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Patent Venue: Half Christmas Pie, And Half Crow¹

by Paul M. Janicke ²

Predictive writing about law and courts has its perils, and I am now treated to a blend of apple pie and crow. Back in March I predicted in these pages that the Supreme Court would reverse the Federal Circuit's *Heartland* case so as to greatly tighten patent venue.³ Two months later, that actually happened.⁴ But two follow-on questions were also the subject of my March posting: (1) What would happen to the 1,000+ cases already on file where the defendants had failed to timely plead improper venue and would now want permission to do so? (2) Where would new case filings go? It is now looking like I got the first one largely wrong and the second only partially right.

What Has Happened To The Older Cases?

The Federal Circuit has now further clarified *Heartland* by ruling, in *In re Cray*, that the central focus of the venue statute's phrase "regular and established place of business" is on the word "place," not a more general district-wide analysis that had been favored by Judge Gilstrap in the Eastern District of Texas.⁵ In the March posting I speculated that the many defendants who had not pleaded or moved for dismissal

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³ Paul M. Janicke, *The Imminent Outpouring from the Eastern District of Texas*, 2017 Patently-O Patent Law Journal 1 (2017)

⁴ See *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514 (2017). The Court ruled that patent venue can be established in either of two ways: (i) in the defendant's state of incorporation, or (ii) in a district where the defendant has a regular and established place of business and has committed an act of infringement. It had been generally thought throughout the preceding two decades that venue would also be proper in any district where the defendant had minimum contacts, without the need of proving any particular place of business, the same criterion as used for in personam jurisdiction. The Federal Circuit had so held in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), *cert. denied*, 499 U.S. 922 (1990). This supposed third option, now eliminated, had been by far the most frequent choice of plaintiffs, since most businesses today have nationwide contacts.

⁵ *In re Cray*, 871 F.3d 1355 (Fed. Cir. 2017).

or transfer based on improper venue would have little success getting late permission to raise that defense; district judges would want to get on with their ripened cases. However, after *Heartland* came down on May 22 we have seen 73 rulings in these late-pleading efforts, 42 denials, but also 31 grants. All of the grants were transferred to other districts. The main issue in these belated-permission motions was whether the improper venue defense was, in the language of civil procedure Rule 12(g), "available to that party [the defendant]" at the original time for pleading or moving.⁶ This in turn seemed to raise the question of whether the "law had changed" in the meantime, since that is a settled ground for asserting that a defense was unavailable.

To the Federal Circuit judges and to the practicing bar, venue law seemed to have changed mightily in 1988 and 1990⁷ and then back again in May with the Supreme Court's ruling in *Heartland*. But the majority of these late-pleading motions failed, with the district judges stating that *Heartland* stands for the very proposition that the patent venue law has *not* changed at all in many decades; we just didn't see it.

The district courts who went the other way on the recent motions and allowed the late assertion of the defense took the view that Rule 12's available-to-the-party test for late amendment should be read as a defense *understood* to be available to the defendant at the original time for pleading, and that the venue defense *in that sense* was greatly changed (tightened) by this year's *Heartland* decision. These minority courts usually mentioned that ethical defense counsel would not in conscience have raised a defense that seemingly had no authority to back it up, especially when the existing appellate law was squarely against them, as was the case with the precedents up to and including the Federal Circuit's ruling in *Heartland*.

Over the past few months the issue of an "available" defense seemed to have slowly sorted itself out of the pipeline of pending cases where defendants wanted to raise the belated venue objection, some cases allowing it and others not. For those defendants who were denied permission to amend, there was the possibility of challenging these district court rulings by mandamus. This was a possibility that I foresaw back in March, but I thought it had little chance. I predicted the opposite: "Mandamus will not likely work." In mid-November the Federal Circuit reentered the venue fray, deciding in *In re Micron Tech., Inc.*⁸ that a "change of law" meant a

⁶ With narrow exceptions not relevant here, Rule 12(g)(2) provides that "a party that makes a motion under this rule must not make another motion under this rule raising a defense or objection that was available to the party but omitted from its earlier motion."

⁷ In 1990 the Federal Circuit ruled, seemingly without much controversy, that Congress had in 1988 changed the civil venue rule to allow minimum contacts as the venue basis, even in patent cases. See *VE Holding Corp., supra*.

⁸ *In re Micron Tech., Inc.*, 875 F.3d 1091 (Fed. Cir. 2017). This was a mandamus case to resolve the current issue of late venue pleading. The panel consisted of Judges Taranto, Chen, and Hughes.

change in the *controlling* law, *i.e.*, the law supported by citable authorities. The *Micron* panel, in an opinion by Judge Taranto, saw that law as the 1990 Federal Circuit decision in *VE Holding*.⁹ It noted that the Supreme Court had never before questioned *VE Holding*. This meant the pre-*Heartland* controlling law was what we all thought it was: pretty much wide-open corporate patent venue. *Heartland* was in that sense a change of law, one that obviates the lateness-of-pleading problem. If the venue is improper, the judge should move the case unless other factors indicate a waiver of the defense.¹⁰

I don't know what the grant of mandamus in *Micron* portends for the 42 cases where district judges have sided with the plaintiffs and blocked belated pleading of the venue defense. Most of these were on the ground that the "law" had not changed. Now the Federal Circuit has said it did change. Is it too late for those movants to seek reconsideration in light of *Micron*? I will resist the temptation to predict that one.

Where Are New Filings Going?

We now have half a year's post-*Heartland* stats (June 1 - December 1) on the question of where new patent cases are being filed post-*Heartland*. The top 5 chosen venues in fact have been:

- Delaware
- Eastern Texas
- Northern California
- Central California
- Northern Illinois

In my March post I listed four of these five districts as likely future choices, but I omitted Eastern Texas as a likely option. I thought there were too few regular places of tech business in that district to support the now-tight venue requirements. It turns out in the six months since the *Heartland* decision Eastern Texas has been quite an active choice, second only to Delaware for new filings (D. Del. 390 cases, 19% of the national total; E.D. Tex. 285 cases, 14% of the national total). Third in line, in both my March prediction and in the 6-month reality, was Northern California (239 cases, 12% of the national total). I also correctly had Central California and Northern Illinois in the list, but in a different order from the reality.¹¹

⁹ 917 F. 2d 1574 (Fed. Cir. 1990).

¹⁰ *Micron*, 875 F.3d at 1096-1100.

¹¹ Central California drew 291 filings (8%), fourth place rather than second, and Northern Illinois drew 185 (5%), fifth place rather than third. I also listed the Eastern District of Virginia, once the "rocket docket" hotspot for patent filings, as a sixth likely choice, but it drew only 50 cases (1.3% of the national total) in the past six months. Filing data from Lexis Courtlink.

No other district has drawn more than than 4% of the national total.¹²

So the big surprise here is that Eastern Texas continues to be a strong magnet for these cases, even after *Heartland*. True, filings there are down considerably from the same period in 2016, when it drew nearly 37% of the national total; but its attractiveness is far from gone. Why is that? It may be that plaintiffs are choosing local businesses as their sole defendants, where they can easily satisfy the regular-and-established-place-of-business option, or even the state-of-incorporation option, and hoping to draw in the big-fry companies as protectors of their customers.¹³ Or it may be due to attractive local patent rules, as before. Or some other reason. It remains a puzzle.

Some Unanswered Questions

The legal issues surrounding contemporary patent venue are far from fully resolved. For example, where the state-of-incorporation option is chosen, Professor Crouch's Oct. 23 post on multidistrict states shows how that question is still open.¹⁴ Another example: TC *Heartland* was and is a limited liability company (LLC), not a corporation; yet the entirety of the Supreme Court opinion is addressed to corporate venue, not the venue rules for an LLC defendant.¹⁵ We are living in an age when many large entities are converting from the corporate business form to LLC, largely for tax reasons. What is the proper venue for a patent suit against an LLC? Oddly, *Heartland* did not address that question.

How is the District of Delaware going to manage its enlarged patent docket? The district is allocated only four district judges, and at the minute only two are in place and no one is yet nominated for the other two slots.¹⁶ Some help is onboard: The court's website lists ten visiting judges, mostly from Philadelphia and New Jersey,

¹² *Id.*

¹³ The UCC patent indemnities owed by merchants to their customers, if not overridden by terms of the purchase agreement, could conceivably operate here. See Tex. Bus. & Commerce Code §2.312(c). But we suspect most sales contracts do have an override of this warranty, so the vendors' participation would be voluntary.

¹⁴ See Dennis Crouch, *Venue In Multi-District States*, Patently-O (Oct. 23, 2017).

¹⁵ As stated in the Supreme Court oral arguments, this happened due to a silent agreement in the lower courts, to the effect that an Indiana LLC should be treated the same as a corporation for venue purposes. The issue was never further developed. It is a serious one, as more and more American corporations are converting themselves into LLCs.

¹⁶ Senate Judiciary Committee website, www.judiciary.senate.gov/nominations, viewed Dec. 11, 2017.

who are presumably taking on significant parts of the docket. Three magistrate judges are also in place. The workflow problem will be challenging, as this court already had more than its share of civil filings. Its civil workload this year to date has jumped by half versus a year ago.

More Predictions

Being slow to learn, I will venture two more venue predictions. First, the surge of filings in the understaffed District of Delaware is going to mean delay in dispositions, whether by settlement or by adjudication, with attendant cost increases as lawyers find more things to do. So despite the judicial excellence of that court, and its supposedly sympathetic juries, it may not prove to be the optimal choice for patentee-plaintiffs.

Second, for whatever reasons, patent suit filings nationally are going down and are likely to continue in that mode for a while. This year through December 12 has seen 4,047 new cases filed.¹⁷ Last year for the same period it was 4,518, a drop of a little over 10%; and in 2015 it was 5,835, so a two-year drop of 31%. Why is this happening? There are many possible explanations, including: (1) The rise of IPR proceedings has made judicial patent enforcement more difficult and expensive. (2) Patent acquisition entities dealing in software-related patents may to some extent have gone away due to dot-com patent expirations and the impact of *Alice*.¹⁸ (3) The U.S. economy and world economy have been doing well, leaving less time and less inclination to litigate. Time will tell whether the slowdown in filings bottoms out or endures. I do not predict this one.

¹⁷ All filing data obtained from Lexis CourtLink.

¹⁸ *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347 (2014). The Court greatly constrained patent eligibility, holding that the financial business method claimed in the patent in suit was ineligible for patenting, because it was an "abstract idea." This ruling has caused considerable consternation in the patent profession, since any claim of any patent, and perhaps any conceived invention, could be rationally characterized as an abstract idea.