LOS ANGELES & SAN FRANCISCO
Daily Journal
www.dailyjournal.com
TUESDAY, MAY 23, 2017

# Ruling will dramatically change how patent cases are litigated

By Ben M. Davidson

On Monday, in *TC Heartland LLC v. Kraft Food Group Brands LLC*, 2017 DJDAR 4633, the U.S. Supreme Court greatly limited the ability of patent owners to sue defendants in faraway venues, including in districts that have long been viewed as favorable to patent owners. The court held that under 28 U. S. C. Section 1400(b), a corporation "resides" only where it is incorporated, not where it is subject to personal jurisdiction based on sales of infringing products.

The patent venue statute, Section 1400(b), provides that patent infringement actions may be brought only in two venues: (1) a "district where the defendant resides" or (2) "where the defendant has committed acts of infringement and has a regular and established place of business." While the statute appears clear on its face, it has been interpreted for nearly 30 years to allow corporations to be sued anywhere they have sold infringing goods. In *VE Holding Corp. v. Johnson Gas Appliance Co*, 917 F.2d 1574 (Fed. Cir. 1990), the U.S. Court of Appeals for the Federal Circuit determined that the definition of "resides" under the patent venue statute is the same as the broad definition of the term in the *general* venue statute, Section 1391(c), which allows corporations to be sued where they are subject to personal jurisdiction.

Writing for a unanimous court in a decision from which Justice Neil Gorsuch abstained, Justice Clarence Thomas rejected the analysis in *VE Holding*. Thomas noted that the Supreme Court already had decided a nearly identical issue nearly 50 years ago. In *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222 (1957), the Supreme Court held that for purposes of determining venue in patent cases under Section 1400(b), a domestic corporation resides only in its state of incorporation. The *Fourco* court had rejected the argument that the definition of "resides" in a previous version of Section 1391(c) determined the residence of a corporation under the patent venue statute. In *TC Heartland*, however, the Federal Circuit had departed from the ruling in *Fourco*, reasoning that the 1957 decision had been overruled by Congress in 1988 when it amended Section 1391(c) to include the phrase "[f]or purposes of venue under this chapter." The Supreme Court found this argument unpersuasive, and confirmed its prior holding in *Fourco*.

The Supreme Court has made many decisions affecting patent law in the last few years. But *TC Heartland* stands out as a case that will dramatically change how patent cases are litigated.

Thomas explained that Congress has not amended the patent venue statute since *Fourco*, and that neither party had asked the Supreme Court to reconsider that decision. The only issue before the court was whether Congress *implicitly* changed the meaning of Section 1400(b) when it amended Section 1391(b) in 1988 and, later, in 2011. Thomas noted that when Congress intends to effect a change in a statute, it normally makes its intention to amend clear in the statute itself. Because no such indication appeared in any of the amendments to Section 1391, the court was not persuaded that Congress had changed the meaning of "resides" in Section 1400(b). If anything, the court noted, Congress made clear that the original meaning of "resides" in Section 1400(b) would continue to apply by stating in Section 1391(a)(1) that the venue section governed venue in all civil actions "[e]xcept as otherwise provided by law."

The Supreme Court has made many decisions affecting patent law in the last few years. But *TC Heartland* stands out as a case that will dramatically change how patent cases are litigated. After the Federal Circuit's decision in *VE Holding*, plaintiffs effectively shopped for forums that they viewed as favorable but that often had little connection to the subject matter of the patent dispute. The Eastern District of Texas became the leading venue for filing patent suits, gaining both expertise and notoriety for being the favored venue for patent-assertion entities. Justice Antonin Scalia once called the court "a renegade jurisdiction." Comedian John Oliver devoted a segment of his "Last Week Tonight" show to skewering the court as the favorite destination of non-practicing entities. He noted that Samsung had been sued there so often that it eventually bought the city of Marshall, Texas, an ice rink. Although some of the criticism was exaggerated, a lawsuit in the Eastern District of Texas tended to force defendants to settle because it was typically difficult to obtain early rulings on infringement or validity in that district.

The fallout from *TC Heartland* includes what Professor Paul Janicke has predicted to be an "imminent outpouring" of cases from the Eastern District of Texas. He notes that there are now more than 1,000 patent cases pending in this district, and that in about 400 of them defendants have not waived the defense of improper venue. The greatest impact of this outpouring will likely be on the District of Delaware, already a leading patent court, because many defendants are incorporated in Delaware. The court will likely need more judges to deal with the wave of new cases it will have to decide; it only has three active judges. Courts in California also will face a greater number of patent cases against companies that either are incorporated or have an established place of business here.

Not all companies will benefit equally from the decision. Professor Dennis Crouch observes that many national retailers still have "a regular and established place of business" in many jurisdictions and will still be amenable to suit where they currently are. It is also unclear what the decision will mean for foreign defendants that may not be amenable to suit anywhere because they have no established place of business in the United States. The Supreme Court left that issue undecided because the plaintiff in *TC Heartland* was an Indiana corporation.

For plaintiffs and their trial lawyers, the case may mean significantly greater costs from having to sue multiple infringers of the same patent in different districts. Plaintiffs also will have to deal with the potential of being "home towned" when they have no choice but to sue corporations in their own states, where jurors view them as good citizens who employ their neighbors. While these venue challenges may present hardships for plaintiffs, it is unlikely that Congress will step in to change the venue statute any time soon. Large and small corporations used to the threat of being sued in faraway venues are celebrating the Supreme Court's decision, and Congress is likely to hear from them if it tinkers with the venue statute again.

**Ben M. Davidson** *is the founder of the Davidson Law Group. He is a former patent examiner and represents corporations in intellectual property litigation and proceedings before the U. S. Patent & Trademark Office.*


BEN M. DAVIDSON
Davidson Law Group