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Federal Circuit Rules that Plaintiffs Bear Burden of Establishing Venue in Patent Infringement Litigation

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A FREEBORN & PETERS LLP CLIENT ALERT

ABOUT THIS CLIENT ALERT:

This Client Alert addresses the Federal Circuit's opinion in In re ZTE, which establishes that plaintiffs bear the burden of persuasion in establishing venue in patent infringement actions. This is a significant decision which will make forum shopping more difficult, particularly in cases in which the defendant lacks a physical presence within the district.

On May 14, 2018, the Federal Circuit granted a petition for mandamus by ZTE (USA), Inc. ("ZTE USA"), vacating a district court order denying ZTE USA's motion to dismiss for improper venue. Importantly, the decision establishes that a plaintiff bears the burden of persuasion in establishing venue under the patent venue statute, 28 U.S.C. § 1400(b). Moreover, the opinion provides courts and litigants guidance on how to determine whether an accused infringer's relationship with a third-party – here, a third-party that provides call center services to the defendant – is sufficient to confer venue. In such circumstances, a conclusory opinion will not suffice; a district court must give reasoned consideration to all relevant factors or attributes of the relationship between the accused infringer and the third-party before deeming the third-party's facility to be a regular and established place of business of the defendant.

Recent Decisions on Patent Venue

A mere afterthought for nearly thirty years, venue has become a hotly contested issue in many patent infringement litigations. The Supreme Court's May 2017 decision in *TC Heartland*[1] brought venue to the forefront, finding that 28 U.S.C. § 1400(b) is "the sole and exclusive provision controlling venue in patent infringement actions." This "patent venue statute" provides that an action for patent infringement may be brought (i) in the judicial district where the defendant resides or (ii) where the defendant has committed acts of infringement and has a regular and established place of business. From 1988 until the decision in *TC Heartland*, the Federal Circuit had interpreted "resides" broadly to confer venue in any district in which a defendant is subject to personal jurisdiction. Following *TC Heartland*, a corporate defendant in a patent infringement action is deemed to reside only in its state of incorporation.

At the time of the decision, many believed *TC Heartland* to have sounded the death-knell for forum shopping in patent infringement lawsuits. However, in many cases, *TC Heartland* merely shifted the focus from the first prong of the patent venue statute – where the defendant resides – to the second – where the defendant has committed acts of infringement and has a regular and established place of business.

On September 21, 2017, the Federal Circuit's decision in *In re Cray* provided guidance on the meaning of a "regular and established place of business."[2] Simply put, to confer venue under the second prong of the patent venue statute, "(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." In *Cray*, the Federal Circuit found that, under the facts of that case, a home office of defendant's employee was not a place of the defendant.

In re ZTE (USA), Inc.

The underlying dispute in *In re ZTE* presents a similar issue to that in In re Cray – what does it mean for a place to be of a defendant for venue purposes. Where *Cray* involved employees working from home, *In re ZTE* involved a third-party call center, which provided customer support services to ZTE USA. The district court, adopting the recommendation of the magistrate judge, characterized the call center as having been established "in partnership" between ZTE USA and iQor (the third party), and concluded that ZTE USA failed to meet its burden to prove that venue was improper[3].

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1 *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017).

2 In re Cray Inc., 871 F.3d 1355 (Fed. Cir. 2017).

3 *Am. GNC Corp. v. ZTE Corp.*, No. 4:17-cv-000620, 2017 WL 5157700 (E.D. Tex. Nov. 7, 2017).

In granting the petition for *mandamus*, the Federal Circuit found that the district court placed the burden on the wrong party. The Court noted that this was the first time that the Federal Circuit had directly addressed the issue of which party bears the burden in patent venue disputes. The panel determined that prior to the formation of the Federal Circuit, the regional circuits had consistently placed the burden of establishing venue in patent infringement cases on the plaintiff. Moreover, the panel acknowledged that the "intentional narrowness" of the patent venue statute (compared to the broader general venue statute) supports placing the burden on the plaintiff to meet this more restrictive standard. Accordingly, the Federal Circuit held that the plaintiff bears the burden of persuasion on the propriety of venue under the patent venue statute.

Based on the record before it, the Federal Circuit was unable to determine whether venue was proper because the district court's decision did not reflect any analysis of the factors that the Federal Circuit set forth in *In re Cray*. The Federal Circuit disagreed with the "summary characterization of the iQor-ZTE USA relationship as a 'partnership.'" Instead, the Federal Circuit made clear that a robust, reasoned analysis of all relevant factors or attributes of the relationship between ZTE USA and iQor was necessary to deem iQor's facility a regular and established place of business of ZTE USA. The Federal Circuit found that "the mere presence of a contractual relationship between iQor and ZTE USA pursuant to which iQor provides call center services to ZTE USA's customers does not necessarily make iQor's call center 'a regular and established place of business' of *ZTE USA*." (emphasis in original).

Implications

The Federal Circuit's decision in *In re ZTE* places a significant obstacle on patentees seeking to establish venue in favored jurisdictions such as the Eastern District of Texas. Venue "fishing expeditions" – searching for contact with any third-party company located within the district in an attempt to establish venue – are increasingly unlikely to be fruitful. By placing the burden of persuasion on the plaintiff and demanding a robust, reasoned consideration of all relevant factors, the Federal Circuit's opinion raises the bar for establishing patent venue in cases where the defendant lacks a physical presence within the district.

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