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PERSPECTIVE

2017 IN REVIEW

Supreme Court shook up patent venue in 2017

By David Lisson
and Serge Voronov

Earlier this year, the U.S. Supreme Court made clear that venue in patent cases based on where a corporation "resides" is limited to its state of incorporation. *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514 (2017). This overturned the U.S. Court of Appeals for the Federal Circuit's long-standing rule that patent venue exists wherever a corporation is subject to personal jurisdiction. The result has been a dramatic change to patent lawsuit filings, including reducing filings in the Eastern District of Texas, previously the nation's most popular venue.

After *TC Heartland*, plaintiffs seeking to bring a patent infringement action outside of a defendant's state of incorporation must rely on the other statutory test for venue: "where the defendant has committed acts of infringement and has a regular and established place of business." 28 U.S.C. Section 1400(b). Acts of infringement include things such as making, using or selling a patented invention. *See* 35 U.S.C. Section 271. And the Federal Circuit recently gave some guidance on the meaning of "regular and established place of business" in *In re Cray Inc.*, 871 F.3d 1355 (Sept. 21, 2017), identifying three general requirements: "(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."

The Federal Circuit cautioned in *Cray* that when it comes to venue, "each case depends on its own facts." But recent cases applying *Cray* suggest some guidelines for determining whether venue lies and what constitutes a physical place of business.

Types of Physical Places

Retail stores: Where the defendant has a retail store in the district, courts have generally concluded that venue is proper. For example, in *Intellectual Ventures II LLC v. FedEx Corp.*, the court found that FedEx's retail and service locations in the district supported a "regular and established place of business." 2:16-CV- 00980-JRG (E.D. Tex. Nov. 22, 2017). Similarly, another court found that an Apple store was sufficiently "permanent and continuous" for venue purposes. *Prowire LLC v. Apple, Inc.*, CV 17-223 (D. Del. Aug. 9, 2017).

However, in light of *Cray*'s holding that a place "must be the place of the defendant," some courts have excluded stores of subsidiaries or distributors.

Until Congress modifies that statute or the Supreme Court weighs in on the meaning of a 'regular and established place of business,' the defendant's physical presence will likely remain a significant consideration.

For example, in *Symbology Innovations, LLC v. Lego Systems, Inc.*, even though the defendant's subsidiary operated retail stores in the district, that was insufficient for venue purposes since the subsidiary was a distinct corporate entity that maintained "formal corporate separateness." 2:17-CV-86 (E.D. Va. Sept. 28, 2017). And in *Patent Holder LLC v. Lone Wolf Distributors, Inc.*, the plaintiff argued that venue was proper because local dealers sold the defendant's allegedly infringing products. 17-23060-CIV (S.D. Fla. Nov. 1, 2017). But the court found that the dealers' locations were irrelevant to venue because such locations "would not belong to [the defendant]."

Employees' homes: Courts have also looked at whether employees' homes may fulfill the "regular and established place of business" test. *Cray* itself involved a sales executive who lived in the district, identified himself on social media as the defendant's employee living there, and used a phone number with a local area code in customer correspondence. The Federal Circuit held that his home was not "the place of the defendant," as the defendant did not own or rent it, store inventory there, or use it for demonstrations. Moreover, the defendant did not condition the executive's employment on living in the district, and there was no indication that he served the defendant's local customers.

Cray distinguished *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985), a much earlier Federal Circuit decision holding that employees' home offices may support patent venue. There, however, the defendant had "specifically depended" on the presence of its employees in the district. And the defendant had also "affirmatively acted to make permanent operations" to ensure that it could service its local customers from that district, including advertising a local secretarial service office as a place of business and using its employees' homes as distribution centers.

After *Cray*, at least one court has concluded that storing the defendant's materials in employees' homes does not necessarily rise to the level of physical presence. In *Regents of University of Minnesota v. Gilead Sciences, Inc.*, some employees used their homes to store promotional materials. 16-CV-2915 (SRN/HB) (D. Minn. Oct. 20, 2017). The court reasoned that because the employees were not required to store the materials at their homes and the quantities were "small" — an amount they would otherwise typically store in the trunk of their cars — it could not infer that the homes were the defendant's places of business.

Storage units: Some courts have found that the defendant's physical presence may be so limited that it is insufficient to support venue. In Gilead, some of the defendant's employees kept product samples in storage lockers which the defendant leased. But the court found the lockers failed to be "regular and established" because they were "relatively small" and contained a "limited quantity" of the defendant's products.

Focus Remains on Physical Presence

Although business activities may remain relevant to venue, a link between the activity and a place may be required. Indeed, *Cray* recognized that, "[m]arketing or advertisements also may be relevant, but only to the extent they indicate that the defendant itself holds out a place for its business." For example, in *Symbology*, the court noted that the defendant's promotional events were "transitory" and so did not show that it maintained a "place of business." And although some plaintiffs have asserted that registering as a foreign corporation or having a registered agent to accept service of process supports venue, several courts have rejected this argument. *BillingNetwork Patent, Inc. v. Modernizing Med., Inc.*, 17 C 5636 (N.D. Ill. Nov. 6, 2017).

Old Statute, New Circumstances

The Federal Circuit recognized in *Cray* that business practices have changed since 1985 — not to mention since the patent venue statute was enacted almost 70 years ago — such that a physical location may no longer be necessary to conduct business. But until Congress modifies that statute or the Supreme Court weighs in on the meaning of a "regular and established place of business," the defendant's physical presence will likely remain a significant consideration. And the fact-based nature of the test suggests that the propriety of venue will remain a contested issue. Litigants should carefully track developments as courts apply the patent venue statute to novel circumstances and look closely at the facts on the ground when bringing or defending a patent case.

David Lisson *is a partner and* **Serge Voronov** *is an associate in the Litigation Department of Davis Polk & Wardwell LLP. Mr. Lisson has extensive experience litigating patent infringement and other intellectual property cases in courts and tribunals across the country. Mr. Voronov's practice focuses on commercial and intellectual property litigation.*


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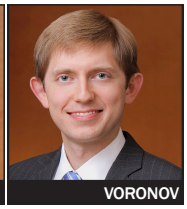
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