Supreme Court Decision Limits Venue Statute in Patent Litigation

May 23, 2017

On May 22, 2017, in a highly-anticipated decision that could dramatically alter the landscape of patent litigation, the United States Supreme Court held that the "resides" prong of the patent venue statute, 28 U.S. C. §1400(b)[1], dictates that patent cases must be filed in the state where the defendant company is incorporated. In doing so, the Court reversed a long-standing Federal Circuit rule allowing a patent holder to file suit anywhere that a defendant does business, and reinstated a more restrictive standard from a previous Supreme Court decision. *TC Heartland LLC v. Kraft Foods Group Brands LLC*, No. 16-341.

TC Heartland involved a dispute over flavored drink mixes. The plaintiff, Kraft Foods, sued its competitor, TC Heartland (an Indiana Limited Liability Company headquartered in Indiana), in the District of Delaware alleging that TC Heartland's products infringed one of its patents. Because TC Heartland is not registered to conduct business in Delaware and has no meaningful presence in the state, it moved to dismiss the case or transfer venue to the Southern District of Indiana, alleging that venue was improper in Delaware. In response, Kraft Foods argued that venue was proper because TC Heartland sold and shipped allegedly infringing products into Delaware thereby triggering the well-established Federal Circuit rule allowing patent lawsuits to be filed anywhere a defendant does business.

Relying on Federal Circuit precedent, the District Court rejected TC Heartland's argument. The Federal Circuit agreed and subsequently denied a petition for a writ of mandamus, concluding that subsequent statutory amendments have effectively amended the patent venue statute, such that the general venue statute in 28 U.S.C. §1391(c) now supplies the definition of "resides" in §1400(b). Thus, because the District of Delaware could exercise personal jurisdiction over TC Heartland, the company "resided" in Delaware for purposes of both §1391(c) and §1400(b).

The Supreme Court, in an 8-0 opinion authored by Justice Thomas (Justice Gorsuch did not participate), reversed the Federal Circuit's decision and held that "a domestic corporation 'resides' only in its state of incorporation for purposes of the patent venue statute." Slip Op. at 2. The Court noted that the "resides" prong of the patent venue statute provides that "[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides," 28 U.S.C. §1400(b), and that it previously concluded in *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957), that the term "resides" in §1400(b)

unambiguously means the state of incorporation. Slip Op. at 7-8.

Kraft Foods relied on two arguments long-endorsed by the Federal Circuit: (1) that subsequent amendments by Congress to the general venue statute in §1391(c), which states that a corporation is deemed to reside in "any judicial district in which it is subject to personal jurisdiction," have supplanted the definition of "resides" in §1400(b); and (2) that the Federal Circuit's opinion in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F. 2d 1574 (1990), which held that the definition of "resides" in §1391(c) "clearly applies" to §1400(b), supports the same conclusion. The Supreme Court rejected both arguments, however, noting that *Fourco* remains good law today. Slip Op. at 8. Moreover, the Supreme Court reasoned that the current version of §1391 "does not contain any indication that Congress intended to alter the meaning of §1400(b)" or ratify the Federal Circuit's decision in *VE Holding*. *Id.* at 8-9. Thus, for domestic corporations facing allegations of patent infringement, the Supreme Court made clear that "residence" for venue purposes refers only to the state of incorporation.

The *TC Heartland* decision will have a significant impact on patent litigation involving domestic companies. It will dramatically curtail, if not spell an end to, certain pro-plaintiff districts that have long benefited from the previously relaxed venue standard. In the ever-expanding world of e-commerce, allowing a patent holder to file suit anywhere a defendant "does business" has long contributed to forum shopping by patent owners and, particularly, non-practicing entities or high volume plaintiffs. This has resulted in a concentration of cases in just a few jurisdictions like the Eastern District of Texas, which was the forum of choice in roughly 36 percent of all patent cases filed in the United States in 2016. By the same token, given that many businesses prefer Delaware incorporation, today's decision will surely increase the number of filings there. Absent from today's decision, however, is any indication of how the Supreme Court's ruling will impact cases currently pending in districts where defendants are not incorporated in that particular state in which the propriety of the current venue turns on the Federal Circuit's prior, now-overruled standard.

If you have questions regarding this alert, please contact your Lathrop Gage attorney or the attorneys listed above.

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[1] For the sake of clarity, venue in patent cases can also be established under the second prong of 28 U.S. C. §1400(b), which states that venue is also proper "where the defendant has committed acts of infringement and has a regular and established place of business." The Supreme Court's decision in *TC Heartland* does not address this second prong.