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Client Alert

Intellectual Property Practice Group

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Home Court Advantage
Supreme Court Limits Where Patent Lawsuits May be Filed

On May 22, 2017 the U.S. Supreme Court unwound nearly 30 years of patent venue jurisprudence allowing domestic corporations to be sued for patent infringement in any judicial district in which the company does business. In *TC Heartland LLC v. Kraft Food Group Brands LLC*, No. 16-341 (May 22, 2017), the high court held that a domestic corporation may only be sued for patent infringement in either (a) the company's State of incorporation, or (b) where the defendant has committed acts of infringement and has a regular and established place of business.[1] In a unanimous 8-0 decision authored by Justice Clarence Thomas, the Supreme Court overruled long-standing Federal Circuit precedent interpreting the term "resides" in the patent venue statute—28 U.S.C. § 1400(b)—to include any judicial district in which the defendant is subject to personal jurisdiction and instead held that "a domestic corporation 'resides' only in the State of incorporation for purposes of the patent venue statute."[2] The implications of this decision are significant, as it likely means that fewer patent infringement lawsuits will be filed in certain plaintiff-friendly venues such as the Eastern District of Texas.

A Brief History Lesson

Originally enacted in 1897, and last amended in 1948, the patent venue statute provides that venue is proper either: (1) "in the judicial district where the defendant resides," or (2) "where the defendant has committed acts of infringement and has a regular and established place of business." 28 U.S.C. § 1400(b). Unfortunately, Congress failed to define the term "resides." Under 28 U.S.C. § 1391(c)—a separate statute governing venue in civil actions generally—a corporation is deemed to be a resident of "any judicial district in which such defendant is subject to the court's personal jurisdiction . . . ." Yet, controlling Supreme Court precedent, *Fourco Glass Company v. Transmirra Products Corporation*, 353 U.S. 222, 229 (1957), for many years held that § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions. It further interpreted the term "resides" to mean the corporation's State of incorporation only.[3]

In 1990, however, the U.S. Court of Appeals for the Federal Circuit reconsidered the statutory basis for patent venue in *VE Holding Corporation v. Johnson Gas Appliance Company*, and abandoned the

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Supreme Court's statutory interpretation set forth in *Fourco*.[4] The *VE Holding* court relied upon a 1988 revision to § 1391(c), which provided that "[f]or purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced."[5] Accordingly, the Federal Circuit held that the definition of "corporate residence" in § 1391(c) did, in fact, apply to the patent venue statute in § 1400(b).[6]

Accordingly, after *VE Holding* and before the *TC Heartland* decision, both §§ 1391(c) and 1400(b) governed venue in patent cases. In practice, this generally meant that a patent holder could sue an alleged infringer in any venue where the defendant was doing business. This resulted in an increased concentration of patent cases in a relatively small number of venues. Of the 4530 patent cases filed in 2016, for example, patentees chose the Eastern District of Texas more than one third of the time (1661 cases), and patentees filed three quarters of all patent cases last year in only 10 of the 94 available venues.[7] Non-practicing entities ("NPEs," or more derogatorily referred to by some as "patent trolls") have driven much of this phenomenon by engaging in rampant forum shopping in an effort to drive early settlements. This is particularly true in the Eastern District of Texas, where summary judgment is rare, procedural rules require defendants to expend considerable sums early in the case, and juries have reputations for being plaintiff-friendly.

The *TC Heartland* Case

While many expected the Supreme Court to, at some point, weigh in on the growing chorus of complaints about forum shopping in patent cases, the *TC Heartland* case was a surprising choice because the plaintiff was not a patent troll, and the lawsuit was not even filed in the Eastern District of Texas. However, the Supreme Court's holding makes clear why this case was the perfect choice for reform: the defendant did not have a "regular and established place of business" in Delaware such that the second prong of § 1400(b) undisputedly did not apply.

Kraft Food Brands LLC ("Kraft") sued TC Heartland LLC ("Heartland") for patent infringement relating to sweetener products in the District of Delaware.[8] Heartland is a limited liability company organized and existing under Indiana law and headquartered in Indiana. Heartland moved the district court to either dismiss the action or transfer venue to the Southern District of Indiana.[9] In support of its motion, Heartland argued that it was not registered to do business in Delaware, had no local presence in Delaware, had not entered into any supply contracts in Delaware or called on any accounts there to solicit sales.[10] Yet, Heartland did ship some small orders of the accused sweetener products into Delaware under contracts with two national accounts.[11] The district court denied Heartland's motion and held that under *VE Holding* it had specific personal jurisdiction over Heartland for claims involving the accused sweeteners.[12]

Undeterred, Heartland sought a writ of mandamus from the Federal Circuit, arguing that Congressional amendments to § 1391(c) in 2011 changed the law governing venue for patent infringement suits in a manner which nullified *VE Holding*. The Federal Circuit flatly rejected Heartland's writ, calling its argument to be "utterly without merit or logic."[13]

Because I Said So…

The Supreme Court saw things very differently. It held that the requirements of § 1400(b) exclusively govern patent venue, and the provisions of § 1391(c) simply do not apply.[14] In reaching its decision, the Supreme Court walked through century-old precedent to explain that the predecessor version to § 1400(b) "permitted suit in the district of which the defendant was an 'inhabitant' or a district in which the defendant both maintained a 'regular and established place of business' and committed an act of infringement."[15] The Court pointed to its holding in *Stonite Products Company v. Melvin Lloyd Company*, 315 U.S. 561, 565–66 (1942), stating that this version of the

patent venue statute "'was adopted to define the exact jurisdiction of the federal courts in actions to enforce patent rights,'" and that it should not dovetail with the general venue statute.[16] When Congress recodified this law as current § 1400(b), it only changed the term "inhabit[s]" to "resides."[17] The *Fourco* decision later confirmed that the substitution of "resides" for "inhabit[s]" meant the same thing, and § 1400(b) "appl[ied] to domestic corporations in the same way it always had: They were subject to venue only in their State of incorporation."[18]

Notably, the Supreme Court dismissed as irrelevant the Federal Circuit's rationale in *VE Holding* regarding how the amendments to § 1391(c) impacted § 1400(b). According to the Supreme Court, "Congress has not amended § 1400(b) since *Fourco*, and neither party asks us to reconsider our holding in that case."[19] Yet one would think if the Federal Circuit's error was so plain, and *Fourco* remained the law despite Congressional action, the Supreme Court would have granted the petition for a writ of certiorari filed 25 years ago in *VE Holding*.[20] The Supreme Court may as well have said, "because I said so, that's why."

Home Court Advantage: How Sweet It Is?

The Supreme Court's decision almost certainly will mean that fewer patent lawsuits will be filed in the Eastern District of Texas and that more lawsuits will be filed in the District of Delaware (where the majority of domestic corporations are incorporated) and in places like the Northern District of California (where many technology companies have regular places of business and alleged acts of infringement take place). While U.S. companies who have long complained about having to defend patent lawsuit in the Eastern District of Texas may be breathing a sigh of relief, *TC Heartland* may have some less-than-desirable side effects. For instance, at least as to Delaware, not many U.S. companies really are "at home" in the State. Additionally, patent plaintiffs (including NPEs) now may file lawsuits against local retailers, customers, or resellers who have a regular and established place of business in the desired venue. Dockets in courts like the District of Delaware and the Northern District of California already are very crowded, and the expected influx of large numbers of new patent suits may significantly slow down the pace of those dockets. In addition, it is worth noting that the median damages in Delaware ($16.2M) far exceed both the average damages awarded by the top 15 most-favored patent venues combined ($5.8M) and the Eastern District of Texas ($9.9M), so the perceived "home court advantage" may not be what it seems.[21]

Moving Forward

The Supreme Court's decision left open many questions for patent litigants. For instance, the decision is specifically focused on "domestic corporations" and did not address proper venue for foreign corporations.[22] Also, what should a company do if it is currently playing an "away game" under *TC Heartland*? Venue is generally a "use it or lose it, raise it or waive it" defense,[23] but under 28 U.S.C. § 1406 a court is obligated to dismiss or transfer any civil action for improper venue. As a practical matter, it is hard to predict how this shuffle will play out in pending cases. As a plaintiff, how many infringing sales are enough in the venue of choice to warrant filing the suit there? There is very little precedent addressing the second part of § 1400(b), and much of the law that does exist predates the rise of e-commerce. Now more than ever choosing a venue will require a careful assessment of the specifics of your case.

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[1] Slip op. at 2; *see also* 28 U.S.C. § 1400(b).
[2] Slip op. at 2; *see also id.* at 7 (reversing *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (1990)).
[3] *Id.* at 226.
[4] 917 F.2d 1574, 1575 (Fed. Cir. 1990).
[5] *Id.* at 1579 (emphasis added); 28 U.S.C. § 1391(c).
[6] *Id.* at 1584.
[7] Data compiled from Lex Machina®.
[8] *See* slip op. at 2.
[9] *Id.* at 2–3.
[10] *In re TC Heartland LLC*, 821 F.3d 1338, 1340 (Fed. Cir. 2016) (denying petition for writ of mandamus).
[11] *Id.*
[12] *Id.* at 1340-41.
[13] *Id.* at 1342.
[14] Slip op. at 7–8 ("When Congress intends to effect a change of that kind, it ordinarily provides a relatively clear indication of its intent in the text of the amended provision.") (citations omitted).
[15] Slip op. at 4.
[16] *Id.* at 4–5 (quoting *Stonite*, 315 U.S. at 566) (internal quotations omitted).
[17] Slip op. at 5.
[18] *Id.* at 6 (citing *Fourco*, 353 U.S. at 226).
[19] Slip op. at 8.
[20] *See* 111 S.Ct. 1315 (1991) (denying petition for writ of certiorari).
[21] PWC® 2017 Patent Litigation Study at 22, available at *https://www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf*.
[22] Slip op. at 7 n.2.
[23] Professor Bauer, University of Iowa College of Law; *see also* FED. R. CIV. P. 12(b)(3).