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Memorandum

Supreme Court Clamps Down on Venue Shopping in Patent Cases

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For many years, the Federal Circuit's interpretation of the patent venue statute has permitted patent plaintiffs to sue in any district in which a defendant would be subject to personal jurisdiction, for example anywhere it has sold allegedly infringing products. In this permissive environment, plaintiffs, and patent assertion entities in particular, flocked to the Eastern District of Texas to take advantage of its speedy docket and perceived advantages to plaintiffs. Yesterday, in *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, No. 16-341, 581 U.S. __ (2017), the Supreme Court upended that regime. A U.S. corporation can now be sued for patent infringement only in a district within its State of incorporation or where it "has a regular and established place of business."

The consequences of the Court's opinion are summarized below, followed by a more detailed discussion of the case and its likely future impact.

- Patent plaintiffs may sue a U.S. corporation only: (1) in its State of incorporation or (2) where it "has a regular and established place of business."
- There will likely be a precipitous decline in the number of patent suits filed in the Eastern District of Texas.
- We expect an increase in the number of patent suits filed in other districts. The largest increases should come in the District of Delaware and the Northern District of California, followed by the Central District of California, the Southern District of New York, and the District of New Jersey.
- The effect of *TC Heartland* on foreign corporate defendants is unclear.

Background

The patent venue statute, 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." Over half-a-century ago, in 1957, the Supreme Court rejected the idea that "resides" was defined by the general venue statute, 28 U.S.C. § 1391(c), and held that for purposes of patent venue, a domestic corporation "resides" only in its State of incorporation.[1] At the time, § 1391(c) stated that "[a] corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business."

In 1988, Congress amended § 1391(c) to state 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." The Federal Circuit then held, in *VE Holding*, that the amended § 1391(c) defined "resides" for the purposes of § 1400(b).[2] Following *VE Holding*, patent plaintiffs could sue anywhere a defendant was subject to personal jurisdiction. In most cases, this meant a plaintiff could bring suit anywhere a defendant sold an allegedly infringing product.[3]

In 2011, after *VE Holding*, Congress amended the general venue statute once again. It now states "[e]xcept as otherwise provided by law," "this section shall govern the venue of all civil actions brought in district courts of the United States" and further provides that, "[f]or all venue purposes," certain entities, "whether or not incorporated, shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court's personal jurisdiction[.]"

In *TC Heartland*, the plaintiff brought its patent infringement suit in the District of Delaware even though the defendant was organized and headquartered in Indiana. Relying on *VE Holding*, the District of Delaware denied the defendant's motion to dismiss for lack of proper venue or, alternatively, to transfer the case to the Southern District of Indiana. The Federal Circuit held that the 2011 amendment to the general jurisdiction statute did not alter the rule it announced in *VE Holding* and thus denied the defendant's petition for mandamus.

Summary of the Supreme Court's Decision

In a decision authored by Justice Thomas and joined by all of the Justices except Justice Gorsuch, who took no part in the consideration or discussion of the case, the Court reversed the Federal Circuit and held that for purposes of the patent venue statute, 28 U.S.C. § 1400(b), a corporate defendant "resides" only in its State of incorporation.

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[1] *See Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222, 226 (1957).

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

[3] The personal jurisdiction inquiry in patent cases is fact intensive and the law governing the outer limits of personal jurisdiction is not settled. *See, e.g.*, *Celgard, LLC v. SK Innovation Co., Ltd.*, 792 F.3d 1373 (Fed. Cir. 2015) (holding that the requirements of the "stream-of commerce" theory of personal jurisdiction remain unsettled). However, in general, the sale of allegedly infringing product by a defendant in the forum state has been held to be sufficient to give rise to personal jurisdiction.

The Court's opinion first lays out the relevant history of the statute, its opinion in *Fourco*, and the Federal Circuit's opinion in *VE Holding*. The Court then reasons that (i) § 1400(b) has not been altered since *Fourco* and (ii) "[t]he current version of [the general venue statute] does not contain any indication that Congress intended to alter the meaning of § 1400 (b) as interpreted in *Fourco*." *TC Heartland*, slip op. at 8. According to the Court, the words "all venue purposes" in § 1391(c) really mean "all venue purposes except for patent venue." *See id*. The Court buttressed its interpretation by noting that the "current provision includes a saving clause expressly stating that it does not apply when 'otherwise provided by law.'" *Id*. at 9. The "saving clause makes explicit the qualification that th[e] Court previously found implicit in the statute" in *Fourco*. *Id*.[4]

Implications

TC Heartland will have wide ranging ramifications, some of which are quite predictable and some of which are less clear. One outcome is certain: Patent plaintiffs will need to sue domestic corporations in a district lying within the defendant's State of incorporation or where the defendant "has a regular and established place of business."

The meaning of "regular and established place of business" has been previously described by the Federal Circuit as a "permanent and continuous presence,"[5] though we expect one of the first results of *TC Heartland* will be increased litigation over this phrase. Disputes over this second provision of § 1400(b) will likely play a prominent role in the many motions to dismiss for improper venue or to transfer that will likely be filed in the Eastern District of Texas in the near future.[6]

Another fairly immediate consequence of *TC Heartland* will be a redistribution of patent cases. Of the more than 4,500 patent cases filed in 2016, 36% were filed in the Eastern District of Texas. Only 10% were filed in the District of Delaware. The Districts of Northern and Central California combined also accounted for about 10% of filings. Aside from the Northern District of Illinois (5.5%), no other District accounted for more than 5% of patent case filings. We expect the proportion of cases brought in the Eastern District of Texas to fall precipitously.[7] Jurisdictions in which large numbers of corporations are headquartered or

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[4] In focusing on the current version of the § 1391 the Court avoided explicitly abrogating *VE Holding*, which considered an earlier version of the statute. However the changes to the statute that resulted in the current version do not provide the basis for the Court's decision—they only "weake[n]" arguments to the contrary, or at most, fail to "suggest[ ] congressional approval of *VE Holding*." *TC Heartland*, slip op. at 9-10. The Court's apparent reluctance to directly engage with *VE Holding* may be explained by its denial of *certiorari* in that case.

[5] *See In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985).

[6] While many current patent defendants in the Eastern District of Texas may have waived an argument of improper venue by failing to raise it as an affirmative defense, there are likely hundreds of cases in which defendants have preserved the argument.

[7] We also expect that the substantial legal ecosystem that has developed in the Eastern District of Texas to service the large volume of patent cases filed there to undergo a substantial reduction. Defendants incorporated in the Districts

incorporated, such as the District of Delaware, the District of New Jersey, the Northern and Central Districts of California (technology companies), and the Southern District of New York (banks and insurers) will likely see substantial increases in patent litigation.

The effect of *TC Heartland* on cases brought against foreign corporate defendants is less clear. The Court specifically stated it was not addressing the issue and was not expressing an opinion on a 1972 holding[8] addressing proper venue for foreign corporations under the then existing statutory regime. *TC Heartland*, slip op. at 7 n.2.

The most likely outcome is that nothing will immediately change—foreign corporations will still be subject to suit in the Eastern District of Texas. In *Brunette*, the Court held that the then-effective version of § 1391(d), which stated that "[a]n alien may be sued in any district," meant just what it said and placed all suits against foreign corporations (including patent suits) outside the ambit of § 1400.[9] In conformance with *VE Holding*, courts have read the 1988 amendment to § 1391—setting residence for all corporations, including foreign corporations, in any district where the corporation is subject to personal jurisdiction—as creating a uniform venue rule for foreign and domestic corporations.[10] However, the Court's holding in *TC Heartland* may have breathed new life into *Brunette*, making foreign and domestic corporate defendants subject to different venue rules in patent infringement suits.

There are many reasons why such a divergence would be undesirable, and we expect that there may be Congressional and judicial efforts to address proper venue for patent suits alleging infringement by foreign corporations.

that will likely experience an uptick in patent litigation will need to look to counsel with substantial experience in patent litigation in, for example, Delaware, the Northern District of California, and the Southern District of New York.

[8] *Brunette Mach. Works, Ltd. V. Kockum Indus., Inc.*, 406 U.S. 706, 713-14 (1972).

[9] *See id.*

[10] *See, e.g., Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 734 F. Supp. 911 (N.D. Cal. 1990).

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