Back to the Future: Supreme Court Narrows Patent Venue in TC Heartland Case and Returns Dispute to State of Incorporation or Where Defendant Has Regular and Established Place of Business

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05.24.2017

The Supreme Court on Monday substantially narrowed the district court venues available to patent owners seeking to sue for infringement. In *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 581 U.S. ___ (2017), the Supreme Court upended nearly 30 years of broad interpretation of the term ?resides? in the Patent Venue Statute, and reaffirmed its holding from more than sixty years ago that, for purposes of venue in a patent infringement case, a domestic corporation ?resides? in its state of incorporation only, rather than in ?any judicial district in which such defendant is subject to the court?s personal jurisdiction.?[1] Practically, this decision should reduce significantly the number of cases that defendants have to defend in foreign forums such as the E.D. Texas (a location where few accused infringers actually ?reside?) and likely increase the number of cases where companies are incorporated or have established places of business?such as in Delaware, the N.D. California (the home of many tech companies), and also in Virginia and North Carolina where many biotech, software and other technology companies reside.

The Patent Venue Statute, 28 U.S.C. § 1400(b), requires ?any civil action for patent infringement? to be filed in a ?district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.? Enacted in its original form in 1897 to resolve a split of authority regarding application of the Judiciary Act of 1789 to patent cases, the Supreme Court has previously held that this statute ?alone should control venue in patent infringement proceedings.?[2] Following recodification of the statute and a circuit split, the Supreme Court in 1957 conclusively held that § 1400(b) ?is the sole and exclusive provision controlling venue in patent infringement actions, and . . . is not to be supplemented by . . . § 1391(c).?[3] The Court reasoned that,

even though § 1391 was directed to ?all actions,? it was not enough to overcome the fact that Congress designed § 1400(b) to be ?complete, independent and alone controlling in its sphere.?[4] Accordingly, domestic corporations were found to ?reside,? for purposes of § 1400(b), only in their States of incorporation.

In 1988, Congress broadened the general venue provision, § 1391(c), to read that, ?[f]or purposes of venue under this chapter,? a defendant ?shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction.? In its 1990 opinion in *VE Holdings Corp. v. Johnson Gas Appliance Co*., the Federal Circuit held that, following this amendment, venue for patent cases would be proper in any district where the defendant is subject to personal jurisdiction.[5] The effect was to allow a patent owner to bring suit in any venue where a defendant had virtually *any* contacts, including minimal sales of an allegedly infringing product, despite having no physical footprint in that venue whatsoever (such as, for example, a headquarters or other kind of physical operation, employees, regular commercial activities, etc.). This led to the development of certain ?plaintiff-friendly? venues, most notably the Eastern District of Texas, which has hosted 40% of all patent cases in the last three years. For corporations without any ties to this relatively rural part of Texas, the forum has often proved inconvenient.

On Monday, the Supreme Court reversed the Federal Circuit?s decision in *VE Holdings*, reaffirming its 1957 holding in *Fourco* that the term ?reside[nce] in § 1400(b) has a particular meaning as applied to domestic corporations: It refers only to the State of incorporation.?[6] In doing so, the Court found no indication in any amendments to § 1391 that Congress intended to alter the meaning of § 1400(b), which has itself remained unchanged since 1948. In fact, by including ?except as otherwise provided by law? in the 1988 amendments to § 1391, the Court found it even more likely that § 1400(b) was intended to remain ?a standalone venue statute.?[7] Thus, until Congress says otherwise, patent infringement suits will be limited to (1) the defendant?s State of incorporation, or (2) venues where the defendant ?has committed acts of infringement **and has a regular and established place of business**.?

The Court did not address the second prong of the statute (especially the highlighted language above), as the Federal Circuit?s broad interpretation of ?resides? previously made it unnecessary. Now that will become the heart of the dispute. As a threshold matter, the two elements are conjunctive such that both must be established, the second of which will refocus debate as to: the relationships and independence of parents and subs and other affiliates; whether there is a physical presence such as facilities and employees; and what it means to establish business in the world of e-commerce. Regardless, both plaintiffs and defendants will need to consider venue issues both more carefully and early in a case to avoid transfer challenges.

[1] *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 581 U.S. ___ (2017).

[2] *Stonite Prods. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 566 (1942).

[3] *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222, 229

(1957).

[4] *Fourco*, 353 U.S. at 228-29.

[5] *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1584 (Fed. Cir. 1990).

[6] *TC Heartland*, 581 U.S. ___, ____, slip op. at 7-8 (alteration in original).

[7] *TC Heartland*, 581 U.S. ___, ____, slip op. at 6.

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