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Supreme Court's *TC Heartland* Decision Will Move Venue Out of E.D. Texas

On May 22, 2017, in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, the Supreme Court unanimously overturned nearly 30 years of Federal Circuit law regarding venue in patent infringement cases, holding that the patent venue statute, 28 U.S.C. § 1400(b), is the exclusive provision controlling venue in patent cases, and that under Section 1400(b), “a domestic corporation ‘resides’ only in its State of incorporation.” Justice Gorsuch took no part in the consideration or decision of the case. By reaffirming its 1957 decision in *Fourco Glass Co. v. Transmirra Products Corp.* and confining a domestic corporation’s residence to its state of incorporation, this decision dramatically limits the number of districts where a patentee may bring suit. Previously circumscribed only by personal jurisdiction concerns, infringement suits against a domestic corporation may now only be brought in its state of incorporation or “where [it] has committed acts of infringement and has a regular and established place of business.” The immediate impact will be substantial. Many defendants will no longer be subject to suit in the plaintiff-friendly Eastern District of Texas, a district where in 2015, more than 40 percent of all patent cases were brought. Instead, the District of Delaware or the Northern District of California may become the most popular venues for patent cases.

Background

While *TC Heartland* will have great consequences for the Eastern District of Texas, the case had its roots in a whole other forum altogether. Kraft sued *TC Heartland*, an Indiana based entity, for infringement of a patent covering liquid water enhancers in the District of Delaware. *TC Heartland* moved to transfer the case to the Southern District of Indiana, arguing that venue was improper in Delaware because it is not registered to do business in Delaware and does not have any regular or established place of business in Delaware. The District of Delaware denied the motion to transfer, and *TC Heartland* sought a writ of mandamus from the Federal Circuit. The Federal Circuit denied the petition for mandamus, relying on *VE Holding Corp. v. Johnson Gas Appliance Co.*, [917 F.2d 1574 (Fed. Cir. 1990)] to hold that venue was proper in the District of Delaware under its interpretation of the patent and general venue statutes, 28 U.S.C. § 1400(b) and 28 U.S.C. § 1391, respectively. Section 1400(b) provides for venue in patent infringement cases: (1) where the defendant resides; or (2) where the defendant has committed acts of infringement and has a regular and established place of business. Section 1391(c)(2) defines corporations’ and other unincorporated entities’ “residence” for venue purposes as anywhere the entity is subject to personal jurisdiction.

In 1957, the Supreme Court held in *Fourco* [353 U.S. 222], that the patent venue statute (28 U.S.C. § 1400(b)) “[wa]s the sole and exclusive provision controlling venue in patent infringement actions, and that it [wa]s

not to be supplemented by the provisions of 28 U.S.C. § 1391(c).” “Residence” for patent venue purposes, the Court held, was defined by common law for corporations as the state of incorporation.

In 1988, Congress amended the general venue statute (28 U.S.C. § 1391) to include the phrase “[f]or purposes of venue under this chapter.” The Federal Circuit in *VE Holding* interpreted this change to Section 1391 as evincing Congress’s intent to part ways with *Fourco* and apply Section 1391(c)’s definition of residence to Section 1400(b), which was within the same chapter as Section 1391. In 2011, Section 1391 was amended again. The phrase “[f]or purposes of venue under this chapter” was changed to “[f]or all venue purposes,” and a new subsection (a) was added stating that that section “shall govern the venue of all civil actions,” “[e]xcept as otherwise provided by law.”

TC Heartland sought *certiorari*, which the Supreme Court granted on December 14, 2016. The question presented was whether the interpretation of the patent venue statute (28 U.S.C. § 1400(b)) as set forth in *Fourco* was altered by the two intervening changes to the general venue statute (28 U.S.C. § 1391).

Supreme Court Proceedings and Decision

The Court held oral argument on March 27, 2017. Chief Justice Roberts suggested that he “would have thought that” the phrase in Section 1391 “except as otherwise provide by law” “excluded overturning the *Fourco* decision.” Notably, the justices seemed uninterested in engaging in the policy arguments, which was the focus of many *amici*. For example, Justice Breyer asked, “[T]hese *amici* briefs, ... they’re filled with this thing about a Texas district which they think has too many

cases. What's this got to do with this?"

Yesterday, the Court unanimously ruled that under the patent venue statute, 28 U.S.C. § 1400(b), "a domestic corporation 'resides' only in its State of incorporation." The Court reviewed the history of the patent venue and the general venue statutes and reaffirmed its interpretation of them in *Fourco*. It noted that "Congress has not amended § 1400(b) since *Fourco*, and neither party [had] ask[ed] [it] to reconsider [its] holding in that case." The Court next considered whether the two intervening amendments to the general venue statute effected a change to the proper interpretation of the patent venue statute. The Court held that the amendments did not have such an effect.

Because "[t]he current version of § 1391 does not contain any indication that Congress intended to alter the meaning of § 1400(b) as interpreted in *Fourco*," that interpretation stands, the Court reasoned. Addressing specifically the two amendments to Section 1391(c) since *Fourco*, the Court stated that it "do[es] not see any material difference between the" phrase "[f]or all venue purposes" in the current general venue statute and the phrase "for venue purposes" in the general statute in effect at the time *Fourco* was decided, noting that "[t]he plaintiffs in *Fourco* [had] advanced" an

argument similar to the one pressed by Kraft. "Th[e] Court was not persuaded then, and the addition of the word 'all' to the already comprehensive provision does not suggest that Congress intended for [it] to reconsider that conclusion."

Indeed, the Court reasoned that the saving clause of Section 1391 in its current form, which states "that it does not apply when 'otherwise provided by law'... makes explicit the qualification that th[e] Court previously found implicit in the statute." Finally, the Court rejected the argument "that Congress in 2011 ratified the Federal Circuit's decision in *VE Holding*. If anything, the 2011 amendment undermines the decision's rationale." The Court concluded, "[a]s applied to domestic corporations, 'reside[nce]' in § 1400(b) refers only to the State of incorporation."

Implications

By limiting the residence of domestic corporations to the state of incorporation for patent infringement cases, the Supreme Court's decision dramatically circumscribes the number of districts in which defendants may be sued. Many defendants will no longer be subject to suit in the Eastern District of Texas, by far the most popular current venue. Instead, the District of Delaware is likely to increase in popularity because of its

status as the most popular venue for incorporation. There also may be an increase in suits filed in the Northern District of California, where many companies are incorporated or headquartered, and there may be an increase in the use of multi-district judicial panels for patent litigation. Going forward, parties are likely to litigate a number of sub-issues relating to venue, including what constitutes a "regular and established place of business" sufficient to confer venue under 28 U.S.C. § 1400(b). Congress may even seek to amend the current patent venue statute, as some elected officials have intimated.

As for foreign corporations and unincorporated entities, the Supreme Court explicitly declined to comment on the import of its decision for these entities, deferring any decisions to future cases. The effects of the *TC Heartland* decision will be felt for years to come.

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