CLIENT ALERT

"Residence" for Patent Venue Refers Only to a Defendant's State of Incorporation

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On May 22, 2017, the U.S. Supreme Court ruled on what constitutes "residence" in patent cases, holding that "residency" within the meaning of the patent venue statute, 28 U.S.C. § 1400(b), refers only to the defendant's state of incorporation. The unanimous decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, U.S., No. 16-341, is widely viewed as imposing significant limits on where patent cases can be filed and potentially signaling the end of patent case concentration in the U.S. District Court for the Eastern District of Texas, although in practice the effects of this case may be muted by the alternate basis for patent venue under the statute.

Kraft Foods Group Brands LLC (Respondent) brought suit against TC Heartland LLC (Petitioner), an Indiana limited liability company headquartered in Indiana in the U.S. District Court for the District of Delaware accusing Petitioner's liquid water enhancer products of infringing Respondent's patents. Petitioner moved to dismiss the complaint under Federal Rule of Civil Procedure 12(b)(2) for lack of personal jurisdiction and moved to either dismiss the action or transfer venue to the Southern District of Indiana under 28 U.S.C. §§ 1404 and 1406. Petitioner argued that the accused products were designed and manufactured in Indiana and that incidental shipments of its products at the direction of third parties based in Arkansas (a mere 2 percent of sales) could not support personal jurisdiction or suffice to establish petitioner's "residence" in Delaware. Petitioner therefore contended that Delaware was not the "judicial district where the [petitioner] resides" within the meaning of 28 U.S.C. § 1400(b).

The district court adopted the Magistrate Judge's report and recommendation, which determined that it had specific personal jurisdiction over petitioner under a stream-of-commerce type theory and rejected petitioner's argument that the 2011 amendments to § 1391 nullified the Federal Circuit's holding in *VE Holding*. Petitioner sought a writ of mandamus at the Federal Circuit, which affirmed the district court's order, reasoning "[t]he arguments raised concerning venue have been firmly resolved by *VE Holding*, a settled precedent for over 25 years," and the Supreme Court's interpretation of patent venue in *Fourco* is "no longer the law." The Supreme Court granted petitioner's writ of certiorari to decide the issue of whether the provisions of §§ 1391(a) and (c) governing venue generally supplant the definition of "resides" to allow a plaintiff to bring a patent infringement lawsuit against a corporation in any district in which the corporation is subject to personal jurisdiction.

THE SUPREME COURT RELIES HEAVILY ON LEGISLATIVE HISTORY TO CONCLUDE THAT A CORPORATION "RESIDES" ONLY IN ITS STATE OF INCORPORATION

The Supreme Court's opinion, penned by Justice Thomas and joined by all other Members of the Court,[1] relied on the historical context of the patent venue statute in order to resolve the issue of whether the patent venue statute, § 1400(b), is intended to be supplemented by the general venue provisions of §§ 1391(a) and (c).

Congress specifically limited jurisdiction in patent cases under Section 48 of the Judiciary Act of 1897 to districts the defendant "inhabited" or districts in which the corporation had a regular and established place of business *and* committed infringing acts. This statute is the precursor to § 1400(b). Subsequently, the Supreme Court concluded that "Congress did not intend the Act of 1897 to dovetail with the general provisions relating to the venue of civil suits, but rather that it alone should control venue in patent infringement proceedings." *Stonite Prods. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 563 (1942).

In 1948, Congress re-codified the patent venue statute as 28 U.S.C. § 1400(b) as follows: "[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." Congress concurrently enacted § 1391 providing for "venue generally," which stated in relevant part: "(c) 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." Following the codification of title 28, a circuit split developed over whether "residence" under § 1391 applied to the term "resides" under § 1400(b). The Supreme Court resolved the circuit split in *Fourco*, holding that the patent venue statute should be read in isolation and not within the context of the general venue statute.

Congress amended § 1391 in 1988, changing the language from defining residence "for venue purposes" to defining residence "for purposes of venue under this chapter." Seizing upon this ministerial amendment and reasoning that § 1391(c) "on its face" applied to § 1400(b), the Federal Circuit held in *VE Holding* that "the first test for venue under § 1400(b) with respect to a defendant that is a corporation, in light of the 1988 amendment to § 1391(c), is whether the defendant was subject to personal jurisdiction in the district of suit at the time the action was commenced." 917 F.2d at 1584.

Finally, in 2011, Congress amended § 1391 to add section (a), entitled "Applicability of Section," which reads: "Except as otherwise provided by law . . . (1) this section shall govern the venue of all civil actions brought in district courts of the United States." Congress also amended § 1391(c) to read "[f]or all venue purposes" rather than "[f]or purposes of venue under this chapter."

It is within this historical context that the Supreme Court held that "[a]s applied to domestic corporations, 'reside[nce]' in § 1400(b) refers only to the State of incorporation." Section 1400(b) had remained unaltered since its enactment in 1947, and the Supreme Court could not find any clear legislative intent that Congress sought to alter the patent venue statute through its 2011 amendment to § 1391(c). To the contrary, the current statutory language of § 1391(c) is materially equivalent to the statutory language of § 1391(c) when the Supreme Court decided *Fourco*. Moreover, the Supreme Court reasoned that the savings clause added to § 1391 by the 2011 amendment ("Except as otherwise provided by law– . . . this *section* shall govern the venue of all civil actions" (emphasis added)) expressly contemplates that certain venue statutes could maintain definitions for "resides" that conflict with the default definition provided by § 1391(c). Therefore, the Supreme Court concluded that *Fourco*'sdefinitive and unambiguous holding rests on even firmer footing today than when it was originally decided. Thus, the Supreme Court interpreted "residence" as a defendant's state of incorporation.

PRACTICAL CONSIDERATIONS

The Supreme Court's decision is expected to limit, in significant part, the ability of plaintiffs to sue U.S. companies in distant and inconvenient forums to which defendants have little to no commercial connection. Whereas patent venue previously applied to any judicial district where the defendant was subject to personal jurisdiction – virtually nationwide venue in many cases – now

plaintiffs are limited to bringing suit only in the defendant's state of incorporation or alternatively in the judicial district where the defendant committed infringing acts and maintains a regular and established place of business.

The biggest impact will likely be seen in the Eastern District of Texas. Specifically, the number of patent cases filed in the Eastern District of Texas where defendant companies neither reside nor maintain regular and established places of business is expected to dramatically decrease. However, because the Supreme Court left open the question of how *TC Heartland* applies to foreign corporations, the Eastern District of Texas will likely remain a viable venue for lawsuits against foreign defendants. *TC Heartland* is also expected to immediately increase the number of patent case filings in the District of Delaware where many companies are incorporated (and therefore "reside") and in venues such as the Northern District of California where many technology companies maintain their corporate headquarters. For existing cases throughout all districts, litigants should expect protracted venue battles over motions seeking a change of venue. Plaintiffs may find themselves disadvantaged by constrained venue under *TC Heartland*, particularly where plaintiffs seek to bring parallel lawsuits against multiple defendants incorporated in different states.

Importantly, *TC Heartland* only addressed the definition of "resides" under the patent venue statute but left unaltered the remainder of the statute providing for proper venue in any
"judicial district . . . where the defendant has committed acts of infringement and has a regular and established place of business." Plaintiffs should remain aware of whether they can satisfy this alternate basis for proper venue in patent cases, and in order to avoid challenges to the sufficiency of their factual allegations, specifically plead that the acts constituting the infringement occurred *in the same judicial district* as the defendant's regular and established place of business. At the same time, patent litigants should be prepared to wade into the uncertainty that surrounds what constitutes a regular and established place of business, an issue that has not received much attention since *VE Holding*. It is expected that the legal arguments will shift considerably towards interpretation of this alternate venue requirement.

A copy of the Court's slip opinion can be found here.

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

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

Mark A. Klapow
Partner – Washington, D.C.
Phone: +1 202.624.2975
Email: mklapow@crowell.com

Molly A. Jones
Counsel – San Francisco
Phone: +1 415.365.7221

Email: mojones@crowell.com