

"TC Heartland:" The End of an Era in Patent Litigation

On Monday, May 22, the Supreme Court reached a unanimous decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, overruling the Federal Circuit's interpretation of the patent venue statute, 28 U.S.C. § 1400(b), and potentially dealing a death blow to the notorious practice of forum shopping in patent cases as a general matter.

In *TC Heartland*, the parties were competitors that manufactured and sold flavored drink mixes. Plaintiff Kraft Foods Group Brands, a company organized under Delaware law with its principal place of business in Illinois, brought suit in the District of Delaware. Defendant TC Heartland, an Indiana entity with its principal place of business in Indiana, had no connection to Delaware except that it shipped allegedly infringing products into the state. TC Heartland sought to transfer venue to its home district, the Southern District of Indiana.

The patent venue statute provides that a "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." 28 U.S.C. § 1400(b). Sixty years ago, the Supreme Court held that for purposes of the statute a domestic corporation "resides" only in its state of incorporation. *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222, 226 (1957). Later, in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), the Federal Circuit held that the residence restriction of § 1400(b) should carry the same meaning as the residence restriction of the general venue statute, 28 U.S.C. § 1391, which defines residence as any state where a corporate defendant is subject to personal jurisdiction.

The ramifications of *VE Holding* decision are well known. Given the low bar for establishing proper venue under *VE Holding* (which could be established by showing that a defendant sold some allegedly infringing goods in the jurisdiction), plaintiffs flocked to patentee-friendly districts almost without regard to a defendant's true location. The Eastern District of Texas, known for its "rocket docket" and patentee-friendly juries and judges, became a very popular choice to the frustration of certain defendants who feel

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that the patentee-friendliness of the district drove up the settlement value of nuisance lawsuits. According to various sources, roughly 40% of all patent infringement lawsuits filed over the last two years were filed in the Eastern District of Texas.

In *TC Heartland*, the Supreme Court overruled the Federal Circuit's interpretation of § 1400(b). Specifically, the Court held that it should not be interpreted to incorporate the residence definition from § 1391 but rather is a distinct statute governing patent venue. The Court reasoned that § 1391 does not contain any language suggesting that Congress intended for it to alter the meaning of § 1400(b). To the contrary, *Fourco* held that the two were distinct, a ruling that the Supreme Court found should apply with even more force given that today's version of § 1391 includes a "saving clause" expressly stating that it does not apply where venue is "otherwise provided by law." Therefore, the Court held that venue as to defendant TC Heartland was improper in Delaware.

Although *TC Heartland* itself was neither a "patent troll" lawsuit (it was an action between competitors) nor was it brought in the Eastern District of Texas, its holding will undoubtedly have significant ramifications for the case load in that district and other jurisdictions generally favored by patentees. The extent of the ramifications, however, remains to be seen.

Venue continues to be appropriate where "the defendant has committed acts of infringement and has a regular and established place of business." So, the venue issue in some cases will depend on whether or not a defendant is held to have a "regular and established place of business" in the jurisdiction chosen by the plaintiff, which could be a fact-intensive inquiry.

Patentee's enforcement strategies going forward will presumably depend in part on how the courts apply the "regular and established place of business" clause. If, for example, courts hold that a retailer's store location is a "regular and established place of business" of the retailer, patentees might shift to a practice of filing suit against retailers of allegedly infringing products in patentee-friendly jurisdictions based on retail store locations, even though the retailers do not themselves design or make the accused products. Some patentees seem to have implemented this practice already. If such a shift does happen, will suppliers of the allegedly infringing technology react by commencing declaratory judgment actions in their home jurisdictions and, to the extent that suppliers do file such suits, will courts in the patentee-friendly jurisdictions stop the lawsuits filed by the patentees in favor of the supplier-filed declaratory judgment actions under the "customer suit" exception to the first-to-file rule?

It also remains to be seen how the *TC Heartland* decision will affect venue in cases against foreign defendants. The parties in the *TC Heartland* disputed the implications of the decision against such defendants. The Court refused to address the issue.

Ironically, the *TC Heartland* decision might simply shift much of the patent litigation from the Eastern District of Texas to the District of Delaware (the court from which the Supreme Court ruled that the *TC Heartland* case should be transferred). The District of Delaware is another popular choice for patent infringement plaintiffs, rivaling the Eastern

District of Texas. Many companies are incorporated in Delaware, regardless of their headquarters' locations. Under the *TC Heartland* decision, Delaware is an appropriate venue for infringement claims against any such company incorporated in Delaware. Therefore, the trend of plaintiffs choosing the District of Delaware may accelerate after *TC Heartland*.

One thing is certain: the *TC Heartland* holding must factor into any decision by any plaintiff in a patent case about where to file a patent suit and any decision by a defendant about whether to challenge venue.