



THINK FORWARD

Shareholder James Cleland Looks At Impact On Automakers And OEMs As New Supreme Court Decision Limits Venues For Patent Infringement Litigation

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Ann Arbor, MI - James Cleland, a shareholder in the Ann Arbor office of Brinks Gilson & Lione, one of the largest intellectual property law firms in the U.S., said the U.S. Supreme Court's decision on May 22, 2017 in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, alters the landscape of venue for patent infringement litigation and, in Michigan, will have a positive impact on key industries such as automotive.

The Supreme Court overturned the Federal Circuit in holding that the first prong of the patent venue statute, 28 U.S.C. § 1400(b), which provides that patent infringement actions may be brought in the judicial district where the defendant "resides", refers only to the state of incorporation. A complete review of the history of the decision can be reviewed [here](#).

"In the past several years, Federal District Courts have seen a steady increase in patent infringement cases," Cleland said. "But the Eastern District of Texas has seen a huge increase in the number of patent cases filed, growing significantly from 2011, when 613 cases were filed, to 2016, when 1,338 cases were filed," Cleland said. "It's a jump of nearly 29% in five years. Even more importantly, over 30% of all patent cases filed in 2016 were filed in the Eastern District of Texas, and over 40% of all patent cases filed in the fourth quarter of 2016 were filed in the Eastern District of Texas. This trend was startling given the disparity between the proportion of cases filed in the Eastern District of Texas and the number of Eastern District of Texas defendants who are actually headquartered there, have facilities there or incorporated in Texas. When one single judge in the Eastern District of Texas hears over 25% of our entire nation's patent cases, it certainly raises eyebrows," Cleland continued. "While the Supreme Court stuck to the venue statute and its precedent in rendering its ruling, there are some that believe this jurisdictional imbalance is one of reasons the Supreme Court finally agreed to address the patent venue issue."

With fewer cases heading to the Eastern District of Texas following the ruling, Cleland said patent lawsuits against Michigan automakers and automotive suppliers will likely be heard closer to home.

"Automotive companies, including the OEMs, have been a frequent target of patent infringement suits filed in the E.D. Texas, where they are not incorporated and have no facilities," Cleland said. "Many of those suits are filed by non-practicing entities (NPEs), also known as patent trolls, in what are often considered nuisance lawsuits. Under *TC Heartland*, these lawsuits can no longer be filed in the E.D. Texas; rather they must be filed where the companies are incorporated, headquartered or regularly conduct business, for example, where they have manufacturing or R&D facilities."

Beyond the auto industry, *TC Heartland* will impact patent litigation strategy for nearly every company, and may even impact general corporate planning strategy for companies regularly involved in patent litigation. Cleland cites the following:

- *TC Heartland* is likely to result in a significant redistribution of patent cases. There will likely be far fewer patent infringement filings in the Eastern District of Texas, and more filings in jurisdictions that are either: (1) a popular place of incorporation (like Delaware) or (2) the corporate headquarters or regular place of business for corporations (e.g. California, Illinois, New York, Massachusetts, or other districts in Texas and Michigan.)
- The Supreme Court's ruling should provide greater predictability for domestic corporations. Instead of being subject to venue anywhere they sell a product, domestic corporations are only subject to venue in patent cases (1) where they are incorporated and (2) where they committed acts of infringement and have a regular and established place of business. While the Court's ruling focused on the first prong – place of incorporation – corporations still must consider the location of other corporate facilities, including headquarters, manufacturing plants, research and development centers and product distribution centers.
- Companies incorporated in Delaware will have to evaluate whether the value of incorporation in Delaware is worth the risk of being subject to venue for patent infringement litigation in Delaware. Delaware courts are known to have plaintiff-friendly local patent rules, and Delaware judges do not transfer many cases out of the district where the defendant is incorporated in Delaware.
- The Court only addressed domestic corporations, not companies that are incorporated outside of the U.S. Those foreign corporations are still subject to the existing venue provisions that permit them to be sued in many different jurisdictions. Foreign corporations that are targets of patent infringement suits may wish to consider incorporating in a favorable jurisdiction in the U.S. to control the location of any potential patent infringement suits.
- The courts will likely see fewer motions to transfer venue because patent defendants will be sued in locations where they have intentionally chosen to operate.

Some believe that *TC Heartland* will reduce NPE patent suits because the traditionally plaintiff-friendly Eastern District of Texas will no longer be a viable option for many patent infringement suits, but others believe that NPEs will simply find another jurisdiction in which to sue because patent litigation can be such a lucrative business model for NPEs.

“Accurate predictions are difficult at this early stage, but it should not take long to assess how NPEs react and adjust to *TC Heartland*,” Cleland said.

At Brinks, Cleland's practice focuses on patent, trademark, copyright, trade secret and unfair competition litigation in a broad range of technologies including the chemical, automotive, materials science, mechanical, electrical and medical device arts, as well as in client counseling, opinion and licensing work in those same areas. Cleland spends most of his time litigating patent cases in the federal district courts, and conducting inter partes reviews and other post-grant proceedings in front of the Patent Trial and Appeal Board.

Brinks Gilson & Lione

Celebrating its centennial year in 2017, Brinks Gilson & Lione is one of the largest intellectual property law firms in the US, and helps clients around the world to protect and enforce their intellectual property rights. Our more than 140 lawyers, patent agents and scientific advisors assist clients in all aspects of patent, trademark, unfair competition, trade secret, and copyright law. Brinks attorneys provide informed counsel with respect to innovations in a range of complex and valuable technologies, including pharmaceuticals, chemicals, bioengineering, industrial manufacturing, electronics and software, and medical devices. More information is at www.brinksgilson.com.