

TC Heartland: An End To Forum Shopping for Patent Litigation?

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***TC Heartland* – Is the patent venue statute, 28 U.S.C. § 1400(b), the “sole and exclusive provision” governing venue in patent infringement actions?**

On March 27, 2017, oral argument is set to be heard in the Supreme Court in the case of *In re TC Heartland*. Many legal scholars and industry leaders see this case as a potential turning point for patent infringement litigation. Today, a great majority of patent cases are concentrated in only a small number of venues, with more than half being brought in the Eastern District of Texas. The Supreme Court’s recent decision to grant certiorari in the *TC Heartland* case signals a possible change in the law on venue selection in patent cases, which could have a significant impact on where patent infringement cases are brought and could shape how these cases are litigated for years to come.

TC Heartland: An Overview

In *In re TC Heartland LLC, No. 2016-105* (Fed. Cir. Apr. 29, 2016), the Federal Circuit denied TC Heartland LLC’s petition for a writ of mandamus that would have directed the Delaware District Court to dismiss or transfer the case based on lack of personal jurisdiction or improper venue. TC Heartland, a liquid sweetener company, was sued by Kraft Foods Group Brands LLC for patent infringement in the District of Delaware. Because Heartland had no facilities in Delaware, it sought to have the case transferred to the Southern District of Indiana, where it is based; however, its request was denied. In denying Heartland’s petition for a writ of mandamus, the Federal Circuit rejected the argument that Congress’s 2011 amendments to the general venue statute (28 U.S.C. § 1391) effectively overruled the Court’s precedent in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). It held that when Congress changed the venue statute from “For the purposes of venue under this chapter” to “For all venue purposes,” it broadened the definition of corporate residence, not narrowed it.

Unsatisfied with the Federal Circuit’s decision, TC Heartland took its case up to the Supreme Court, submitting a writ of mandamus in September of 2016 to have the Supreme Court decide the issue of whether patent cases were subject to specialized venue statutes—an issue that the Supreme Court had already decided in the 1957 *Fourco* case. Law professors, legal foundations, retailers, industry associations, and major technology companies filed amicus curiae briefs in support of the petitioner, citing statutory interpretation arguments as well as policy arguments linking the *VE Holding* decision to perceived abuses in patent venue selection by plaintiffs. In December of 2016, the Supreme Court agreed to hear the case, seemingly teeing up a decision that could have major ramifications for patent venue selection in the future.

A Brief History of Patent Venue Selection Law

1948 Venue Statute Codification: In 1948, Congress codified title 28 of the United States code which included the codification of 28 U.S.C. § 1400(b) and 28 U.S.C. § 1391. Under § 1400(b), venue for patent cases was defined as follows: “Any 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.” (Emphasis added). The term “resides” is not specifically defined in § 1400(b). The precursor to 28 U.S.C. § 1400(b), the Act of 1897, was “adopted to define the exact jurisdiction of the federal courts in actions to enforce patent rights,” according to legislative history cited by the Supreme Court in its decision in *Stonite Prod. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 565 (1942). Congress has never changed or amended the language of 28 U.S.C. § 1400(b) since 1948.

Under the 1948 codification, 28 U.S.C. § 1391 was titled “Venue Generally” and stated that a “corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation for venue purposes.” The legislative history of § 1391 did not mention § 1400(b), nor did it demonstrate clear intent on the part of Congress to implicitly repeal § 1400(b). However, the possible conflict between the two statutes was clear, and the new language of § 1391 resulted in a circuit split over whether the two venue statutes were to be read together or kept separate.

Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222 (1957): The controversy over the interaction between § 1400(b) and § 1391 made its way to the Supreme Court in 1957. In *Fourco*, the Supreme Court held that 28 U.S.C. § 1400(b) was the “sole and exclusive provision controlling venue in patent infringement actions,” reversing a Second Circuit decision that had characterized § 1391 as defining “corporate residence” for the purposes of patent venue under § 1400(b). The Court clarified that, under § 1400(b), a corporation is deemed to “reside” in its state of incorporation for purposes of venue in patent infringement actions. The *Fourco* Court reached this holding despite hearing arguments that § 1391(c), as it was written at the time, had “clear and unambiguous” language applying to all actions. In its decision, the Court stated that it was “clear that § 1391(c) is a general corporation venue statute, whereas § 1400 (b) is a special venue statute applicable, specifically, to all defendants in a particular type of actions, i.e., patent infringement actions.” Ultimately, the Court determined that the specific terms in § 1400 must prevail over the general terms of the § 1391 venue provisions, and that reading the two statutes together would render § 1400 superfluous. Historically, the question of whether venue was proper in patent infringement cases was controlled by the *Fourco* decision. This remained settled until Congress amended § 1391 in 1988.

1988 Amendment to 28 U.S.C. § 1391: In 1988, Congress amended 28 U.S.C. § 1391, the general venue statute, to state that a defendant corporation “shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.” Before 1988, the text of § 1391 applied “for venue purposes,” but the 1988 Amendment altered that language and extended the definition of corporate residence “***For purposes of venue under this chapter.***” The “chapter” referred to chapter 87, which included § 1400.

A comparison of the text of § 1391 before 1988 and after the 1988 amendments is set forth below:

Pre-1988 Text of § 1391(c)	1988 Text of § 1391(c)
<p>A corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded as the residence of such corporation <u>for venue purposes.</u></p>	<p><u>For purposes of venue under this chapter</u>, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.</p>

This shift in language opened the door for courts to revisit the question of whether § 1391 was meant to define “residence” for purposes of venue in § 1400.

VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (Fed. Cir. 1990): Shortly after the 1988 amendment to the general venue statute, the Federal Circuit decided the case of *VE Holding Corp. v. Johnson Gas Appliance Co.*, reading § 1400 and § 1391 together to apply the definition of “reside” found in § 1391. The Federal Circuit held that the new language from the 1988 amendments to § 1391 was applicable to patent cases, and that therefore corporations could be sued in any district in which it was subject to personal jurisdiction. Despite the Supreme Court’s decision in *Fourco*, the Federal Circuit treated the question in *VE Holding* as one of “first impression,” finding that *Fourco* no longer controlled the reading of § 1400 because the Congressional amendment superseded the common law definition of corporate residence that the Court had applied to patent cases.

According to the Committee on the Judiciary, the Federal Circuit in *VE Holding* essentially “collapsed the tests for personal jurisdiction and venue, rendering § 1400 a nullity.” After *VE Holding*, the test for venue in patent infringement cases became whether the defendant was subject to personal jurisdiction in the district of the suit at the time the action commenced—a much broader take on venue that had never before been applied to patent cases. The result was a significant expansion of venue selection – and forum shopping – for patent infringement cases.

2011 Amendment to § 1391: In 2011, Congress revisited the issue of general venue but still did not answer the question of how § 1391 and § 1400(b) were intended to interact. The Federal Courts Jurisdiction and Venue Clarification Act of 2011 removed the phrase “[f]or purposes of venue under this chapter” and added introductory language stating that the general venue provisions of § 1391 would be applicable “[e]xcept as otherwise provided by law.” Although it did not directly address § 1400(b), the legislative history did provide some analysis as to how § 1391 would interact with other states. It stated that “[n]ew paragraph 1391(a)(1) would follow current law in providing the general requirements for venue choices, but would not displace the special venue rules that govern under particular Federal statutes.” At the same time, however, the same legislative report stated that “proposed subsection 1391(c) would apply to all venue statutes, including venue provisions that appear elsewhere in the United States Code.”

<i>The Current Language of the Relevant Statutes (as of 2017)</i>	
<p>28 U.S.C. § 1400 “Patents and copyrights, mask works, and designs”</p>	<p>(a) Civil actions, suits, or proceedings arising under any Act of Congress relating to copyrights or exclusive rights in mask works or designs may be instituted in the district in which the defendant or his agent resides or may be found.</p> <p>(b) Any 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.</p>
<p>28 U.S.C. § 1391 “Venue Generally”</p>	<p>(a) Applicability of Section.—Except as otherwise provided by law—</p> <p>(1) this section shall govern the venue of all civil actions brought in district courts of the United States; and</p> <p>(2) the proper venue for a civil action shall be determined without regard to whether the action is local or transitory in nature.</p> <p>(b) Venue in General.—A civil action may be brought in—</p> <p>(1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;</p> <p>(2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or</p> <p>(3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court’s personal jurisdiction with respect to such action.</p> <p>(c) Residency.—For all venue purposes—</p> <p>(1) a natural person, including an alien lawfully admitted for permanent residence in the United States, shall be deemed to reside in the judicial district in which that person is domiciled;</p> <p>(2) an entity with the capacity to sue and be sued in its common name under applicable law, 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 and, if a plaintiff, only in the judicial district in which it maintains its principal place of business; and</p> <p>(3) a defendant not resident in the United States may be sued in any judicial district, and the joinder of such a defendant shall be disregarded in determining where the action may be brought with respect to other defendants.</p>

By amending the language relied upon in *VE Holding*, the 2011 Congressional amendment ultimately set the stage for a legal challenge to the current approach to patent venue selection and for TC Heartland to take the question up to the Supreme Court.

Practical Effects of the Current Patent Venue Framework

Since the Federal Circuit’s 1990 decision in *VE Holding*, patent venue selection has become a hotly contested issue in patent cases. Specifically, defendants in patent cases have argued that plaintiffs have been gaming the system through forum shopping tactics that have resulted in a majority of cases being brought in “patent friendly” districts. For example, the year after *VE Holding*, a total of *seven* patent infringement cases were filed in the Eastern District of Texas. Yet, by 2015, a whopping **2558** cases - almost half of all patent cases filed that year - were brought in the Eastern District of Texas.

	<u>U.S. Total</u>	<u>E.D. Tex.</u>		<u>D. Del.</u>		<u>C.D. Cal.</u>		<u>N.D. Cal.</u>		<u>N.D. Ill.</u>		<u>D.N.J.</u>	
2008	2605	297	11%	167	6%	198	8%	164	6%	144	6%	160	6%
2009	2561	239	9%	234	9%	272	11%	163	6%	136	5%	146	6%
2010	3351	542	16%	257	8%	230	7%	205	6%	247	7%	158	5%
2011	3899	580	15%	486	12%	329	8%	230	6%	232	6%	192	5%
2012	5456	1252	23%	1001	18%	506	9%	257	5%	239	4%	160	3%
2013	6090	1498	25%	1335	22%	411	7%	246	4%	217	4%	144	2%
2014	5010	1428	29%	942	19%	320	6%	250	5%	151	3%	284	6%
2015	5774	2548	44%	544	9%	277	5%	221	4%	162	3%	270	5%
2016 YTD	4408	1607	36%	439	10%	287	7%	182	4%	240	5%	183	4%
2016 est.	4557	1661	36%	454	10%	297	7%	188	4%	248	5%	189	4%

Percentage of Patent Cases Filed in the Most Popular Districts in the U.S.

[Source: <http://www.ipwatchdog.com/2017/01/11/future-forum-shopping-post-tc-heartland/id=76960/>]

A reversal of the Federal Circuit’s decision in *TC Heartland* would cause a significant shift in these patent trends and would impact patent venue selection in the following ways:

- (1) E.D. Tex.: The Eastern District of Texas will almost assuredly see less patent infringement filings. Unless a defendant has facilities in the Eastern District of Texas, venue will not be proper in that district under the narrower interpretation of § 1400.
- (2) N.D. Cal., D. Del. and Other Districts: There will likely be an increase in patent cases in districts where more companies are incorporated or tend to have their corporate headquarters, such as the District of Delaware, the Northern District of California, the Central District of California, the Southern District of New York, and the Northern District of Illinois. If the defendant has committed acts of infringement in the district in which its headquarters sit, which can be proved in most cases, that district would serve as a proper venue for the patent infringement action.
- (3) Multiparty Litigation: A change in patent venue law would also impact multiparty litigation. Under the status quo, plaintiffs can easily bring actions against multiple parties in one district by meeting the general venue provisions and

demonstrating that each of the defendants committed an infringing action in the forum state. Under a more narrow view of patent venue, plaintiffs may be unable to find one common venue for all of the alleged infringers and would be required to file patent infringement actions in multiple venues, increasing the cost of litigation and demanding more time and resources on the part of the plaintiffs.

Venue Transfer Motions: An Interim Response

Under the current venue scheme, the only recourse that defendants have in response to clear cases of patent-holder forum shopping is moving to transfer the case. Motions to transfer venue are governed by 28 U.S.C. § 1404(a), which provides: “[f]or the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to another district court or division where it might have been brought.” Courts have historically approached motions to transfer by looking to both private and public interest factors defined in the case of *Gulf Oil Corp. v Gilbert*, 330 U.S. 501 (1947). In *Gilbert*, the private interest factors considered include the following: (1) the relative ease of access to sources of proof; (2) the availability of compulsory processes to ensure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that impact the ease and expense of trial. The public interest factors include the following: (1) the administrative difficulties related to court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflict of laws or in the application of foreign law.

However, with these flexible standards comes room for interpretation that has resulted in discrepancies in the way in which motions to transfer have been handled. As a result, success on a motion to transfer depends greatly on which district hears the motion to transfer. For example, notwithstanding the Federal Circuit’s granting of a writ of mandamus directing the Eastern District of Texas to transfer a patent infringement case in *In re TS Tech United States Corp.*, 551 F.3d 1315 (Fed. Cir. 2008), it has remained difficult to successfully transfer patent cases out of the Eastern District of Texas—in 2016, a survey by Law360 revealed that, out of the motions to transfer venue brought in the Eastern District of Texas, 18 motions were granted and 45 were denied. The delay in obtaining resolution of transfer motions has been viewed as an additional problem for corporate defendants, with many complaining that they were forced to settle even meritless lawsuits. Accordingly, § 1404(a) transfer motions only have limited effect on forum shopping.

If the Supreme Court ultimately upholds the Federal Circuit’s decision in *TC Heartland*, however, venue transfer may continue to serve as an important tool to check against abusive venue selection practices by plaintiffs.

Policy Considerations for a Change in Patent Venue Selection

Proponents of changing the current venue law have touted the original purpose of venue statutes as a reason to reconsider the applicability of § 1391 to patent cases. Venue laws are primarily aimed at protecting a defendant from inconvenience or unfairness. The current expansive view of venue for patent cases has instead given patent-holders nearly unlimited

choice in venue and has resulted in defendants being brought to court in far-away districts, strategically chosen by the plaintiff. Many have also argued that specialized patent venue laws are necessary because traditional safeguards of fairness in the choice of forum, such as personal jurisdiction and declaratory judgments, are not effective in the patent context. For example, the Federal Circuit has held that companies selling allegedly infringing products on a national scale are subject to personal jurisdiction in any state, which, under the current application of § 1391 to patent cases, allows venue to be proper in any district in the nation.

According to the *amici* who have filed briefs in support of the petitioner, the Supreme Court's review in *TC Heartland* is necessary to correct the following abuses:

- “rampant and unseemly forum shopping” that “hampers innovation, generates erroneous results, and undermines respect for the rule of law” (Brief of Amici Dell Inc. and the Software & Information Industry Association at 3, 6)
- “pervasive forum shopping” that “has fundamentally altered the landscape of patent litigation in ways detrimental to the patent system as a whole” (Brief of Amici 32 Internet Companies, Retailers, and Associations at 3, 7)
- “a massive imbalance in the distribution of patent suits in the United States” that jeopardizes the “core purposes underlying our patent laws” (Brief of Amici American Bankers Association, the Clearing House Payments Company L.L.C., Financial Services Roundtable and Consumer Bankers Association at 8-9)
- “forum shopping [of] the very sort” that “Congress sought to guard against it adopted legislation limited venue in patent litigation” (Brief of Amicus Washington Legal Foundation at 14)
- a “venue free-for all” that “especially harms small companies and American consumers” and that “may be drawing courts into competition to attract patent owners—the ones with unilateral choice over forum—by adopting practices and procedures favorable to patent owners” (Brief of Amici the Electronic Frontier Foundation and Public Knowledge at 3, 21)
- “numerous practical negative consequences” including “concentration of most patent litigation [in] a select few district courts, which is bad for positive development of patent law” (Brief of Amicus Paul R. Michel, retired Chief Judge of the Federal Circuit, at 1)

Conclusion

The Supreme Court's grant of certiorari has been viewed by many as a strong indication that the Court will soon hand down another reversal for the Federal Circuit and will put a swift end to forum shopping in patent cases. However, the question presented in *TC Heartland* is not as simple as it may initially seem—the history of Congressional amendments and court decisions add a level of complexity to the issue of patent venue selection that the Court will have to wade

through in its decision. Still, there are concerns that even a decision narrowing patent venue will fall short of getting to root of concerns over patent litigation – and may create other unintended consequences. Regardless of the outcome, the Supreme Court’s decision in *TC Heartland* decision will surely send ripples through the patent litigation world and will have a significant impact on venue selection trends in the future.

Discussion Questions

1. Is there a current justification for patent infringement cases to have a specialized patent venue statute that restricts venue, or are the general venue provisions of 28 U.S.C. § 1391 sufficient?
2. Some patent assertion entities and patent infringement plaintiff’s firms have voiced concerns over changes to the current patent venue laws, stating that specialized patent venue statutes would simply ensure that defendants always received the “home court advantage.” What practical effect might this “shift in the playing field” have on patent litigation outcomes?
3. If the Supreme Court ultimately narrows patent venue, could that have an impact on the number of patent infringement cases brought in the United States, especially from non-practicing entities? If the Eastern District of Texas is off limits for venue purposes, would some patent infringement plaintiffs be discouraged from filing their suit to begin with?
4. Does a change in patent venue selection law get to the root of the problem in terms of forum shopping and concentration of suits in one district, or is there more that needs to be done to address the issue? What kinds of policy changes and/or court action would help address the issue of patent assertion entities?
5. The Venue Equity and Non-Uniformity Elimination Act of 2016, Bill S. 2733, has proposed amendments to 28 U.S.C. § 1400, including the following provisions:

Notwithstanding subsections (b) and (c) of section 1391, any civil action for patent infringement may be brought on in a judicial district—

(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;

(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue, and has –

(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;

(B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or
(C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit;

How would this change in language affect current patent venue selection trends? Should an amended patent venue statute take into consideration the location of the plaintiff/patentee?