JULY 20, 2017

LAW BUSINESS TECHNOLOGY
BUSINESS TECHNOLOGY LAW
TECHNOLOGY LAW BUSINESS
THE RECORDER
daily at www.therecorder.com
An ALM Publication

Practical Aftermath of 'TC Heartland': Book Your Flights for the Coasts

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Over the past three years, patent filings in the Eastern District of Texas grew steadily while patent filings in the Northern District of California and the District of Delaware dropped. In fact, in the past year, over 34 percent of the patent suits against companies located in northern California were brought in E.D. Tex.

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With the U.S. Supreme Court's May decision in *TC Heartland*, all signs point to significant change. Already-pending cases have, and will continue to, transfer out of E.D. Tex. to N.D. Cal. New filings against those same companies or similarly located companies have been, and will continue to be, brought in N.D. Cal., not E.D. Tex. And similar trends apply to Delaware companies: Delaware companies are once again being sued in Delaware. Both N.D. Cal. and D. Del. will get busier, and lawyers familiar with those districts will once again be in high demand. The predictions regarding *TC Heartland* appear to be coming true, so prepare to book your flights to the coasts.

Where were California and Delaware companies being sued for patent infringement?

In an effort to determine the practical impact of *TC Heartland*, we must look at where companies were being sued. A survey of 39 Fortune 1000 companies headquartered in Silicon Valley revealed that those companies were defendants in 1,371 patent cases over the last five years. Only 16.6 percent of those cases were filed in N.D. Cal. Instead, a large percentage of cases—34.1 percent—were brought in E.D. Tex. The District of Delaware was the second preferred district with 22.8 percent of the patent cases. The remaining quarter of cases were filed in districts across the United States.

A similar survey of 55 companies headquartered and incorporated in Delaware with over $1 billion in revenue shows these

companies were sued in Delaware approximately 20 percent of the time, which is less than the 32 percent of the cases filed against these companies in E.D. Tex.

Unsurprisingly, as of June, E.D. Tex. had by far the most patent cases, with 1,200 more cases than even the runner-up, D. Del.

'TC Heartland' changed the paradigm

The recent Supreme Court decision in *TC Heartland* unambiguously reiterated that patent venue is governed by 28 U.S.C. §1400(b), which allows an infringement suit to be brought in (1) the judicial district where the defendant *resides*; or (2) "where the defendant has committed acts of infringement and has a regular and established place of business." "Resides" refers to the defendant's state of incorporation. This holding is consistent with the Supreme Court's 1957 *Fourco* decision, where the court held that, to satisfy venue in a patent suit, a plaintiff could not rely on the broader definition of "resides" in §1391(c).

The Federal Circuit, in *VE Holding*, relied on amendments to the patent statute to interpreted "resides" to mean "any district where there would be personal jurisdiction over the corporate defendant at the time the action is commenced." The practical result: venue was proper anywhere the defendant made or sold the infringing product.

VE Holding and its progeny were the law for almost 30 years. During that time, patent cases were freely filed across the country and certain courts, like E.D. Tex., rose in popularity even though many defendants are not incorporated there.

This year, in *TC Heartland*, the Supreme Court considered and rejected the Federal Circuit's interpretation of "resides," signaling a paradigm shift. Under *TC Heartland*, venue is proper either in the state in which the defendant is incorporated or where the defendant has committed acts of infringement and has a regular and established place of business. In other words, simply proving that the defendant makes or sells the infringing product in a judicial district is insufficient to establish proper venue.

'TC Heartland' will impact N.D. Cal. and D. Del.

Northern California is a hotbed for tech and biotech companies, and the majority of Fortune 500 companies are incorporated in Delaware. Yet, over the past years, a significant number of cases brought against northern California or Delaware companies were filed outside of these two venues—namely, E.D. Tex.—under the *VE Holdings* paradigm. *TC Heartland* changes the dynamic.

Even if all the currently filed cases remain in Texas, new patent filings in N.D. Cal. and D. Del. will inevitably increase. Looking at the historical data based on a representative survey, approximately 83 percent of cases involving companies in N.D. Cal. were filed outside of the district. Going forward, we can expect all or at least most of those cases to be filed in N.D. Cal. And the same applies to D. Del.—it is not unreasonable to expect a 20 percent increase in new case filings in that district.

There is already evidence of the impact. E.D. Tex. is losing some cases and filings in N.D. Cal. and D. Del. have gone up just in the seven weeks since the *TC Heartland* decision. Pending cases have already transferred out of E.D. Tex., including some that went to N.D. Cal.

Additionally, the new case filings in N.D. Cal. and D. Del. have already increased. The month after *TC Heartland*, patent filings in these venues increased more than 300 percent and 160 percent, respectively, from the month before *TC Heartland*. The Supreme Court's decision has, and will continue to have, a

practical impact on both N.D. Cal. and D. Del.

Familiarity with D. Del. and N.D. Cal. Will Be Critical

As a result of *TC Heartland*, the composition of N.D. Cal.'s docket is about to change significantly. As of early June, per Lex Machina, intellectual property cases comprised only 6.8 percent of the district's docket of open cases, and currently, N.D. Cal. had only 258 open patent cases. Over the next few years, the number of patent cases in the Northern District may double or even triple.

D. Del. already has a heavy patent docket, with intellectual property cases comprising 41.9 percent of its docket, resulting in 844 open patent cases. As discussed, patent filings will increase in Delaware as well.

More than ever it will be critical to understand these two courts. N.D. Cal. has 21 Article III judges and 12 magistrate judges, all with varying time on the bench. The judicial makeup of D. Del. is undergoing changes, as Judge Sleet recently took senior status and Judge Robinson recently retired.

D. Del. has implemented a plan to assign cases to the magistrate judges and visiting judges from the Eastern District of Pennsylvania and the Third Circuit while the two judicial vacancies are filled. Understanding the makeup of these critical patent courts can assist in developing trial strategy and managing client expectations.

As the courts grapple with the fallout from *TC Heartland*, litigants must adjust as well. Without a doubt, familiarity with N.D. Cal. and D. Del. will be of utmost importance to plaintiffs and California- and Delaware-based defendants in making decisions from transfer motions and motions to dismiss to filing of IPRs to overall case workup and strategy. Companies that have built long-term litigation defense strategies around the assumption that they will be sued in E.D. Tex. need to review those strategies because they are likely to be facing suit in N.D. Cal. or D. Del. instead.

***Betty Chen**, a principal in the Silicon Valley and Austin, Texas, offices of Fish & Richardson, is the firm's global hiring principal and has an expansive litigation practice that spans all areas of intellectual property litigation and complex commercial litigation. She has successfully tried and managed matters through all phases of litigation in a variety of forums involving a myriad of technologies. **Martina Tyreus Hufnal** is a principal in the Delaware office of Fish & Richardson and leads the firm's NextGen Initiative. Her practice focuses on intellectual property litigation and covers a wide range of technologies. She has extensive experience in the pharmaceutical field, including Hatch-Waxman litigation, and also tried chemical and software cases. She is a member of the District Court Advisory Committee for the District Court of Delaware. **Kelly Allenspach Del Dotto** is a litigation associate in Fish & Richardson's Delaware office. Her practice focuses on complex patent litigation, with an emphasis on life sciences, biotechnology and pharmaceutical litigation, including Hatch-Waxman litigation.*