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Patent troll calculus changes following U.S. Supreme Court venue decision

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For many years, so-called "patent trolls" — special purpose entities that own and license patents as their primary business — have used the liberal venue standards of the federal courts to their advantage. The patent troll business model depends upon creating a strong economic incentive for their targets to pay the license fees demand rather than face the prospect of expensive, out-of-state patent litigation. A liberal venue standard works to the trolls' advantage by allowing them to forum shop for friendly courts that are also inconvenient for defendants.

On May 22, 2017, in the case of TC Heartland LLC vs. Kraft Foods Group Brands LLC, the U.S. Supreme Court clarified that the patent venue statute is narrower than the general federal venue statute. Here's the upshot for Ohio businesses: following the decision, an Ohio business sued for patent infringement may now transfer the case back to Ohio if the original forum chosen by the plaintiff is not a location in which the defendant has a "regular and established place of business."

Let's unpack that a bit.

The patent venue statute, 28 U.S.C. § 1400(b), provides for essentially two bases for finding venue against a defendant. The case can be brought:

1. “where the defendant resides” or
2. “where the defendant has committed acts of infringement and has a regular and established place of business.”

For the past 25 years, the definition of “resides” in the first prong of the patent venue statute has been interpreted by lower courts as being essentially coextensive with personal jurisdiction for the dispute in question. This is the standard under the general venue statute, 28 U.S.C. § 1391(c)(2). Given this breadth, courts rarely needed to look at the second prong of the patent venue statute.

The Court’s TC Heartland ruling changes that. The definition of “resides,” for purposes of patent venue, is now limited to a business’ state of incorporation. Merely shipping allegedly infringing products to the forum state, as was the case in TC Heartland, does not establish “residence” even though, in most cases, that would have been enough to establish the “minimum contacts” necessary for personal jurisdiction.

With the restriction in the first prong, the focus will now be squarely on the second prong of the patent venue statute. The second prong is conjunctive. A defendant must have “a regular and established place of business” in the forum in which “acts of infringement” are alleged to have occurred. This is a higher standard than mere “minimum contacts” for personal jurisdiction, which can be satisfied, for example, by merely placing a product in the stream of commerce.

While TC Heartland will not, on its own, put a stop to patent trolls, the decision does complicate their business model. Many patent trolls have located their own “place of business” and legal teams in their favorite jurisdictions for patent litigation, principally the Eastern District of Texas. Following TC Heartland, litigation in the troll’s preferred forum is less of a threat. The bottom line is that the trolls lost some of their leverage thanks to TC Heartland and defendants gained a valuable argument to transfer venue to their home (and, presumably, more neutral) jurisdiction.

Of course, the Court's interpretation of the patent venue statute is not limited to patent trolls. Any patent owner seeking to enforce rights through litigation will be subject to the same narrowed meaning of "residency." As a result, while Ohio businesses have gained some helpful cover in dealing with trolls, to the extent they need to bring their own patent cases against out-of-state infringers, they will now find it more difficult to establish local venue for those cases.