

UPDATE

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PRE-FILING STRATEGIES FOR PATENT VENUE



BY MATTHEW P.
BECKER AND
ERIC J. HAMP

A patent owner must account for many considerations before filing patent suits, and this is particularly important for determining possible venues under the Supreme Court's recent decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*.¹ For example, a patent owner's initial pre-filing analysis must first include a factual and legal investigation to determine what entity or entities to sue and what claims to assert, depending on where, how, and by whom the relevant activity occurs. Then, the patent owner must identify available venue(s) under *TC Heartland*, which will often require additional investigation and analysis, and may consider the possibility of utilizing pendent venue, *i.e.* establishing venue through additional non-patent claims, to identify additional venues. At this point, many patent owners end their analysis, often simply choosing whatever possible venue is closest to their "home court," or at least furthest from the defendant's. However, in many cases, additional examination may provide

significant benefits for a patentee, depending on its desired goals for the action, intended litigation strategy, and preferred budget. To that end, once a list of possible districts is determined, patentees should consider an assessment of district-by-district variances in applicable local rules or procedures for patent disclosures, production, and case schedule, and statistical evidence on average time to trial and patent owner's success rates in particular jurisdictions. In this manner, a patentee may determine an ideal forum that will not only be likely to withstand a venue challenge, but will also help ensure the litigation process and costs thereof align as best as possible with the patent owner's goals and preferences.

DETERMINATION OF POSSIBLE PATENT VENUES

For decades, plaintiffs could rely on the relatively broad provisions of 28 U.S.C. § 1391 to support venue of patent claims in any district where a "substantial part of the events or omissions giving rise to the claim occurred," such that venue was proper as long as some infringement occurred in the district, for example through any sales of the accused product.² But the Supreme Court's "sea

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change” decision in *TC Heartland* has dramatically narrowed the scope of forums for patent cases by limiting venue to the terms provided in 28 U.S.C. § 1400(b), which provides more limited thresholds for patent venue: 1) “residence” or 2) a “regular and established place of business” where infringement occurred.³ In this new landscape, patent owners need to perform a factual investigation into the infringer’s business activities and premises to determine what districts may provide a suitable forum under the limited grounds established in *TC Heartland*. In cases involving additional claims, however, such as unfair competition, patent owners may also assess the legal viability of pendent venue in a particular district, even if the factual investigation does not provide a strong basis for patent venue under *TC Heartland*.

IDENTIFYING VENUE OPTIONS UNDER *TC HEARTLAND*

Now, a patent owner may file a patent claim “where the defendant resides,” but residence under the patent venue statute is limited to “only” the defendant’s state of incorporation.⁴ Thus, this provision often provides little strategic benefit to plaintiffs, as the choices are often limited to the defendants’ home venue or, in many instances, Delaware.

If neither of these choices are immediately desirable, the patent owner may turn to the second ground of Section 1400(b): a district “where the defendant has committed acts of infringement and has a regular and established place of business.”⁵ The threshold requirement of “acts of infringement” follows the traditional considerations of acts of making, selling, offering to sell, etc.⁶ The interpretation of the “regular and established place of business” requirement varied greatly in the immediate wake of *TC Heartland*,⁷ but the Federal Circuit recently stepped in to define the three

conditions necessary for this concept. There must be a “physical place” in the district “of the defendant” that is “a regular and established place of business.”⁸

Under this framework, a patent owner should investigate whether a defendant has any offices, stores, or other physical locations where business activity occurs, such as a storage facility for inventory or promotional products, or a distribution center.⁹ Corroborating evidence may include promotional materials and website content where the defendant represents there is a business place in the district.¹⁰ Therefore, the plaintiff should investigate the geographic scope of the defendant’s business locations, real estate activity, advertisement and promotions, business directory listings, and Internet evidence to help identify possible “places” of business that would support venue. This analysis must also balance the threshold requirement that limits venue to places where “acts of infringement” occurred, however, as simply storing or distributing inventory may not constitute an act of infringement.¹¹ Thus, the investigation should also ensure that any districts with “place[s] of business” also provide a factual basis for acts of infringement rather than related, but arguably non-infringing, activity.

PENDENT VENUE MAY PROVIDE AN ALTERNATIVE BASIS FOR ADDITIONAL DISTRICTS

At the same time, patent owners should remember that a factual investigation to identify districts that qualify as proper venues under *TC Heartland* may not identify every possible venue. If the possible claims against a defendant include non-patent claims, then there is some support for the doctrine of “pendent venue,” *i.e.* that the propriety of venue over the other claims may support venue over an entire case including those

claims.¹² While many courts have found that the presence of additional claims will not support an alternative venue that is disqualified under the specific patent venue statute,¹³ there is some support for this doctrine. Therefore, patentees may want to assess the availability of alternative claims, such as unfair competition, and also investigate whether the pendent venue doctrine may be available in any additional, alternative venues.

In a district where pendent venue may be available, the propriety of the venue will turn on “which of the two federal claims is the ‘primary’ claim,” and that claim’s venue statute will control.¹⁴ Given that many claims rely on the broader provisions of 28 USC § 1391(b), this can potentially bring into play forums that would not be available under the more limited terms of 28 USC § 1400(b). What is the “primary” claim in a complaint may be determined by what claims provide a majority of the counts,¹⁵ what claims seek a majority of damages,¹⁶ or what claims constitute the “principal purpose” in filing the complaint.¹⁷ Therefore, if supported by the scope of the defendant’s activity, the inclusion of additional claims and utilization of pendent venue, where available, may provide additional forum choices for a patentee, who then may consider the pros and cons of these additional forums when deciding where and how to file suit.

OTHER FACTORS TO CONSIDER IN CHOOSING VENUE

After identifying venues that satisfy 28 U.S.C. § 1400(b), patent owners should consider a number of factors to choose between the available venues. These factors include: (1) local patent rules, (2) statistics such as time to trial, patent owners’ success rates, and damages award size, and (3) district court experience with technology or other issues. We address

below how these factors impact the decision on where to file suit.

LOCAL PATENT RULES

Patent owners should consider whether they want to file suit in a venue having local patent rules. Approximately 30 district courts have enacted local patent rules.¹⁸ With the exception of Delaware,¹⁹ the jurisdictions with the most patent cases in recent years all have local patent rules, including the U.S. District Court for the Eastern District of Texas, Northern and Central Districts of California, Northern District of Illinois, and New Jersey. Local patent rules are the most prominent mechanism governing the timing and required disclosure of information relating to the party’s claims and defenses.

Local patent rules provide predictability and structure to the substance and timing of disclosures but, in doing so, they inherently build in time and expense before getting to key issues in patent cases, such as claim construction.²⁰ Local patent rules typically have claim construction issues identified and briefed after parties provide their respective preliminary infringement and invalidity contentions. If a patent owner’s infringement case depends on a particular construction of a claim limitation, filing suit in a venue lacking local patent rules may provide a better opportunity to have an early claim construction before engaging in extensive and costly disclosures relating to infringement and invalidity contentions.

Choosing a venue having local patent rules may provide uncertainty as to a trial date. For example, in the Northern District of Illinois, a trial date is not typically set when the court issues a case scheduling order. Instead, a trial date is set after the court rules on dispositive motions. In contrast, the Western District of Wisconsin and Delaware, which lack local

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patent rules, typically set a trial date in the initial scheduling order. Having a trial date is often advantageous to a patent owner in limiting costs and leveraging settlement options.

Before picking a venue from amongst a number of possible venues, patent owners should review whether a venue has local rules and any differences between local rules in available venues.

STATISTICS — SPEED TO TRIAL, PATENT OWNER SUCCESS RATES

Patent owners should also consider statistical evidence relating to patent cases handled in available venues. A number of companies provide annual reports that analyze patent cases and report information such as time to claim construction rulings, trial or case resolution, patent owner's success rate, size of damages awards, and permanent injunction success rate. For example, PricewaterhouseCoopers issues an annual patent litigation study.²¹ Other companies such as *IP Law360* and DocketNavigator issue similar reports annually.

As a strategic matter, litigants often select venue based on the speed with which their case will likely proceed to trial, believing a quick trial will help keep costs lower and obtain quicker relief. The Western District of Wisconsin and Eastern District of Virginia are well known "rocket dockets" that, based on time to trial statistics, offer a high probability of a trial date before other jurisdictions. The U.S. government provides statistics on time to trial in various jurisdictions.²²

If a patent owner has a choice between multiple venues, the patent owner's success rate may guide where to file suit. According to PWC's 2017 Patent Litigation Study, patent owners had a 54 percent overall success rate in the Eastern District of Texas but a 23 percent overall success rate in the Southern District of Texas. If both the Eastern and Southern Districts of Texas are available, patent owners should go east and more than double their statistical chance of success.

In short, patent owners should arm themselves with the statistics before picking a venue.

DISTRICT COURT EXPERIENCE WITH TECHNOLOGY OR OTHER ISSUES

Patent owners should also consider whether a particular jurisdiction is likely to have familiarity or experience with the patented technology or issues likely to arise in the case. For example, New Jersey and Delaware district courts have handled the overwhelming majority of pharmaceutical patent infringement cases filed in response to abbreviated new drug applications (ANDA) filed with the U.S. Food and Drug Administration. Since 2009, New Jersey and Delaware have each handled more than 850 ANDA cases whereas all of the other jurisdictions **combined** handled less than 700 cases.²³ Because of their experience with pharmaceutical patents and the ANDA statutes, complex chemistry, biochemistry, and pharmaceutical technology and the legal issues surrounding ANDA issues are less likely to overwhelm judges in New Jersey and Delaware.

Given its proximity to Silicon Valley, the Northern District of California has vast experience with semiconductor, networking, Internet, and software related patents. Judges in this venue have issued dozens of opinions addressing whether subject matter was patent-eligible under 35 U.S.C. §101. A patent owner anticipating an eligibility challenge to their patent should consider an available venue's experience and handling of § 101 issues. For example, a patent owner may choose to file suit in a venue where judges typically address § 101 issues on a motion to dismiss to have this important issue decided early in a case, and before expending resources on discovery.

CONCLUSION

The Supreme Court's *TC Heartland* decision narrowed the venues available to patent owners. Nevertheless, patent owners will often have a choice of multiple venues in which they may file a lawsuit. A patent owner should choose a venue that aligns with its desired litigation and possible settlement strategy, and that is appropriately in line with legal costs the patent owner is willing to incur to protect its rights. As discussed above, local patent rules and statistics provide insight on the variability in the timeline of case, extent and timing of discovery efforts, and likelihood of a patent owner's success. ■

1. 137 S. Ct. 1514 (2017).
2. 28 U.S.C. § 1391(b)(2).
3. *Westech Aerosol Corp. v. 3M Co.*, No. 17-5067, 2017 WL 2671297, at *2 (W.D. Wash. June 21, 2017); 28 USC § 1400(b).
4. *TC Heartland*, 137 S. Ct. at 1517. The Supreme Court explicitly declined to address the definition of "residence" as it applies to foreign companies, or otherwise "express any opinion" on prior Supreme Court precedence addressing venue over foreign corporations. *Id.* at 1520 n. 2.
5. *Id.* at 1517.

6. 35 USC § 271.
7. *See, e.g. Boston Scientific Corporation and Boston Scientific SciMed, Inc. v. Cook Group Incorporated and Cook Medical LLC*, No. 15-980, 2017 WL 3996110, at *14 (D. Del. Sept. 11, 2017) ("physical presence" in district is required) and *Raytheon Company v. Cray, Inc.*, No. 15-1554, 2017 WL 2813896, at *11 (E.D. Tex. June 29, 2017) ("a fixed physical location in the district is not a prerequisite to proper venue" and place of business inquiry should "be driven by a fair consideration of the totality of the circumstances, and not by the siren call of bright line rules") (vacated by *In re Cray, Inc.*, 817 F.3d 1355 (Fed. Cir. 2017)).
8. *In re Cray, Inc.*, 817 F.3d 1355, 1361 (Fed. Cir. 2017).
9. *Id.* at 1362.
10. *Id.* at 1363-64.
11. *See, e.g., 35 USC § 271. See also Milo & Gabby LLC v. Amazon.com, Inc.*, 144 F.Supp.3d 1251, 1253 (W.D. Wash. 2015) and *Milo & Gabby LLC v. Amazon.com, Inc.*, No. 13-1932, 2015 WL, 4394673, at *2, 12-14 (W.D. Wash. July 16, 2015) (in this case, it was ultimately held that Amazon did not infringe any of the asserted patents because it did not sell or offer to sell any products, and therefore did not meet any of the terms under 35 USC § 271, where any potential liability was solely tied to whether Amazon or third-parties actively offered products for sale through the Amazon website, rather than Amazon's storage and shipping of those products, which was undisputed).
12. *See, e.g., Solow Bldg. Co., LLC v. ATC Assocs., Inc.*, 175 F. Supp. 2d 465, 470 (E.D.N.Y. 2001); *Elemery v. Phillip Holzmann A.G.*, 533 F.Supp.2d 144, 149-151 (D.D.C. 2008).
13. *See, e.g., PKWare, Inc. v. Meade*, 79 F. Supp. 2d 1007, 1018-19 (E.D. Wis. 2000). *Cf. Zumba Fitness, LLC v. Brage*, No. 11-5361, 2011 WL 4732812, at *2 (C.D. Cal. Oct. 6, 2011).
14. *Solow*, 175 F. Supp. 2d at 470.
15. *Hsin Ten Enter. USA, Inc. v. Clark Enterprises*, 138 F. Supp. 2d 449, 463 (S.D.N.Y. 2000).
16. *In re Grumman Olson Indus., Inc.*, 329 B.R. 411, 434 (Bankr. S.D.N.Y. 2005).
17. *Solow*, 175 F. Supp. 2d at 470.
18. A list of U.S. district courts enacting local patent rules may be found at www.localpatentrules.com.
19. Although Delaware has not implemented local patent rules, individual judges (e.g. Judge Stark) have standing orders for patent cases that "absent agreement of the parties or order an order of the Court" will result in a scheduling order including mandatory disclosure of infringement and invalidity contentions, as well as the production of technical and financial documents. *See* <http://www.ded.uscourts.gov/sites/default/files/Chambers/LPS/PatentProcs/LPS-PatentProcedures.pdf>. However, Judge Andrews' model scheduling order for patent cases does not include any provisions for infringement or invalidity contentions, but does include provisions addressing claim construction. *See* http://www.ded.uscourts.gov/sites/default/files/Chambers/RGA/Forms/Rule16_Scheduling_Order-Patent.pdf.
20. "Claim construction is the single most important event in the course of a patent litigation. It defines the scope of the property right being enforced, and is often the difference between infringement and non-infringement, or validity and invalidity." *Retractable Techs., Inc. v. Becton, Dickinson & Co.*, 659 F.3d 1369, 1370 (Fed. Cir. 2011).
21. PWC's 2017 Patent Litigation Study may be found at <https://www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf>.
22. The Federal Court Management Statistics may be found at <http://www.uscourts.gov/statistics-reports/analysis-reports/federal-court-management-statistics>.
23. <https://lexmachina.com/media/press/pharmaceutical-patent-litigation-filings-declined-first-time-in-three-years/> (citing data from April 27, 2017 Lex Machina's third annual Hatch-Waxman/ANDA Litigation Report).