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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

3 Takeaways From The Supreme Court's Patent Venue Ruling

By **Matthew Bultman**

Law360, New York (May 22, 2017, 9:55 PM EDT) -- The U.S. Supreme Court's decision Monday to put restrictions on where patent lawsuits can be filed will limit the ability of patent owners to file cases in favorable courts, likely marking the end of the Eastern District of Texas as a patent litigation hot spot.

In an 8-0 ruling, the Supreme Court sided with TC Heartland LLC in a dispute with Kraft Foods Group Brands LLC and undid a decades-old Federal Circuit rule that effectively allowed a patent holder to file suit anywhere a defendant makes sales. The justices reinstated a more restrictive standard outlined in a 1957 high court decision.

"The importance of the court's decision today should not be understated," said Michael Strapp of DLA Piper. "Forum shopping in patent cases will largely become a relic of history."

Here, Law360 takes a look at this impact and other possible fallout from the ruling.

The Sam B. Hall federal courthouse in Marshall, Texas, pictured in March 2016, will likely see a sharp drop in activity following Monday's Supreme Court decision.

A Blow to the Eastern District of Texas

The federal law governing patent venue states a patent lawsuit may be filed where the defendant "resides" or has a regular and established place of business. In 1957, the Supreme Court decided in Fourco Glass Co. v. Transmirra Products Corp. that "resides" meant the place of incorporation.

On Monday, the Supreme Court reaffirmed Fourco and said it remained good law, despite Congress having made changes to the general venue statute. In doing so, the high court upended an interpretation the Federal Circuit had adopted in 1990 that essentially allowed patent lawsuits to be filed anywhere that a defendant does business.

Paul Rivard of Banner & Witcoff Ltd. said the decision was a "game changer."

“Well more than half of the pending patent infringement actions are probably in the wrong district under today’s ruling,” he said. “Certainly going forward, we’re going to see a change in the current landscape.”

Much of the conversation around venue rules focused on the Eastern District of Texas, which has emerged as a popular district among patent owners. Over the last three years, nearly 40 percent of all patent suits were filed in the district, which has a plaintiff-friendly reputation. Those numbers are expected to drop because few patents defendants are actually based there.

“The first and most immediate consequence is this will effectively mark the end of the Eastern District of Texas being a major player in patent litigation,” said Byron Pickard of Sterne Kessler Goldstein & Fox PLLC.

Q. Todd Dickinson, a former director for the U.S. Patent and Trademark Office, said it wasn’t surprising that the Supreme Court came down the way that it did, given the amount of attention that has been paid to concerns about forum shopping.

“The issue, particularly as it relates to the Eastern District of Texas, was so notorious that it was highly unlikely that they weren’t going to do something,” said Dickinson, now an attorney with Polsinelli PC.

The prevailing thought is that a large portion of patent lawsuits will now shift to Delaware, where many companies are incorporated, and to the Northern District of California, which is home to a number of technology companies.

“There may be some evening out [of patent lawsuits across districts], but certainly, those will remain really popular,” said Dori Hines of Finnegan Henderson Farabow Garrett & Dunner LLP.

There Are Questions Going Forward

For all that the Supreme Court said about patent venue in its 10-page decision, there still remain some questions that need to be resolved. The court did not address the second prong of the patent venue statute, which allows patent lawsuits to be filed where the defendant “has committed acts of infringement and has a regular and established place of business.”

Mayer Brown LLP's Paul Hughes said courts haven’t spent much time considering what qualifies as a “regular and established place of business” in this context.

“The Federal Circuit’s interpretation of ‘resides’ really made any consideration of the second prong somewhat academic,” he said. “After TC Heartland, that second prong is going to have pretty considerable importance.”

Attorneys also noted that the Supreme Court’s opinion, written by Justice Clarence Thomas, was careful to say the ruling applied only to domestic corporations. The court did not address the implications of the decision for foreign corporations, which was a point of dispute between Kraft and TC Heartland.

“I would think there’s some uncertainty about what the venue rules are that apply to foreign corporate defendants,” said Lawrence Friedman of Cleary Gottlieb Steen & Hamilton LLP.

One additional question: What happens to lawsuits that have already been filed?

Richard W. Miller of Ballard Spahr LLP said he expects defendants to file a large number of motions to dismiss cases for improper venue, particularly in east Texas. How the lower courts handle these motions remains to be seen.

“It’s going to take them a while to figure out how to work through all that motion practice,” he said. “It’s going to be interesting to see how that’s handled.”

Patent Litigation Reform Becomes Less Urgent

There have been a number of calls over the years for legislation aimed at curbing abusive patent litigation. But various measures introduced by lawmakers, such as the Innovation Act and the Venue Act, have stalled on Capitol Hill.

Pickard said there may now be less pressure on Congress to act.

“I think the perceived patent troll problem has been driving a lot of that, and Congress will likely wait to see how this ruling affects litigation brought by nonpracticing entities,” he said.

Sen. Orrin Hatch, R-Utah, and Rep. Bob Goodlatte, R-Va., both of whom have been vocal proponents of patent litigation reform, praised the Supreme Court’s decision in separate statements Monday.

“This decision will help rein in abusive forum-shopping and restores our nation’s patent venue laws to ensure that cases are brought in judicial districts that have a reasonable connection to the dispute,” Goodlatte said.

Dickinson said with TC Heartland and other recent Supreme Court rulings on patent law, some major issues that were a driving force behind the desire for reform have now been addressed by the high court.

“I think the impetus behind that pretty controversial set of proposals is lessened, and other issues will likely come to the fore, like [Section] 101,” Dickinson said, referring to Section 101 of the Patent Act, which deals with patent eligibility.

Still, there might be room for Congress to weigh in on the venue front. For instance, they might “want to clarify what the rules are for foreign corporate defendants,” Friedman said.

The case is TC Heartland LLC v. Kraft Food Brands Group LLC, case number 16-341, in the Supreme Court of the United States.

--Photo by Jess Krochtengel. Editing by Christine Chun and Jill Coffey.

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