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Supreme Court Cracks Down on Forum Shopping in Patent Lawsuits

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In a highly-anticipated decision, the U.S. Supreme Court unanimously decided to crack down on forum shopping in patent infringement lawsuits by limiting where domestic corporations can be sued.

The federal law governing venue for patent infringement lawsuits allows lawsuits to be brought in the judicial district where either (1) the defendant resides or (2) the defendant has committed acts of infringement and has a regular and established place of business. 28 U.S.C. § 1400(b). In *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 581 U.S. ____ (2017), the Supreme Court overturned nearly thirty years of Federal Circuit precedent by reaffirming its own prior holding in *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222, 226 (1957) that, under the patent venue statue, a domestic corporation "resides" *only* in the state where it is incorporated.

The definition of "resides" set forth in *TC Heartland* is drastically more limiting than the interpretation that had previously been applied by federal courts. Prior to *TC Heartland*, courts applied the Federal Circuit's interpretation of the patent venue statute set forth in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (1990). In *VE Holding*, the Federal Circuit considered the interplay between the general venue statute, 28 U.S.C. §1391(c)—which had been amended in 1988—and the patent venue statute, 28 U.S.C. §1400(b), and determined that the definition of "residence" in the general venue statute applied equally to the term "resides" in the patent venue statute. *Id.* at 1580. The general venue statute broadly defines residence to include "any judicial district in which such defendant is subject to the court's personal jurisdiction . . . ." 28 U.S.C. §1391(c)(2). Accordingly, prior to *TC Heartland*, the term "resides" in the patent venue statute was broadly interpreted to include any judicial district where the defendant was subject to personal jurisdiction—which, in practice, allowed a defendant to be sued in any jurisdiction where the defendant conducted business, including any jurisdiction where the defendant shipped products.

In the modern age of e-commerce, the broad interpretation of patent venue under *VE Holding* allowed most defendants to be sued in almost any jurisdiction. This encouraged patent owners to shop for the most favorable forum to bring their lawsuit and led to the proliferation of patent litigation in the Eastern District of Texas, despite the fact that most defendants who had been sued in the Eastern District were not incorporated in Texas and did not have regular and established places of business in that district.

The facts of *TC Heartland* present a typical forum shopping scenario. Kraft Foods filed a patent infringement lawsuit against TC Heartland in the U.S. District Court for the District of Delaware. TC Heartland allegedly shipped infringing products into Delaware, but is organized under the laws of Indiana and is headquartered in

Indiana. TC Heartland argued that venue in Delaware was improper and sought to dismiss the case or transfer venue to Indiana. TC Heartland relied on the Supreme Court's *Fourco* decision in arguing that, within the context of the patent venue statute, it did not "reside" in Delaware because it was not incorporated in the state.[1] The district

court denied TC Heartland's venue challenge on the basis of *VE Holding* and its progeny. TC Heartland petitioned the Federal Circuit for writ of mandamus. In denying TC Heartland's petition, the Federal Circuit ruled that the definition of "resides" set forth in *Fourco* had been supplanted by subsequent statutory amendments to the general venue statute, with the effect being that the general venue statute provided the definition of "resides" in the patent venue statute.

The Supreme Court analyzed the 2011 statutory amendments to the general venue statute, 28 U.S.C. § 1391, and concluded that those amendments did not have the effect of changing the meaning of "resides" in the patent venue statute that had been set forth in *Fourco*. The 2011 amendment changed §1391(a) to provide that "[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 also changed §1391(c)(2) to provide that "[f]or all venue purposes . . . an entity . . . 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 with respect to the civil action in question."

The Court first noted that "[t]he current version of §1391 does not contain any indication that Congress intended to alter the meaning of §1400(b) as interpreted in *Fourco*." TC Heartland, 581 U.S. ____, at 8. The Court dismissed the argument that the phrase "for all venue purposes" in the current version of the general venue statute evidences Congress's intent to supplant the definition of "resides" in patent venue statute set forth in *Fourco*. The Court further noted that "*Fourco's* holding rests on even firmer footing now" because the current version of §1391 added "a savings clause expressly stating that it does not apply when 'otherwise provided by law.'" *Id.* at 9.[2]

Accordingly, in *TC Heartland*, the Supreme Court held that its interpretation of the patent venue statute as set forth in *Fourco* remains unchanged and thus, as applied to domestic corporations, the term "'reside[nce]' in §1400(b) refers only to the State of incorporation." *Id.* at 10.

Takeaways and Practice Notes

This decision creates a major change in patent litigation from what had been standard practice for almost three decades. It is likely to significantly stifle forum shopping and give corporations which are the targets of patent infringement lawsuits more predictability about where they can except to be sued. However, defendants and would-be defendants should take a moment before rejoicing.

First, it should be recognized that this decision is limited to "domestic corporations" which are "incorporated" in a state. The decision does not address how the term "resides" is to be applied to other types of entities which are not "incorporated" (*e.g.*, limited liability companies, partnerships, etc.). Time will tell whether lower courts will strictly interpret this decision to apply only to "domestic corporations" or whether they will extend this decision to other types of legal entities. Furthermore, the Supreme Court explicitly stated that the current decision does not address the question of venue for foreign corporations. *Id.* at 7-8, n.2.

Second, the current ruling may give corporate defendants which recently have been sued and which have not yet responded to the complaint or which otherwise have preserved their venue objections a basis to seek dismissal for improper venue or a venue transfer if their lawsuit is pending in a jurisdiction other than where they are incorporated or have a regular and established place of business. However, for defendants in a lawsuit that is in an advanced stage or which have waived their objections to venue, a dismissal of the case or venue transfer seems unlikely.

Third, the present decision may curb some patent lawsuits where a plaintiff determines that the burden of complying with the stricter venue requirement outweighs the potential recovery from the lawsuit—such as some nuisance lawsuits brought by patent trolls seeking quick, low-dollar settlements. However, it is unlikely to have a drastic impact on the overall volume of patent lawsuits that will be brought going forward. Instead, most lawsuits (including most patent troll cases) that would have otherwise been filed in a pro-patentee forum under the broader *VE Holding* interpretation of §1400(b)—such as the Eastern District of Texas—will most likely simply be redistributed to other jurisdictions where proper venue lies. It is expected that the District of Delaware—already one of the most popular venues for patent lawsuits—will see a sharp increase in patent filings, as many defendants are incorporated in Delaware and thus likely will be subject to venue in that district under *TC Heartland*. Also, the district courts in California—particularly the Northern District of California—also will likely see an increase in patent lawsuits because a large number of technology companies, who are frequent targets for patent lawsuits, have "regular and established place[s] of business" in California. Lastly, it will be interesting to see whether district courts in other states that are popular locations for incorporation—such as Nevada and Wyoming—will receive an influx of patent lawsuits and consequently develop reputations for being popular venues for patent lawsuits.

[1] TC Heartland also argued that venue was improper in Delaware because it did not have a "regular and established place of business" in Delaware under the second part of the patent venue statute.
[2] The Court also dismissed the argument that the 2011 amendments were intended to ratify the Federal Circuit's decision in VE Holding.