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Ruling Curbs Patent Suits

Supreme Court limits plaintiffs shopping for favorable jurisdictions; a boost for tech firms

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WASHINGTON—The Supreme Court limited the ability of patent holders to bring infringement lawsuits in courts that have plaintiff-friendly reputations, a major decision that could provide a boost to companies that defend against patent claims.

The high court, in an opinion by Justice Clarence Thomas, ruled unanimously that a specialized appeals court has been following an incorrect legal standard for almost 30 years that made it possible for patent holders to sue companies in almost any U.S. jurisdiction.

Under the relevant statute interpreted by the court, companies can be sued for patent infringement where they reside, or where they have committed regular acts of patent infringement and have a regular and established place of business.

The high court's ruling Monday focused on the "reside" prong of that test, saying a corporate defendant resides only in the state where it is incorporated, a much narrower standard that lower courts had been using.

The ruling could significantly shift patent-infringement lawsuits out of a handful of federal districts, including one in east Texas, that have been home to large numbers of patent cases because patent holders believed those courts provided a favorable venue for their claims.

The federal district court in the rural Eastern District of Texas has been home to more than 30% of patent cases filed in recent years, including a significant number of lawsuits filed by firms that hold patents not to make products but for the purposes of asserting them in litigation.

Some of those firms have been referred to derisively as patent trolls.

In the first quarter of 2017, the Eastern District saw more patent cases brought than all other district courts, and more cases by nonpracticing entities than all other districts, according to data from Unified Patents, an analytics firm that helps businesses avoid patent litigation.

Stanford Law School professor Mark Lemley said many cases would likely now move out of the Eastern District and toward Delaware, where many companies are incorporated, and technology centers like California, Massachusetts, and Virginia.

"Since the cases that gravitated towards the Eastern District of Texas were overwhelmingly low-value patent troll cases, defendants may find it easier and cheaper to resolve those disputes once they are no longer in the Eastern District," said Mr. Lemley, who wrote a friend-of-the court brief for 61 law and economics professors that urged the Supreme Court to tighten the rules.

Monday's ruling is a boost for technology companies and others, including retail businesses, that have been sued in magnet districts for patent cases. Dozens of them signed briefs urging the Supreme Court to reach the conclusion it did.

"I think especially patent trolls are going to be more reluctant to go into the lion's den of the companies, [in districts] where they're located," said Maine lawyer Peter Brann, who filed a brief in the case on behalf of internet companies and retailers, including Adobe Systems Inc., eBay Inc., Macy's Inc., Oracle Corp., and Wal-Mart Stores Inc. "It'll be a fairly dramatic impact on the least meritorious lawsuits," he said.

Many big technology companies were pleased with the ruling, including Adobe. "Like many tech companies, Adobe deals with frivolous patent suits in places like the Eastern District of Texas because plaintiffs search for friendly courts," said Dana Rao, Adobe's vice president of intellectual property and litigation. "There's no place in the judicial system for the type of blatant forum shopping that is occurring in patent litigation today."

Despite the ruling's impact on the Texas court and on so-called patent trolls, neither was present in the actual case before the Supreme Court, which examined the proper venue for a lawsuit brought by the Kraft Foods subsidiary of Kraft Heinz Co. Kraft sued TC Heartland LLC, alleging it infringed three Kraft patents on water-enhancement products. Kraft sued in Delaware, another fairly frequent venue for patent cases, especially in the pharmaceutical industry. TC Heartland argued the case belonged in Indiana, where it was based.

Kraft was on the losing side of Monday's ruling but a spokesman said the company didn't believe "it has any impact on the ultimate outcome of the case."

Bill O'Connor, Heartland's vice president and general counsel, said the decision "will limit venue-shopping in patent litigation and facilitate an equitable litigation landscape."

Jay Greene contributed to this article.