that patent owners will continue to try to push the boundaries in order to support venue in what they perceive to be a more favorable forum than the defendant’s residence. “As cases continue to present new twists on the facts relating to how and where companies are doing business in the digital economy, it’s likely that we’ll see district courts struggling with these questions, and there will be more case law developing around what constitutes a ‘regular and established place of business,’” he says.

As these issues are debated, companies should recognize that patent plaintiffs have nowhere near the level of control and forum-shopping abilities they had before *TC Heartland*. At the same time, they need to weigh the evolving view of just what constitutes a place of business. Recent cases have shown that in addition to traditional offices and manufacturing facilities, various types of physical equipment—including servers and lockers—may qualify as the owner’s place of business for venue purposes. “If a company faces a significant risk of patent litigation in what they view as an unfavorable forum, they may now be able to take advantage of the developing venue law by reconsidering where they incorporate or set up operations, and perhaps avoid certain jurisdictions,” Supko says.

Some companies may be able to structure their businesses to take advantage of the evolving venue picture. “For companies that find themselves frequent targets of patent trolls, for example, attention should be paid to how business arrangements are structured in undesirable forums,” Supko adds. “A company whose business involves the placement of physical equipment away from a traditional brick-and-mortar facility should explore whether it is possible to structure their relationship with the facility owner differently in order to reduce the likelihood that the location will be deemed the equipment owner’s place of business. If there’s a jurisdiction where you don’t want to get sued,” he says, “there may be ways to set up your business to reduce the possibility of that jurisdiction being a supportable venue for patent litigation.”