

Patentee Forum Shopping May Be About To Change

Law360, New York (January 21, 2016, 9:38 PM ET) --

At first blush, special statutory rules appear to govern venue over patent cases. Courts have interpreted those rules, however, in a way that provides patentees more freedom than most to engage in forum shopping. Over half of all patent cases filed in 2015 were filed in two of the 94 judicial districts in the United States. Under a generous definition of corporate residence, plaintiffs in patent cases are able to sue defendants in any jurisdictions where the defendants are subject to personal jurisdiction. Because companies often make their products or services available nationwide, patentees have the ability to select a favorable jurisdiction, constrained only by the prospect of an unfavorable ruling on a discretionary motion to transfer venue.



Alex Chan

A case pending at the Federal Circuit could change that. In the Heartland case,[1] the petitioner, a corporate defendant, has asked the court to reconsider the rule that gave patentees the broad ability to forum shop. That rule, announced in VE Holding, provides that the broad 1988 congressional definition of “reside” for corporate defendants located in the general venue statute, 28 U.S.C. § 1391, governs venue in patent cases.[2] The VE Holding decision has permitted patentees to sue alleged infringers in “any district where there would be personal jurisdiction over the corporate defendant.”[3] Although this definition does not allow venue wherever a corporate defendant could be served, it nonetheless permits patentees to file cases in venues other than the accused infringer’s “place of incorporation.”[4]

The petitioner in Heartland argues that 28 U.S.C. § 1400(b), the patent venue provision, restricts a corporation’s residence to its state of incorporation, and that a 2011 amendment to the general venue statute restored the law to the state in which it existed before VE Holding. If the petitioner prevails in Heartland, the case will have an industrywide impact on where lawsuits are brought and how patents are litigated. On the other hand, if the petitioner loses, then corporate defendants will likely need to persuade Congress to enact additional legislation directed toward venue reform.

This article: (1) outlines the history of venue in patent litigation; (2) provides recommendations to corporate parties on how they might guard against forum shopping; and (3) summarizes the current legislative proposals for venue reform in Congress.

History of Venue in Patent Litigation

The history of patent-specific venue dates back to 1789 when Congress enacted Section 11 of then-Judiciary Act of 1789, which permitted civil suits, including patent infringement lawsuits, to be brought

in federal courts against a person only in a district in which the person resides or is found.[5] Because of the broad nature of the language, litigation abuses ensued, allowing lawsuits to be brought even if the defendant was found or served many states away.[6] These abuses prompted Congress to enact a new act in 1887. That act limited the filing of civil suits only to the district in which the defendant resides except in cases involving diversity jurisdiction.[7] [8]

The U.S. Supreme Court then decided the Hohorst case.[9] The Hohorst court found that the act of 1887 did not apply to aliens or foreign corporations “in a suit for the infringement of a patent right.”[10] Shortly after this decision, confusion followed over whether the act of 1887 applied to patent litigation. To resolve this confusion, Congress passed the act of 1897 to “define the exact jurisdiction of the federal courts to enforce patent rights.”[11]

Patent-Specific Venue Statute Acknowledged in Stonite and Fourco

Nearly a half-century later, in 1942, the Supreme Court weighed in. In *Stonite*, the court addressed whether Section 48 of the Judiciary Act, the statutory precursor to Section 1400(b), was the exclusive provision governing venue in patent cases, or whether the predecessor to Section 1391 (akin to the general venue statute) supplemented the patent venue statute.[12] When the case was decided, the general venue statute permitted lawsuits against two or more defendants residing in different judicial districts within the same state to be brought in either district.[13]

The court held that Section 48 was the exclusive provision governing venue in patent cases. The court reasoned that the amended Act of 1897 “was intended to define the exact limits of venue in patent infringement suits ... limiting a prior, broader venue ... [and] there is little reason to assume that Congress intended to authorize suits in districts other than those mentioned in that Act.”

In 1957, the Supreme Court reaffirmed *Stonite* in its *Fourco* decision.[14] There, the court addressed a similar venue question: whether Section 1400(b) was the sole and exclusive provision governing venue in patent litigation, or whether Section 1391(c) supplemented Section 1400(b). At the time of the *Fourco* decision, Section 1391(c) defined corporate residency as any judicial district in which the corporate defendant is “licensed to do business” or “doing business.” By contrast, Section 1400(b)’s definition encompassed only where the defendant resides or has a place of business.[15]

The court reaffirmed its view that Section 1400(b) alone governed patent litigation, reasoning that “§ 1391(c) is a general corporation venue statute, whereas § 1400(b) is a special venue statute applicable, specifically, to all defendants in ... patent infringement actions.”[16] According to the court, because “[s]pecific terms prevail over the general in the same or another statute which otherwise might be controlling,” Section 1391(c) did not supplement Section 1400(b) by broadening the definition of corporate residency.[17][18]

Legislative Changes to Venue Statutes After Stonite and Fourco

After *Fourco*, Congress passed the Judicial Improvements and Access to Justice Act of 1988. The 1988 act amended Section 1391(c) in a significant way — Congress included the preamble language “[f]or purposes of venue under this chapter.” The legislative history indicates that the primary intent of the 1988 act was to clarify venue for corporations in states with multiple judicial districts.

Because Section 1391 and Section 1400 are grouped in the same statutory “chapter,” the new language in Section 1391(c) raised the question whether Section 1391(c) and Section 1400(b) were to be read

jointly for venue purposes in patent litigation. In *VE Holding*, the Federal Circuit held that they were and interpreted the 1988 act to overrule *Fourco*. As a result of *VE Holding*, Section 1391(c) now supplied the meaning of “resides” for purposes of corporate venue under Section 1400(b).

VE Holding greatly expanded the range of permissible options for venue over patent cases, because it subjected corporate defendants to lawsuits anywhere they might be subject to personal jurisdiction. Businesses who offer products or services nationwide, therefore, are subject to lawsuits in any judicial districts where such products or services are available.[19]

The Heartland Debate

Recently, Congress passed the Federal Courts Jurisdiction and Venue Clarification Act of 2011 (the “2011 Act”). The amendments in the 2011 Act form the basis for *Heartland*. First, Congress added Section 1391(a) to provide in part: “Except as otherwise provided by law, ... (1) this section shall govern the venue of all civil actions brought in district courts of the United States.” Second, the 2011 Act replaced the language “[f]or purposes of venue under this chapter” in Section 1391(c) with the new language “[f]or all venue purposes.” The court in *Heartland* is being asked to construe those changes.

In *Heartland*, the question is whether this new language in Section 1391(c) is subject to Section 1391(a). On one hand, the natural reading of 1391(c) appears to make Section 1391(c)’s definition of corporate residence broadly applicable for “all venue purposes.” The plaintiff in the underlying case and one amicus point to that language and urge that *VE Holding* is still good law. They argue that amended Section 1391(c) “only operates to define a term in § 1400(b) — it neither alone governs patent venue nor establishes a patent venue rule separate and apart from that provided under Section 1400(b).”[20] As a result, those parties defend the current venue rules by arguing that their statutory reading is consistent with both *VE Holding* and the statutory construction maxim that a specific statutory provision governs over a general one. The district court accepted this argument.[21]

On the other hand, the defendant and 25 amici argue that the new language in Section 1391(a) limits the applicability of Section 1391 when Congress has “otherwise provided by law.” These parties argue that Section 1400(b) is once again the sole and exclusive provision governing patent actions, and that *VE Holding* has been abrogated by the amendments in the 2011 Act. The key to the argument is that these amendments rendered the broad corporate residence definition applicable only to the general venue statute.

It is of course difficult to predict how the Federal Circuit will rule. Unless the panel views the 2011 act as an intervening statutory change that abrogated *VE Holding*, the panel would lack authority to overrule a prior decision from the court.[22] And, unless the court abandons *VE Holding*, it will likely take a further, more specific, statutory amendment to provide corporate defendants with the relief they seek from the broad range of venue options now available to plaintiffs in patent cases.

How to Guard Against Forum Shopping

Patentees often flock to a handful of jurisdictions to litigate their claims. This issue is particularly pronounced in cases involving nonpracticing entities. This practice often pressures defendants into settlement instead of fighting meritless claims. Although there are procedural tools available to dispute a plaintiff’s choice of forum (e.g., motion to transfer), the courts’ willingness to defer to the plaintiff’s choice of venue and shifting views on venue transfer tend to make these options undesirable.

So how can corporate defendants avoid plaintiffs' forum-shopping tactics?

One effective strategy is to pursue preemptive declaratory judgment actions. The Supreme Court has relaxed the "actual controversy" standard, and new statistics show that the courts granted a patentee's motion to transfer in only two of the 225 declaratory judgment actions filed in 2015. These statistics demonstrate it is likely that a prospective defendant will successfully hold on to its chosen forum if it is able to file a preemptive declaratory judgment against a prospective infringement plaintiff.

Beyond preemptive declaratory judgment suits, contractual forum provisions should be considered when appropriate. A recent Supreme Court case holds that forum-selection clauses deserve nearly dispositive consideration in a battle over venue.

In *Atlantic Marine*,^[23] the court held that when parties have agreed to a forum-selection clause, this clause will be "given controlling weight in all but the most exceptional cases."^[24] Transfer to the preselected forum will be denied only if the plaintiffs can overcome their burden to show that the clause is invalid or public-interest factors overwhelmingly disfavor transfer.^[25] But, as the court noted, "such cases will not be common."^[26]

Corporate defendants, therefore, should not overlook the potential availability of a forum-selection clause. If the likely plaintiffs are companies with whom the corporate defendants transact business regularly, future forum disputes might be avoided through strategic use of forum-selection clauses in contracts or licenses with the likely plaintiffs.

Current Legislative Proposals for Venue Reform

Both the House of Representatives and the Senate are preparing to begin full floor debates on respective patent reform bills for the third time in five years.

On the House floor is the Innovation Act (H.R. 9), which aims to curb patent litigation abuse. The Innovation Act generally favors accused infringers and introduces venue reform. If passed, the Innovation Act would restrict venue to, for example, where the defendant resides, where research or development occurred, or where the product was manufactured.

Although many believed the House would pass the Innovation Act in 2015, the bill did not advance to the floor for a vote before the August recess, and it now sits on the House calendar (Union Calendar No. 177). After Congress reconvenes this month, the public will likely learn whether the Innovation Act will move to a House vote later this year.

The PATENT Act (S. 1137) is the Senate counterpart to the Innovation Act. The PATENT Act, also scheduled for debate this year (General Orders Calendar No. 203), includes provisions similar to the Innovation Act. Unlike its House counterpart, however, the PATENT Act does not address venue.

Beyond these two proposals, there are a handful of other patent reform bills pending in Congress, each in a different stage of consideration. A summary of those proposals is available [here](#). Like the PATENT Act, none of these bills contains provisions related to venue reform. Only the Innovation Act includes such a provision.

Conclusion

As a result of venue statutes and court decisions that permit patentees to bring patent infringement cases in nearly any forum of their choosing, patent litigation has become concentrated in only a few judicial districts. The Heartland case and the Innovation Act seek to narrow those choices, but the outcome of these efforts remains to be seen. If the court accepts the petitioner's arguments in Heartland, the push for a legislative change will likely weaken. If, however, the court is persuaded that VE Holding remains good law, the upcoming congressional session, like the last one, will be animated with proposals to restrict the appropriate venues for patent litigation.

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[1] In re TC Heartland LLC, Case No. 16-105 (Fed. Cir. 2015).

[2] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1580 (Fed. Cir. 1990).

[3] Id. at 1583.

[4] Id.

[5] Stonite Prods. Co. v. Melvin Lloyd Co., 315 U.S. 561, 563 (1942); see also Chaffee v. Hayward 61 U.S. 208, 211 (1857).

[6] Stonite Prods., 315 U.S. at 563.

[7] Id.

[8] The Act of 1887, as referenced in this article, also refers to amendments incorporated in 1888.

[9] In re Hohorst, 150 U.S. 653 (1893).

[10] Id. at 662.

[11] Stonite Prods., 315 U.S. at 565.

[12] Id. at 561; see also Section 48 of 28 U.S.C. § 109.

[13] See Section 52 of 28 U.S.C. § 113; see also Stonite Prods., 315 U.S. at 562.

[14] Fourco Glass Co. v. Transmirra Prod. Corp., 353 U.S. 222 (1957).

[15] Id. at 223.

[16] Id. at 228.

[17] Id.

[18] After *Fourco*, the Supreme Court handed down more decisions further establishing that the residence of a corporation is its place of incorporation. See e.g., *Brunette Mach. Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706 (1972); see also *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260 (1961).

[19] See also *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1571 (Fed. Cir. 1994) (finding jurisdiction based on the stream of commerce theory because the “defendants purposefully shipped the accused [product] into [the forum state].”).

[20] VE Holding, 917 F.2d at 1580.

[21] See also *Gro Master, Inc. v. Farmweld, Inc.* 920 F.Supp.2d 974 (N.D. Iowa 2013) (“§ 1391(d) ... neither alone governs patent venue, nor establishes a patent venue rule separate and apart from that provided under § 1400(b), nor conflicts with § 1400(b).”).

[22] See F.R.A.P. R. 35; see also CAFC’s Internal Operating Procedures § 13(1).

[23] *Atl. Marine Constr. Co. v. U.S. Dist. Court for the W. Dist. of Tex.*, 134 S. Ct. 568 (2013).

[24] Id. at 581-582.

[25] Id.

[26] Id.