Supreme Court Limits Venue in Patent Litigation

Skadden

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If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

James J. Elacqua
Palo Alto
650.470.4510
james.elacqua@skadden.com

Paul J. Lockwood
Wilmington
302.651.3210
paul.lockwood@skadden.com

Douglas R. Nemec
New York
212.735.2419
douglas.nemec@skadden.com

P. Anthony Sammi
New York
212.735.2307
anthony.sammi@skadden.com

Robert S. Saunders
Wilmington
302.651.3170
rob.saunders@skadden.com

Four Times Square
New York, NY 10036
212.735.3000

skadden.com

In an 8-0 decision issued on May 22, 2017, the U.S. Supreme Court, in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, restricted the available venues for patent litigation claims under 28 U.S.C. § 1400. Under Section 1400(b), a patent infringement action 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." Writing for the Court, Justice Clarence Thomas restricted "resides," as used in Section 1400(b), to include only the defendant's place of incorporation. This decision signals the end of a decades-long patent litigation boom in U.S. district courts such as East Texas and a return to traditionally patent-heavy venues such as the District of Delaware and the Northern District of California.

Background

Kraft Food Brands LLC sued TC Heartland LLC in federal district court in Delaware, alleging that Heartland's liquid water-enhancing products infringed Kraft's patents for similar products. Kraft has principal place of business in Illinois and is incorporated in Delaware, where the suit was filed. TC Heartland is organized under Indiana law and headquartered in Indiana. TC Heartland moved to dismiss the suit on several grounds, including that the venue was improper because it did not "reside" in Delaware.

The district court disagreed. It found that, under U.S. Court of Appeals for the Federal Circuit precedent in *VE Holding*, TC Heartland's residence, for the purposes of patent litigation venue under Section 1400, was defined by 28 U.S.C. § 1391. Accordingly, TC Heartland could be found to reside in any venue in which it was subject to personal jurisdiction. Because TC Heartland shipped orders of the accused products into Delaware, the district court found that there was specific personal jurisdiction and therefore that venue was proper in Delaware.

The Federal Circuit denied TC Heartland's petition for a *writ of mandamus* to direct the district court to either dismiss or transfer the lawsuit. In so doing, the Federal Circuit affirmed its prior ruling in *VE Holding* and rejected the Supreme Court's decision in *Fourco*. The Federal Circuit noted that *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U. S. 222, 226 (1957), had been superseded by congressional amendments to Section 1391 in 1988. Federal Circuit precedent from *VE Holding*, although inconsistent with the Supreme Court precedent in *Fourco*, was therefore the prevailing law because the Federal Circuit opinion was decided after Congress' superseding amendments to the statute.

The Federal Circuit also noted that nothing in Congress' 2011 amendments to 28 U.S.C. § 1391 made after *VE Holding* would alter the Federal Circuit's decision.

The Decision

Justice Thomas, writing for the Court, reversed the Federal Circuit and overruled *VE Holding*. In the decision, the Court relied on its previous decision in *Fourco*, where the court "definitively and unambiguously" held that the word "residence" in Section 1400(b) refers only to the state of incorporation. Given that neither party asked for a reconsideration of *Fourco* and that Section 1400(b) has not been amended since that decision, the Court reasoned that "the only question ... is whether Congress changed the meaning of § 1400(b) when it amended § 1391." The Supreme Court held that it did not. To the contrary, the Court found that the current version of Section 1391 "d[id] not contain any indication" that Congress intended to alter the meaning of Section 1400(b) as interpreted in *Fourco*, and the Court found "no indication" that Congress ratified

the Federal Circuit's decision in *VE Holding*. Accordingly, the Supreme Court held that as applied to domestic corporations, residence in Section 1400(b) refers only to the state of incorporation.

Implications for Patent Litigants

Although the full impact of the *TC Heartland* decision remains to be seen, the ruling is a clear indication that there will be a marked shift in the distribution of patent suits going forward. The Court's decision is likely to have at least the following implications for patent litigants:

- *TC Heartland* has the potential to profoundly affect litigation brought by patent assertion or nonpracticing entities. Before this decision, these entities tended to file cases in or near a particular venue like the Eastern District of Texas. Litigating in a home court and using nearly identical complaints made this practice cost-effective. Now, these entities may be forced to tailor claims and litigation strategies to different venues based on where the individual defendants are located and incorporated — thus increasing the costs associated with patent assertion. This has the potential to deter many of these litigations.
- *TC Heartland* may alter the current practice of suing multiple parties. For example, in the pharmaceutical context, where multiple parties file Abbreviated New Drug Applications, a drug sponsor wishing to challenge these applications may be forced to sue each party in a separate district if the parties are incorporated and based in different states. Likewise, where two parties work together to manufacture a product that is alleged to infringe a patent, the patent holder may be forced to sue these parties in separate venues, resulting in costly and unwieldy parallel litigation.
- Perhaps most notably, and to the relief of the many *amici* who argued in favor of narrowing the venue statute, *TC Heartland* will effect a sea change in where patent lawsuits are filed. In 2016, nearly 40 percent of patent litigations were brought in the Eastern District of Texas. However, about 85 percent of patent lawsuits are brought outside of the defendant's state of incorporation, and 86 percent are brought outside of the location of defendants' principal place of business. Now, under *TC Heartland*, popular patent venues are likely to shift either to typical states of incorporation — such as Delaware — or to traditionally science-and-technology-oriented districts such as California, New Jersey and Massachusetts, where many companies have their principal place of business. These regions have a long history of handling patent suits and are well-equipped to resolve these matters. Nonetheless, the large influx of patent cases is likely to be significant: In 2016, only 63, 187 and 454 cases were filed in the U.S. district courts for the districts of Massachusetts, Northern District of California and Delaware, respectively, as compared with 1,662 cases filed in the Eastern District of Texas. As new cases are filed outside the Eastern District of Texas, each of these courts' patent dockets could double in the coming year alone, placing strain on the already burdened judges in these districts.
- Given the number of lawsuits that will no longer meet the requirements for venue in patent suits, districts like East Texas where patent litigation is currently concentrated are likely to receive a flood of transfer motions.
- *TC Heartland* is likely to impede the progress of prospective patent legislation. Many proponents of patent legislation reform advocated restricting patent suit venues in a similar manner to the restriction articulated by the Supreme Court in *TC Heartland*. With proponents of venue-change placated, there may be less support for other changes to the Patent Act or procedural rules.