

Supreme Court Turns Back the Clock on Venue In Patent Infringement Litigation

TC Heartland v. Kraft Foods Group Brands

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Although *TC Heartland LLC v. Kraft Foods Group Brands LLC*, No. 16-341 (May 22, 2017) (<http://bit.ly/2r4FkKA>), answers the question of where a domestic corporation resides in patent infringement cases, it does not fully answer the question of where proper venue lies. In a move that many patent litigators had anticipated, the Supreme Court dispensed with the venue option of suing a corporate defendant wherever it could be subject to personal jurisdiction. Now, for purposes of venue in patent lawsuits, corporate defendants reside only in the state of incorporation. But, that does not necessarily mean that venue is not proper for corporate defendants outside their state of incorporation. Whereas before venue was largely

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taken for granted, the threshold issue of venue and whether a defendant has a “regular and established place of business” is likely to take on a much more prominent role in patent litigation following *TC Heartland*.

MEANING OF ‘RESIDENCE’

Since 1990, corporate defendants could be sued for patent infringement wherever they were subject to personal jurisdiction. This trend began when the Federal Circuit expanded the availability of venue in patent infringement cases in *VE Holding* by ruling that the general venue statute 28 U.S.C. §1391(c) as amended in 1988 redefined “resides” in the patent venue statute §1400(b) so that a corporate defendant was deemed to reside wherever it is subject to personal jurisdiction. *See, VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (1990) (<http://bit.ly/2rYZHZs>). Prior to *VE Holding*, however, a corporate defendant resided only in its state of incorporation for purposes of the patent venue statute. The impact of the *VE Holding* decision was significant, and by 2015 more than 50% of all patent cases filed in the United

States were brought in just two district courts: the Eastern District of Texas and the District of Delaware. Brief for Petitioner, at 15. In *TC Heartland*, however, the Supreme Court reined back in the meaning of a corporate defendant’s “residence” to its pre-*VE Holding* scope. But, given §1400(b)’s alternative venue prescription of wherever a defendant has “committed acts of infringement and has a regular and established place of business,” only time will tell what practical effect that restriction will have on the scope of proper venue in patent infringement cases.

The issue in *TC Heartland* — whether the definition of the word “reside” found in the general venue statute §1391(c) controls the application of the word “resides” used in the distinct, patent specific venue statute §1400(b) — is the same issue that the Federal Circuit decided in *VE Holding*. As a matter of fact, it is the same issue the Supreme Court decided in a 1957 case, *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957) (<http://bit.ly/1T5PmRo>), which is ultimately the deciding factor in this case. The same question was raised for the

third time in *TC Heartland* because §1391(c) has been amended twice since its original enactment in 1948, and each version of §1391(c) received separate attention. Taking a strict constructionist stance, however, the Supreme Court reiterated its *Fourco* holding in *TC Heartland* whereby the patent specific venue statute §1400 is a standalone venue statute that “is the sole and exclusive provision controlling venue in patent infringement actions, and ... is not to be supplemented by ... §1391(c).” 353 U.S. at 229. As a result, the main question in *TC Heartland* became whether Congress’s 2011 amendments to §1391(c) changed the meaning of §1400(b). Answering in the negative, the Supreme Court restored the pre-*VE Holding* rule that a corporate patent defendant resides only in its state of incorporation.

Justice Thomas, writing on behalf of a unanimous Supreme Court (Justice Gorsuch took no part), dedicates roughly seven of 10 pages to describing the history of these relevant statutes. The first, §1400(b), is a patent specific venue statute that has remained largely unchanged since 1897 and states “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” 28 U.S.C. §1400(b) (1952 ed.). The second, §1391(c), is a general venue statute that originally stated “[a] corporation may be sued in any judicial district in which it is incorporated or licensed to do business or is doing business, and such judicial district shall be regarded

as the residence of such corporation for venue purposes.” §1391(c) (1952 ed.).

The 1897 origin of §1400(b), which the Supreme Court attributes to a Congressional intent to “place patent infringement cases in a class by themselves, outside the scope of general venue legislation,” is necessary to understand the relationship — or lack thereof — between it and §1391(c). Slip Op. at 4. It is the reason that when §1400(b) and §1391(c) collided in 1957 in *Fourco*, the Supreme Court held that §1400(b) was a standalone venue statute that was not intended to be modified or supplemented by §1391(c). Thus, the *Fourco* Court held that “resides” in §1400(b) has a particular meaning, specifically a corporation’s state of incorporation, that is insulated from §1391(c).

That is until *VE Holding*, where the Federal Circuit interpreted a 1988 amendment to § 1391(c). The Federal Circuit relied on newly added language “for venue purposes *under this chapter*,” which it determined indicated a clear intent to incorporate §1391(c)’s definition of “resides” into §1400(b), since §1400(b) fell within the relevant chapter. The result was the 30 year trend of patent owners suing corporate patent defendants wherever they were subject to personal jurisdiction described above.

TC HEARTLAND AND VENUE

That set the stage for *TC Heartland*. Even though the case arose from a lawsuit concerning liquid-water-flavor enhancers filed in the District of Delaware, at the center of most patent litigators’ minds were the Eastern District of Texas and the practical implica-

tions at stake if the Supreme Court changed the reach of the venue statute as interpreted in *VE Holding*. Like *VE Holding*, *TC Heartland* revolved around an amendment to §1391(c). The amendment at issue, which took effect in 2011, removed the “under this chapter” language relied on by the Federal Circuit in *VE Holding* and returned its language to the general “for all venue purposes” language similar to how it read prior to 1988 when *Fourco* was the controlling law. Because §1400(b) remains the same as it has always been and *Fourco*’s holding that §1400(b) is the sole and exclusive provision governing venue in patent infringement actions still controls, the Supreme Court framed the question strictly and considered simply whether the amendment to §1391(c) changed the meaning of §1400(b).

Essentially echoing the reasoning from the *Fourco* opinion, the Supreme Court answered that question with succinct analysis. Having already rejected in *Fourco* the argument that comprehensive language in §1391(c), such as “all actions” is intended to expand its reach to overtake the patent specific venue statute, the Supreme Court held that the “for all venue purposes” language in the 2011 amendment is not materially different and thus similarly fails to change the meaning of §1400(b). Moreover, the Supreme Court explained that the 2011 amendment confirmed its *Fourco* ruling by inserting a saving clause into §1391 that expressly restrains it from applying when “otherwise provided by law.” This, according to the Court, “expressly contemplates that certain venue statutes may retain definitions

of ‘resides’ that conflict with its default definition.” Slip Op. at 9. The Court also pointed out that in addition to restoring §1391(c) to a version nearly identical to its *Fourco* era self, the 2011 amendment also repealed the “under this chapter” language *VE Holding* relied almost exclusively on when it departed from *Fourco*. Reiterating that *Fourco* thus remains the law of the land, the Supreme Court re-emphasized that §1400(b) is the sole and exclusive provision controlling venue in patent infringement actions and its reference to “reside[nce],” as applied to domestic corporations, means the state of incorporation.

REMAINING ISSUES

As a point not to miss, although *TC Heartland* closed the door firmly on the broadening of “residence” by *VE Holding*, it noticeably left the door ajar on certain other issues that could become significant as its ruling plays out in the district courts.

First, the Supreme Court expressly limited its holding to venue for domestic corporations and avoided the topic of how its ruling might affect venue for foreign corporations. Previously, the Supreme Court applied to patent infringement cases a general longstanding rule that alien defendants were wholly exempt from all venue statutes, a rule which happened to be codified in §1391 (subsection (d)). See, *Brunette Mach. Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706, 713-14 (1972). After the 2011 amendment, however, the codification of that longstanding rule was: 1) modified from the wholly inclusive language of “[a]n alien may be sued in any district” to the more tailored language

of “a defendant not resident in the United States may be sued in any judicial district,” which shifts the focus from citizenship to residence; and 2) moved to a subsection within §1391(c) (§1391(c)(3)). Because *TC Heartland* did not reach the application of venue rules to foreign corporations under the post-2011 statutory regime it is not yet certain what that will be. That being said, it seems likely that foreign corporations will continue to be subject to venue in any judicial district for patent infringement cases, consistent with longstanding precedent.

Second, *TC Heartland* does not apply to unincorporated entities. The Supreme Court limited its holding to domestic corporate defendants, and therefore it does not apply to unincorporated entities such as limited liability companies or partnerships. Ironically enough, although the issue on appeal was briefed as one of “corporate” residence, as it turns out *TC Heartland* was in actuality an LLC and had mistakenly represented itself as a corporation. Rather than delving into the nuances of that issue, Justice Thomas confined the Court’s opinion to an analysis of the issue that was briefed: proper venue for corporations. As a result, the decision does not contain any guidance on how venue will be applied to unincorporated entities — which have no state of incorporation — moving forward.

Third, and perhaps most importantly, is the increased significance of the second clause of §1400(b) that permits venue “where the defendant has committed acts of infringement and has a regular and established place of business.” Until *TC Heartland*, this clause received relatively little attention because patent

owners rarely needed to look past the first clause to secure venue. But, by limiting “reside[nce]” to the state of incorporation, for the first time in thirty years this second clause suddenly may become the primary mechanism through which patent owners consider venue options other than in the state of incorporation. The Federal Circuit seems to consider the standard for “regular and established place of business” as whether a corporate defendant does its business in a particular district through a “permanent and continuous presence there,” which does not necessarily require a fixed physical presence. *In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985). Given the newfound importance of this standard in venue selection, litigation over its application will likely intensify in future patent lawsuits. And, in light of the sparse case law on the topic to date, depending on how broadly district courts are willing to apply this standard it remains to be seen what the post-*TC Heartland* patent venue landscape will look like.

