ALERT MEMORANDUM

Supreme Court Limits Where Patent Infringement Lawsuits May Be Filed

May 24, 2017

In one of the most important recent decisions in patent law, the Supreme Court this week upended more than 25 years of patent litigation practice by significantly narrowing where patent infringement lawsuits can be filed against domestic corporations. For decades, courts have allowed such lawsuits to be brought wherever a corporate defendant is subject to personal jurisdiction, which often equates to wherever the defendant is alleged to have produced infringing items or made infringing sales. But in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, the Supreme Court ruled that the proper venue for a patent infringement lawsuit against a domestic corporate defendant is limited to either (1) the state where the defendant is incorporated, or (2) any state in which the defendant has committed acts of infringement and has a regular and established place of business.[1]

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As a practical matter, this decision eliminates the ability of patent infringement plaintiffs, who have increasingly been accused of forum shopping, to file lawsuits in forums perceived as patentee-friendly and with which defendants have limited contacts. Thus, far fewer cases will likely be filed in the Eastern District of Texas, which has local rules and court practices regarded as particularly patentee-friendly, and which is reported to be where nearly 40 percent of all patent infringement lawsuits were filed over the past three years, despite the fact that the defendants were not located there. Instead, under this week's ruling, plaintiffs will need to file suit in jurisdictions where defendants have a greater presence, and thus are likely to face lower litigation expenses.

This decision also represents another rebuke by the Supreme Court of the Federal Circuit Court of Appeals, whose decision the Supreme Court reversed, marking the fifth time that the Supreme Court has overruled the Federal Circuit during the past year.

[1] No. 16-341, 2017 WL 2216934 (U.S. May 22, 2017).

Background

The special venue statute applicable to patent infringement lawsuits, 28 U.S.C. § 1400(b), provides that "[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." In *Fourco Glass Co. v. Transmirra Products Corp.*, the Supreme Court held that, for purposes of § 1400(b), a domestic corporation "resides" only in its state of incorporation, rejecting the argument that § 1400(b) incorporates the broader definition of corporate "residence" contained in the general venue statute, 28 U.S.C. § 1391(c).[2]

In 1988, Congress amended § 1391(c) to provide 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."[3] Two years later, in *VE Holding Corp. v. Johnson Gas Appliance Co.*, the Federal Circuit ruled that this amendment showed Congress's intent that, as applied to domestic corporate patent infringement defendants, the broader definition of "resides" in § 1391(c) would apply to § 1400(b).[4] Since then, courts have relied on *VE Holdings* to find that a domestic corporate defendant accused of patent infringement can be sued in any district in which the court can assert personal jurisdiction over that defendant. This has meant, for example, that venue could generally be established in any jurisdiction into which the defendant shipped an infringing product through an established distribution channel. For companies making sales nationwide, this could mean they could be sued nearly anywhere in the United States.

In 2011, Congress passed the Federal Courts Jurisdiction and Venue Clarification Act. This act again amended § 1391(c), this time to replace "for purposes of venue under this chapter" with "for all venue purposes."[5] Additionally, Congress altered § 1391(a), which set forth the applicability of § 1391, to include the phrase "except as otherwise provided by law."[6]

In the instant case, plaintiff Kraft sued defendant TC Heartland, a manufacturer of flavored drink mixes, for patent infringement in Delaware federal court. TC Heartland was not registered in Delaware and had no connection to that state except that some of its products—totaling 2% of its national sales—were shipped there.[7] TC Heartland sought to transfer the lawsuit to the Southern District of Indiana, where it is incorporated and maintains its headquarters, citing *Fourco* and arguing that venue in Delaware was improper.[8]

The District Court rejected TC Heartland's arguments.[9] On appeal, the Federal Circuit denied a petition for a writ of *mandamus*, concluding that the 1988 amendment of § 1391 effectively changed the definition of what it means for a corporation to "reside" in a particular jurisdiction under § 1400(b), and that the more expansive definition, as articulated in *VE Holdings*, was controlling.[10] Thus, the Federal Circuit held that, because TC Heartland "resided" in Delaware under § 1391(c), it also "resided" and could be

[2] 353 U.S. 222, 228–29 (1957).

[3] *TC Heartland*, 2017 WL 2216934, at *6 (emphasis added).

[4] *VE Holdings Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1578 (Fed. Cir. 1990).

[5] Pub. L. No. 112-63, 125 Stat. 758, 763–64 (Dec. 7, 2011).

[6] *Id.*

[7] *Kraft Food Group Brands LLC v. TC Heartland, LLC*, Civ. No. 14-28-LPS, 2015 WL 4778828 at *4 (D. Del. Aug. 13, 2015).

[8] *Id.*

[9] *Id.* at *9–10, *report and recommendation adopted*, No. CV 14-28-LPS, 2015 WL 5613160 (D. Del. Sept. 24, 2015).

[10] *In re TC Heartland LLC*, 821 F.3d 1338, 1343 (Fed. Cir. 2016).

sued for patent infringement there under § 1400(b).[11]

The Supreme Court's Opinion

On May 22, 2017, in a unanimous 8-0 decision authored by Justice Thomas,[12] the Supreme Court reversed the Federal Circuit's ruling, holding that the decision in *Fourco* "definitively and unambiguously" determined that "residence" in § 1400(b) refers only to a domestic corporate defendant's state of incorporation and should not be construed as broadly as the general venue statute, § 1391(c).[13]

In reaching this decision, the Court did not address practical concerns about forum shopping plaintiffs or the high concentration of patent cases filed in a small number of reputedly patentee-friendly jurisdictions. Rather, the Court relied solely on principles of statutory interpretation and held that none of the amendments to § 1391 had the effect of changing the meaning of § 1400(b) as interpreted by the Court's decision in *Fourco*. The Court observed that "[w]hen Congress intends to effect a change . . . it ordinarily provides a relatively clear indication of its intent in the text of the amended provision," but had not done so when it amended the general venue statute.[14]

Specifically, the Court rejected Kraft's attempts to conjure congressional intent from the 2011 amendment to § 1391, holding that the addition of the word "all," so that the statute would apply "[f]or all venue purposes," did not suggest that Congress intended to legislatively override *Fourco*.[15] Similarly, the Court found that nothing in the 2011 amendment served to ratify the Federal Circuit's decision in *VE Holdings*.[16] The Court noted that, if anything, Kraft's position was weaker under the current version of § 1391, which expressly states that it does not apply when "otherwise provided by law."[17]

Takeaways

This decision will likely have a significant impact on U.S. patent infringement litigation. The Supreme Court has effectively upended more than 25 years of precedent and practice reaching back to the Federal Circuit's ruling in *VE Holdings*, which the Court concluded was wrongly decided. This is the fifth time that the Supreme Court has reversed the Federal Circuit during the past year, further demonstrating the Court's lack of deference to the Federal Circuit concerning intellectual property disputes.

The Supreme Court's construction of § 1400(b) means that patent infringement plaintiffs will be constrained in where they can file lawsuits against domestic corporations, and can no longer sue them in any venue where the defendant is amenable to personal jurisdiction. That in turn should result in a dramatic reduction of cases filed in venues that are believed to be patentee-friendly, such as the Eastern District of Texas. It is equally likely that the District of Delaware, where many domestic businesses are incorporated, will see a sharp increase in patent infringement lawsuits.

While this decision resolves the permissible venues for patent infringement lawsuits against domestic corporations, it is also notable for what it does not address. For example, it is unclear what impact, if any, this decision will have on pending cases for which the venue is now improper. The Court offered no guidance as to whether its ruling should be applied retroactively to pending lawsuits and whether, if a defendant would otherwise be deemed to have waived a venue objection because it failed to make this objection at the outset of the lawsuit, it should be permitted to make that

[11] *Id*.

[12] Justice Gorsuch took no part in this decision.

[13] *TC Heartland*, 2017 WL 2216934, at *7

[14] *Id.*

[15] *Id*.

[16] *Id*.

[17] *Id.*

objection now, in light of the Supreme Court's clarification of the law.

The Court also left open the question of how, if at all, its ruling impacts foreign corporations that are sued for patent infringement. One of Kraft's arguments against a narrow reading of § 1400(b) was that it would make it more difficult to establish a proper venue for patent infringement claims against businesses incorporated outside the United States.[18] The Court declined to address this question and expressly stated that it was not expressing any opinion about the continued vitality of its 1972 ruling in *Brunette Mach. Works, Limited v. Kockum Industries, Inc.*, where the Court held that "suits against aliens are wholly outside the operation of all the federal venue laws, general and special."[19] Since *Brunette*, § 1391 has been amended to explicitly provide that foreign defendants "may be sued in any judicial district,"[20] and courts have generally held under this statute that a lawsuit against a foreign defendant can be venued anywhere that the defendant is subject to the court's personal jurisdiction. However, because the Court took no position on whether *Brunette* remains good law, there exists the possibility of future challenges to the appropriate venue for patent infringement suits against foreign defendants.

Without further guidance on these unanswered questions, lower courts will be left to resolve them, which may lead to disparate results. There is a possibility that Congress will step in to amend § 1400(b), to address these unanswered questions and/or to supersede the Supreme Court's narrow construction of the statute, and the resulting limitation on where domestic corporations can be sued for patent infringement. However, Congress will need to act quickly, or it will risk the onset of inconsistent rulings and confusion as lower courts begin to decide cases under this new regime.

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[18] Br. Resp't at 26, *TC Heartland*, 2017 WL 2216934.

[19] *TC Heartland LLC*, 2017 WL 2216934, at *7 n.2 (citing *Brunette*, 406 U.S. 706 (1972)); *Brunette*, 406 U.S. at 714.

[20] 28 U.S.C. § 1391(c)(3).