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UNANIMOUS SUPREME COURT RESTRICTS PATENT VENUE RULES FOR DOMESTIC CORPORATIONS

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On May 22, 2017, the U.S. Supreme Court issued its decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 581 U.S. _ (2017), restricting venue for patent infringement lawsuits against domestic corporations. The Court held that, for the purposes of the patent venue statute, 28 U.S.C. §1400(b), a domestic corporation "resides" only in its State of incorporation. This decision overturns the Federal Circuit's almost thirty year old precedent, under which a corporate defendant was deemed to reside in any judicial district in which it is subject to personal jurisdiction.

I. Background

The general venue statute, §1391(c), provides that a defendant corporation is considered to reside "in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question." However, the patent venue statute, §1400(b), states that venue for patent infringement actions is proper only "in the judicial district [i] where the defendant resides, or [ii] where the defendant has committed acts of infringement and has a regular and established place of business" (emphasis added). In *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222 (1957), the Supreme Court previously held that a domestic corporation "resides" only in its State of incorporation for the purposes of §1400(b). In particular, the *Fourco* Court concluded that §1400(b) is the exclusive provision controlling patent venue, and it rejected the argument that §1400(b) integrates the broader definition of corporate "reside[nce]" embodied in the general venue statute. Since *Fourco*, §1391 has been amended twice, but the patent venue statute, §1400(b), has not changed.

The first of the two amendments to §1391 occurred in 1988 when Congress amended §1391(c) to provide that it applied "[f]or purposes of venue under this chapter." In view of this amendment, the Federal Circuit held that §1391(c) established the definition of corporate "reside[nce]" for all other venue statutes under the same chapter, including §1400(b). *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990). The Federal Circuit's decision in *VE Holding*, which has been in effect for almost three decades, significantly expanded patent venue rules, effectively permitting patent infringement actions in any judicial district in which the defendant is subject to personal jurisdiction. As a result of the decision, patent infringement proceedings sharply increased in certain judicial districts that were often viewed as being more favorable to patent owners, such as the Eastern District of Texas.

In 2011, after *VE Holding*, Congress amended §1391 for the second time since *Fourco*, adopting the current version. Pursuant to the 2011 amendments, §1391(a) now provides that "[e]xcept as otherwise provided by law," "this section shall govern the venue of all civil actions brought in district courts of the United States." Additionally, §1391(c)(2) now provides, "[f]or all venue purposes" (instead of "[f]or purposes of venue under this chapter"), a defendant entity, whether incorporated or not, is considered to reside "in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question."

In 2015, Kraft, which is organized under Delaware law and has its principal place of business in Illinois, sued TC Heartland in the District of Delaware for allegedly infringing one of its patents. TC Heartland is organized under Indiana law and headquartered in Indiana. TC Heartland is not registered to conduct business in Delaware and has no meaningful presence there, but does ship the allegedly infringing products into Delaware.

TC Heartland filed a motion to dismiss the case or transfer venue to the Southern District of Indiana on the ground that venue was improper in Delaware. Citing *Fourco*, TC Heartland argued that it did not reside in Delaware for the purposes of §1400(b) because it was not incorporated in Delaware, and also argued that it had no "regular and established place of business" in Delaware under the second prong of §1400(b).

The District Court rejected TC Heartland's arguments, and the Federal Circuit denied a petition for a writ of mandamus. In doing so, the Federal Circuit reaffirmed *VE Holding*, finding that the subsequent amendments to §1391 had effectively amended §1400(b) to include the broad definition of "reside" provided in §1391(c). Thus, because the District of Delaware had personal jurisdiction over TC Heartland, TC Heartland was deemed to "reside" in Delaware and venue was proper under §1400(b).

II. Supreme Court Decision

The Supreme Court granted certiorari and unanimously reversed the Federal Circuit, [1] holding that the term "reside[nce]" in §1400(b), as applied to domestic corporations, refers only to the State of incorporation.

In its opinion, written by Justice Thomas, the Court initially provided a detailed review of the legislative history of §1391 and §1400(b). The Court then reasoned that because §1400(b) has not been amended since *Fourco*, and neither party requested reconsideration of that decision, the only question to be considered was whether Congress changed the meaning of §1400(b) when it amended §1391. The Court first looked to the current language of §1391, noting that Congress generally makes clear its intent to effect such a change in the text of the amended statute, and determined that the current language of §1391 does not contain any indication of intent by Congress to change the meaning of §1400(b) as interpreted in *Fourco*.

Kraft had argued that, because §1391(c) provides that it applies "[f]or all venue purposes," the definition of "reside[nce]" embodied in §1391(c)(2) should be applied to §1400(b). However, the Court rejected Kraft's arguments for the same reason it rejected similar arguments made by the plaintiffs in *Fourco*. In that decision, the Court held that §1400(b) was enacted to exclusively define venue for patent infringement actions and that interpreting §1400(b) as being modified by the general venue statute, §1391(c),

[1] Justice Gorsuch did not take part in the consideration or decision of this case.

would undermine that very purpose. The Court in *Fourco* further concluded that even though the then existing statutory language of §1391(c) provided that it applied "for venue purposes," such language was not sufficient to overcome the central point that §1400(b) was adopted by Congress to solely and completely control venue for patent infringement actions.

In the present decision, the Supreme Court observed that the current version of §1391(c), which provides that it applies "[f]or all venue purposes," is not materially different from the version at issue in *Fourco*. The only difference between the two provisions is the addition of the word "all" in the current version. However, as the provision at issue in *Fourco* (*i.e.*, "for venue purposes") was already exhaustive, the Supreme Court concluded that the additional use of "all" in the current version of §1391(c) was not sufficient to suggest that Congress intended to override the Court's decision in *Fourco* such that the definition of "reside" in §1391(c) applies to §1400(b).

Further, the Supreme Court found the argument advanced by Kraft to be even weaker under the current version of §1391 because the current provision also includes the 2011 exception, which provides that §1391 applies "[e]xcept as otherwise provided by law." The version of §1391 at issue in *Fourco* did not explicitly include any such saving clause, and yet *Fourco* still found that the §1391(c) definition of "reside[nce]" did not apply to §1400(b). In view of this, the Supreme Court concluded that, if anything, the language added to §1391 in the 2011 Congressional amendments made explicit the holding in *Fourco* that the broader definition of reside[nce] in §1391(c) does not apply to §1400(b).

The Court also concluded that there is no indication in the 2011 amendments to §1391 that Congress intended to ratify the Federal Circuit's decision in *VE Holding*. Instead, the Court agreed with TC Heartland that the 2011 amendments actually undermine the Federal Circuit's reasoning in that decision. In this regard, *VE Holding* was based almost entirely on the 1988 amendment, which specified that §1391(c) applied for venue purposes "under this chapter." The Federal Circuit reasoned that, because §1400(b) is in the same chapter as §1391, the broader definition of "reside[nce]" in §1391(c) applied to §1400(b). However, in the 2011 amendments, after *VE Holding*, Congress deleted "under this chapter" from §1391(c) and, as discussed above, added "[e]xcept as otherwise provided by law."

Thus, the Supreme Court determined that its holding in *Fourco*, "rests on even firmer footing now," and, as applied to domestic corporations, "reside[nce]" in 28 U.S.C. §1400(b) refers only to the State of incorporation.

III. Effects of Decision

Although the full impact of this decision remains to be seen, for now the decision limits proper venue options for patent infringement actions against domestic corporations and shifts the focus back to §1400(b) for such venue determinations. Thus, for example, many domestic defendants will no longer be subject to suit in the Eastern District of Texas, which saw a significant increase in patent infringement cases under the broader venue standard articulated in *VE Holding*, hearing nearly 40% of all patent cases filed in the United States in 2016 and almost 45% of all patent cases filed in 2015. On the other hand, the District of Delaware and the Northern District of California are expected to see an increase in patent infringement proceedings as many companies are incorporated in those districts and would thus meet the first prong of §1400(b).

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For plaintiffs seeking to file a patent infringement lawsuit in a judicial district outside of a domestic corporation's State of incorporation, considerable importance will now be placed on the second prong of §1400(b), which provides that venue is also proper in a judicial district where the defendant "committed acts of infringement and has a regular and established place of business" (emphasis added). Under the Federal Circuit's prior, expansive interpretation of "reside[nce]," the second prong of §1400(b) was effectively meaningless for corporate defendants and, thus, has not been recently litigated. Nonetheless, courts will now have to determine what qualifies as "a regular and established place of business," and whether, for example, retail locations, distribution centers, factories, locations of subsidiary or sister companies, and others can be used to satisfy this requirement. In this regard, a 1985 Federal Circuit decision provides some initial guidance. In that decision, the Federal Circuit found that a fixed physical presence was not required to have a "regular and established place of business." *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985). Rather, the Federal Circuit held that the relevant inquiry is "whether the corporate defendant does its business in that district through a permanent and continuous presence there." *Id.*

Importantly, *TC Heartland* does not address venue for foreign entities or unincorporated entities. Instead, the Supreme Court was careful to limit its decision to "domestic corporations," and expressly declined to address the question of venue for foreign corporations or to revisit its prior holding in *Brunette Machine Works, Ltd. v. Kockum Industries, Inc.*, 406 U.S. 706 (1972). In that case, the Supreme Court held that venue for a patent infringement action against a Canadian corporation was not governed by the patent venue statute, but by 28 U.S.C. §1391(d) (now codified at §1391(c)(3)), which provides that "a defendant not resident in the United States may be sued in any judicial district, and the joinder of such a defendant shall be disregarded in determining where the action may be brought with respect to other defendants." Thus, for now, a patent infringement action against a foreign defendant can be still be brought in any judicial district that has personal jurisdiction over the foreign defendant. Both foreign and domestic defendants can still seek to transfer to a more convenient venue under 28 U.S.C. §1404, although the options for such a transfer will be more limited for domestic defendants under the Court's narrower interpretation of §1400(b).

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