

Legal Challenges

Delaware – the New Black for Patent Litigation?



Constance Lindman

In May, the Supreme Court made the issue of deciding where to incorporate a business a little more complicated. Sure, your company could still choose Delaware for its well-developed business laws.

But how does Delaware stack up in patent litigation? This question isn't on the checklist of most corporate attorneys, but after *TC Heartland v. Kraft Foods Group Brands* maybe it should be.

Prior to Heartland, a patent owner could bring a patent infringement suit in any court that had personal jurisdiction over the defendant. Sales of the allegedly infringing products might be sufficient to drag a defendant into court in a distant state even if the defendant was not incorporated in the state and had no offices or other physical presence there.

For over a decade, the Eastern District of Texas has been a favored court for patent infringement plaintiffs and a hated one for the thousands of companies across the country that have had to defend themselves in Marshall, Texas.

Now, after Heartland, patent suits can be brought against a U.S. company only (a) in the state where it is incorporated, or (b) in a state where it has committed acts of infringement (e.g., sold the accused products) and has a regular and established place of business.

That's a big "and" because it's not always clear what qualifies as a "regular and established place of business." A large corporate headquarters with hundreds of employees clearly qualifies, but what about a sales field office with a handful of employees? What about a single salesperson working out of his or her home?

Starting litigation with an expensive legal battle over whether the court even has jurisdiction over the defendant is not an attractive proposition for plaintiffs. A plaintiff that wants certainty can opt to file in the state where the defendant is incorporated and, frequently, that state is Delaware.

While it will take some time to sort out all of the effects of Heartland, certain smaller companies may want to consider the impact of the case before simply deciding to incorporate in Delaware. Take, for example, a company with its headquarters in a single state, say Illinois, and no "regular and established place of business" outside that state.

If this company is also incorporated in Illinois, then it might rest a little easier knowing that any suit for patent infringement would be brought in Illinois. If this company was incorporated in Delaware, on the other hand, it could find itself defending a patent infringement suit hundreds of miles away in Delaware.

Does this mean that all companies with operations in a single state should avoid incorporating in Delaware or another outside state? Not necessarily. Each company, like each person, is unique and the benefits of a Delaware incorporation might outweigh the risk of a Delaware patent suit for some companies and not others. As always, seek advice from trusted corporate counsel before proceeding.

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