SUPREME COURT RESTRICTS WHERE PLAINTIFFS CAN SUE FOR PATENT INFRINGEMENT

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IP Ligitation Alert

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For almost thirty years, patent owners sued corporate defendants for patent infringement in any federal judicial district in which that corporation was subject to the court's personal jurisdiction. When corporate defendants sold accused products nationwide, venue could be proper in every federal judicial district in the country. As a result, jurisdictions perceived to be favorable to patent owners, such as the Eastern District of Texas, handled an enormous and disproportionate share of the nation's patent docket.

In *TC Heartland LLC v. Kraft Foods Group Brands LLC*, Case No. 16-341 (May. 22, 2017), the U.S. Supreme Court substantially constrained a patent owner's choice of venue for patent infringement suits. Reaffirming its prior holding in *Fourco Glass Co. v. Transmirra Products Corp.,* 353 U.S. 222 (1957), the Court held that the patent venue statute, 28 U.S.C. § 1400(b), is the exclusive provision controlling venue in patent cases and under § 1400(b), a U.S. corporate defendant "resides" only in its state of incorporation. As a result, plaintiffs may now bring patent infringement suits against domestic companies only in a judicial district (1) in the state where the company is incorporated or (2) in which the defendant has a regular and established place of business and has committed acts of infringement. This ruling will make it more difficult for patent owners to shop for forums with no substantial connection to a defendant, such as the Eastern District of Texas. On the other hand, filings likely will be further concentrated in other districts that already have substantial patent dockets, including the District of Delaware—where a substantial number of U.S. companies are incorporated— and the Northern District of California—home to the Silicon Valley headquarters of numerous technology companies.

TC HEARTLAND LLC V. KRAFT FOODS GROUP BRANDS LLC

In *TC Heartland*, the plaintiff, Kraft Foods Group Brands LLC ("Kraft"), sued its competitor, TC Heartland LLC ("Heartland"), in the U.S. District Court for the District of Delaware, for infringement of three patents. Kraft was organized under the laws of Delaware and had a principal place of business in Illinois, while Heartland was headquartered in Indiana and organized under that state's laws. Arguing it had no presence in Delaware except that it had shipped products to the state, Heartland asserted venue was improper in the District of Delaware and moved to transfer the case to the Southern District of Indiana. The district court denied the motion, finding that venue was proper under Federal Circuit precedent.

On a petition for writ of mandamus, the Federal Circuit considered whether to revisit its holding in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), which applied the "residency" definition in the general venue statute, 28 U.S.C. § 1391, to the patent venue statute, 28 U.S.C. § 1400. The assigned panel declined to issue the writ, affirming the *VE Holding* precedent and leaving intact the district court's determination

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that venue was proper in the District of Delaware because Heartland was subject to personal jurisdiction, and thus "resided," there.

In a unanimous decision authored by Justice Thomas, the Supreme Court reversed. The Court held "'reside[nce]' in § 1400 [the patent venue statute] refers only to the State of incorporation." The Court explained that it had previously established this definition in *Fourco*, and Congress' subsequent changes to the general venue statute did not modify it. In *Fourco*, the Court had held that (1) the patent venue statute was the only provision that controlled venue for patent infringement cases, (2) for purposes of the patent venue statute, a company resided only in the state in which it was incorporated, and (3) the general venue statute's broader definition of "residence" was not applicable to patent infringement cases. The Court concluded that Congress did not intend to alter the *Fourco* decision through its subsequent amendments to the general venue statute, 28 U.S.C. § 1391. The Court reasoned that Congress did not amend the patent venue statute after *Fourco* and, in its two subsequent amendments of the general venue statute, it did not clearly express an intention to apply the expanded general definition of residency to the separate patent venue statute. The Court further found it significant that since *Fourco,* Congress had added a saving clause to the general venue statute that expressly stated that the general statute did not apply when "otherwise provided by law," e.g., by the *Fourco* precedent.

VENUE CHOICE IN THE WAKE OF *TC HEARTLAND*

TC Heartland's more narrow interpretation of where a defendant "resides" will restrict a plaintiff's choice of venue in patent cases. No longer can a patent owner bring suit in any district where the defendant is subject to personal jurisdiction. Now, that choice of venue will be limited to only those judicial districts in which either (1) the defendant is incorporated or (2) the defendant has a regular and established place of business and has committed acts of infringement. 28 U.S.C. § 1400(b).

Patent owners, however, likely will rely increasingly on the second prong of Section 1400(b). The question of where a defendant corporation has a regular and established place of business and has committed acts of infringement has long been largely irrelevant as subsumed under the broader personal jurisdiction basis for venue, but that question will now receive new attention. The most recent Federal Circuit decision interpreting Section 1400(b), *In re Cordis Corp*., 769 F.2d 733 (Fed. Cir. 1985), suggests a "regular and established place of business" might be interpreted flexibly, without even necessarily requiring a physical location like an office or store. The application of this standard to the myriad of facts relating to how business is conducted, including, for example, the increasingly important online presence of businesses, will provide a fertile ground for litigation over venue.

Regardless of the outcome, this decision portends a sea change in patent litigation. Patent owners may no longer default to forums generally perceived to be favorable to them. Restrictions on forum selection may make patent owners less anxious about racing to the courthouse to avoid a preemptive declaratory judgment action and more willing to attempt to negotiate a license first. The cost of litigation may increase for patent owners forced to litigate in forums where defendants have a substantial presence. The crowded docket of the Eastern District of Texas may move to the District of Delaware, potentially increasing time to trial not only for patent cases but also for the substantial business disputes commonly handled there.

KEY QUESTIONS LEFT UNANSWERED BY *TC HEARTLAND*

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The Court's holding in *TC Heartland*, while potentially far-reaching in its consequences, is narrow in its scope. As a result, the decision leaves a number of important questions unanswered.

First, how does *TC Heartland* impact pending cases where venue was proper under Federal Circuit precedent at the time of filing? In such cases, parties will need to carefully consider the continued viability of the plaintiff's asserted basis for venue and the possibility that the defendant waived arguments as to improper venue.

Second, how will district courts address situations where there is no single U.S. district in which venue would be proper as to all defendants a plaintiff seeks to sue? Separating such cases between different districts will result in increased costs and duplicative efforts across the already burdened federal court system and may risk inconsistent rulings, including claim constructions. To avoid this, litigants and courts may turn to the Judicial Panel on Multidistrict Litigation to seek consolidation.

Third, what venue rules are appropriate for patent infringement cases with foreign corporations as defendants? In *TC Heartland*, the Court expressly limited its holding to "domestic corporations" and noted it was not "express[ing] any opinion" on *Brunette Machine Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706 (1972), in which it applied a subsection of the general venue statute to find venue restrictions inapplicable to foreign corporations. Accordingly, foreign corporations still can be sued in any federal judicial district in which the court has personal jurisdiction over the corporation. Patent owners may focus their litigation increasingly on foreign parents instead of domestic subsidiaries, leading to increased scrutiny of which participants of a manufacturing and distribution chain qualify as "necessary parties" in a patent infringement suit.

It will certainly take time for these issues to be resolved. With offices and experienced intellectual property trial lawyers in the impacted jurisdictions, K&L Gates stands ready to counsel and guide our clients as these issues further develop.

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