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INTELLECTUAL PROPERTY LAW

Intellectual Property Alert:

Federal Circuit Rejects Opportunity to Limit Patent Suits in Eastern District of Texas

By R. Gregory Israelsen

May 5, 2016 — On Friday, April 29, 2016, the Court of Appeals for the Federal Circuit denied[i] TC Heartland LLC's petition for a writ of mandamus to direct the United States District Court for the District of Delaware to either dismiss or transfer the patent infringement suit against it by Kraft Foods Group Brands LLC. Referring to its "long standing precedent," the Federal Circuit rejected Heartland's arguments in a case that many had hoped would bring an end to the domination by the Eastern District of Texas among venues where patent owners seek to enforce their patents.

Background

Heartland sells liquid water enhancer products (e.g., Refreshe Fruit Punch Drink Enhancer), and stands accused of infringing three patents owned by Kraft Foods Group Brands LLC. Kraft brought suit in Delaware, where Kraft is incorporated, alleging personal jurisdiction based on Heartland's general sales of products in Delaware.

The statute establishing the standard for venue in patent cases is 28 U.S.C. § 1400, which has not changed since 1948. Venue in general is governed by 28 U.S.C. § 1391. After Congress amended Section 1391 in 1988, the Federal Circuit held[ii] that parts of Section 1391 should supplement the patent venue rules of Section 1400. In 2011, Congress again amended Section 1391.

Based on the 2011 amendments to Section 1391, Heartland moved the district court to dismiss or transfer Kraft's suit. Heartland argued that the amendments nullified the Federal Circuit's precedent[iii] governing venue for patent infringement suits. The magistrate judge rejected Heartland's arguments, and the district court adopted the magistrate judge's report in full. Heartland filed a petition for a writ of mandamus, asking the Federal Circuit to direct the district court to dismiss or transfer the action.

Discussion

Heartland's petition was based on two theories: "that it does not 'reside' in Delaware for venue purposes"; and "that the Delaware district court lacks specific personal jurisdiction." The Federal

Circuit panel, in oral argument[iv] and in its order denying Heartland's petition, was wholly unsympathetic to Heartland's positions.

Venue

Regarding venue, Heartland argued that Congress's 2011 change to Section 1391—changing "For the purposes of venue under this chapter" to "For all venue purposes"—meant that Section 1391 no longer should supplement Section 1400. The Federal Circuit rejected this argument, pointing out that Congress's change "is a broadening of the applicability . . . not a narrowing."

The 2011 amendments also amended Section 1391 to add, "Applicability of section.—Except as otherwise provided by law." Heartland argued that in adding "except as otherwise provided by law" to the statute, Congress intended to codify federal common law—but only Supreme Court precedent, and not Federal Circuit law. In effect, Heartland was arguing that "provided by law" was Congress's way of returning to the Supreme Court's 1957 interpretation[v] of patent venue, which was that Section 1400 alone governed venue, without the supplemental provisions of Section 1391. The Federal Circuit rejected this position as well, stating, "[w]e find [Heartland's] argument to be utterly without merit or logic. . . . Even if [the] 2011 amendments were meant to capture existing federal common law, as Heartland argues," the 1957 standard "was not and is not the prevailing law that would have been captured."

Personal Jurisdiction

Heartland also argued that the Delaware district court only has specific personal jurisdiction over Heartland "for allegedly infringing acts that occurred in Delaware only, not those occurring in other states." If that were the case, the Federal Circuit said, "Kraft would have to bring separate suits in all other states in which Heartland's allegedly infringing products are found," or "bring one suit against Heartland in Heartland's state of incorporation."

The Federal Circuit rejected this argument as well, based on its precedent in *Beverly Hills Fan Co. v. Royal Sovereign Corp.*[vi] Specifically, the Federal Circuit explained that Heartland's admitted act of shipping orders of the accused product to Delaware was sufficient to meet the due process requirement for specific jurisdiction. The court also said that Delaware's interest in discouraging patent infringement, as well as in providing a forum for efficient litigation, made the district court's exercise of jurisdiction reasonable.

Conclusion

Heartland's loss at the Federal Circuit will likely energize proponents of congressional reform of patent venue. Patent legislation in Congress has stalled—including the Innovation Act in the House and the PATENT Act in the Senate. Recently, several senators introduced the Venue Equity and Non-Uniformity Elimination Act of 2016 (VENUE Act), which focuses only on venue, and would likely curb the number of patent cases litigated in the Eastern District of

Texas. But even if the law were to change, a new most-popular district court might simply take the Eastern District of Texas's place. For example, more than 50 percent of all publicly traded companies in the U.S. are incorporated in Delaware. And the VENUE Act as currently written allows for venue "where the defendant . . . is incorporated." Therefore, the District of Delaware might simply replace the Eastern District of Texas in hearing the majority of patent cases. Thus, for those who want to avoid any one court having such a large influence, the bill might not be successful.

Furthermore, not everyone agrees that having the majority of patent cases in a small percentage of courts is a bad thing. For example, many patent owners prefer filing in Texas, and thus might be opposed to a change from the status quo. And at oral argument for Heartland's petition, Judge Moore referred to Congress's consideration of "the need for specialized trial courts in patent cases." Judge Moore continued, "Hasn't that *de facto* been what [the current] venue statute ended up creating?"

The Federal Circuit's order is available here.

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[i] *In Re TC Heartland LLC*, No. 2016-0105 (Fed. Cir. April 29, 2016).
[ii] *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).
[iii] *Id.*
[iv] *In Re TC Heartland LLC*, No. 2016-0105 (Fed. Cir. argued Mar. 11, 2016). A summary of the oral argument is available here.
[v] *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957).
[vi] *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994).