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Court Upends 30 Years of Patent Venue Law

U.S. Supreme Court Restricts Where Patent Infringement Lawsuits Can Be Filed

SUMMARY

Today, in *TC Heartland LLC* v. *Kraft Foods Group Brands LLC*,[1] the U.S. Supreme Court reversed the Federal Circuit and held that a domestic corporation "resides" only in its State of incorporation for purposes of the patent venue statute rather than, as the Federal Circuit has held for 30 years, any district in which the corporation is subject to personal jurisdiction.[2] The Court's new restrictions on venue will foreseeably and significantly reduce the number of patent cases that can be filed in several plaintiff-popular patent districts, such as the Eastern District of Texas and the Eastern District of Virginia. Conversely, the decision may increase the significant existing burden on judges in the District of Delaware.

BACKGROUND

Kraft Foods filed a patent infringement lawsuit against TC Heartland—a corporation organized and headquartered in Indiana—in the U.S. District Court for the District of Delaware, alleging that venue was appropriate because TC Heartland was subject to personal jurisdiction in Delaware. TC Heartland moved to transfer venue to the U.S. District Court for the Southern District of Indiana, arguing that venue is improper in Delaware because it does not "reside[]" in Delaware under the patent venue statute, 35 U.S.C. § 1400(b). The district court rejected this argument and the Federal Circuit denied a petition for mandamus. TC Heartland appealed the denial of the petition.

HISTORY OF THE RELEVANT STATUTES

The scope of venue in patent cases turns on interpretation of a lengthy statutory history of both the patent venue provision and venue in general. The Judiciary Act of 1789 permitted a plaintiff to file a civil lawsuit in a federal district court if the defendant was an "inhabitant" of that district.[3] In 1897, Congress enacted a patent-specific venue statute that permitted a plaintiff to file an infringement lawsuit in the district where the defendant was an "inhabitant," or a district where the defendant both maintained a "regular and established place of business" and committed an act of infringement.[4] At this time, it was clear that a corporation "inhabited" *only* its State of incorporation.[5] In 1942, the Supreme Court clarified, in *Stonite Products Co.* v. *Melvin Lloyd Co.*,[6] that the patent venue statute is "the exclusive provision controlling venue in patent infringement proceedings" and was not to be supplemented or modified by the general venue provisions.[7]

In 1948, Congress recodified both the patent venue statute (as 28 U.S.C. § 1400(b))[8] and the general venue statute (as 28 U.S.C. § 1391).[9] Section 1400(b), which has never been amended, states that "[a]ny civil action for patent infringement may be brought in the judicial district when the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."[10] Thus, rather than the word "inhabits" as used in the original patent venue statute, § 1400(b) used the word "resides." Section 1391(c), as originally enacted, states that "[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."[11]

After several years of confusion over the change from "inhabits" to "resides," in 1957 the Supreme Court, in *Fourco Glass Co.* v. *Transmirra Products Corp.*,[12] held that "resides" had the same meaning as "inhabits" and reaffirmed its holding in *Stonite* that § 1400(b) "is the sole and exclusive provision controlling venue in patent infringement actions, and . . . is not to be supplemented by . . . § 1391(c)."

In 1988, Congress amended § 1391(c) to state that "[f]or purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced."[13] Two years later, the Federal Circuit, in *VE Holding Corp.* v. *Johnson Gas Appliance Co.*,[14] concluded that the phrase "[f]or purposes of venue under this chapter" (of which § 1400(b) was a part) meant that § 1391(c) "clearly applies to § 1400(b), and thus redefines the meaning of the term 'resides' in that section."

In 2011, Congress again revised § 1391.[15] Pursuant to that amendment, § 1391(a) provided 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." Section 1391(c)(2) provides that "[f]or all venue purposes" a corporation "shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question."

THE SUPREME COURT'S DECISION

In a unanimous 8-0 decision written by Justice Thomas (Justice Gorsuch did not participate), the Supreme Court rejected the Federal Circuit's 1990 determination in *VE Holding* that a plaintiff may "bring a patent infringement lawsuit against a [domestic] corporation in any district in which the corporation is subject to personal jurisdiction."[16] Instead, the Court held that "a domestic corporation 'resides' only in its State of incorporation for purposes of the patent venue statute."[17]

The Court relied entirely on its decision in *Fourco*, where the Court "definitively and unambiguously held that the word 'reside[nce]' in § 1400(b) has a particular meaning as applied to domestic corporations: It refers only to the State of incorporation."[18] The Court provided three reasons why it was not convinced "that Congress intended to alter the meaning of § 1400(b) as interpreted in *Fourco*" by amending § 1391.[19]

First, the Court did not find any "material difference" between the phrase "for venue purposes" in the original § 1391(c) interpreted by the *Fourco* Court and "for all venue purposes" in the current statute. The Court had already rejected the argument that "for venue purposes" is broad enough to refer to "all" venue purposes (including patent venue), and the Court did not find that the addition of the word "all" suggests that Congress intended it to reconsider that conclusion.[20]

Second, the current statute includes a saving clause—"[e]xcept as otherwise provided by law . . . this section shall govern . . ."[21] The Court concluded that "*Fourco*'s holding rests on even firmer footing now that § 1391's saving clause expressly contemplates that certain venue statutes may retain definitions of 'resides' that conflict with its default definition."[22]

Finally, Congress' decision in 2011 to delete "under this chapter" from the 1988 version ("for purposes of venue under this chapter") thereby making it more in line with the original provision that *Fourco* interpreted indicated that Congress did not approve of the Federal Circuit's decision in *VE Holding*.[23]

Notably, the Court stated that it was not addressing venue for foreign corporations.[24] Pursuant to a 1972 decision, suits against foreign corporations are outside the operation of all federal venue laws.[25] Relatedly, in a companion case today, *Water Splash, Inc.* v. *Menon*,[26] the Court made it easier to serve process on persons and entities without a U.S. presence.

IMPLICATIONS

As a result of the Supreme Court's holding in *TC Heartland*, a domestic corporation may be sued for patent infringement only in (i) its State of incorporation or (ii) where both acts of infringement have occurred and the corporation has a regular and established place of business. This has several implications.

The most obvious and immediate consequence is that a flurry of motions to dismiss or transfer pending cases likely will be filed. Certain popular venues for filing patent infringement cases, such as the Eastern District of Texas and Eastern District of Virginia, should see a precipitous drop in filings. Conversely, many more cases will likely now be filed in the District of Delaware against Delaware-incorporated entities. Patent infringement defendants will have to consider carefully the advantages and disadvantages of moving to transfer into a jurisdiction with a potentially crowded docket. The increasing burden on the District of Delaware makes it even more important for the judicial vacancies in that district to be filled promptly.

Additionally, domestic corporations, particularly those that are regularly subject to patent infringement suits, may want to examine the costs and benefits of their place of current incorporation.

Finally, the Court's decision may also lessen the impact of a threat of litigation, because defendants can now proactively take steps to avoid jurisdictions that are considered unfriendly.

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ENDNOTES

1 No. 16–341 (May 22, 2017).

2 Slip op. at 2.

3 Act of Sept. 24, 1789, § 11, 1 Stat. 79.

4 Act of Mar. 3, 1897, ch. 395, 29 Stat. 695.

5 *Shaw* v. *Quincy Mining Co.*, 145 U.S. 444, 449–50 (1892).

6 315 U.S. 561 (1942).

7 *Id.* at 563.

8 Act of June 25, 1948, 62 Stat. 936.

9 Act of June 25, 1948, 62 Stat. 935.

10 28 U.S.C. § 1400(b).

11 28 U.S.C. § 1391(c) (1952 ed.).

12 353 U.S. 222, 226, 229 (1957).

13 Judicial Improvements and Access to Justice Act, § 1013(a), 102 Stat. 4669.

14 917 F.2d 1574, 1578–80 (Fed. Cir. 1990).

15 Federal Courts Jurisdiction and Venue Clarification Act of 2011, § 202, 125 Stat. 763.

16 Slip op. at 2.

17 *Id.*

18 *Id.* at 7–8.

19 *Id.* at 8.

20 *Id.* at 8–9.

21 *Id.* at 9 (quoting 28 U.S.C. § 1391(a)).

22 *Id.*

23 *Id.* at 9–10.

24 *Id.* at 7 n.2.

25 *Brunette Mach. Works, Ltd.* v. *Kockum Indus., Inc.*, 406 U.S. 706, 714 (1972).

26 No. 16–254 (May 22, 2017).

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