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The State of Venue in Patent Cases in the United States

By Steven E. Warner & Kathryn E. Easterling

On 22 May 2017, the Supreme Court of the United States held that 28 U.S.C. §1400(b), known as the "patent venue statute," limits the "residence" of a domestic corporation to the state of incorporation for purposes of personal jurisdiction. Courts and lawyers alike have since been working to determine the effects of *TC Heartland*[1] on deciding venue in patent law cases.

The History of 28 U.S.C. §1400(b)

In 1897, the U.S. Congress enacted a patent-specific venue statute[2]. This act permitted suit to be brought in the district within which a defendant was either (i) an "inhabitant" – which, for corporations, meant the state of incorporation – or (ii) the district within which the defendant both maintained a "regular and established place of business" and committed an act of infringement. In 1948, the patent venue statute was re-codified as 28 U.S.C. §1400(b), and is still in effect today. Also in 1948, Congress enacted the general venue statute, 28 U.S.C. §1391, which defined "residence" for corporate defendants such 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."

Courts have since concluded differently as to whether "resides" as used in §1400(b) incorporated "residence" as stated in §1391(c). In *Fourco Glass Co. v. Transmirra Products Corp.,* 353 U.S. 222 (1957), the Supreme Court rejected the interpretation that §1391(c) defined residence under §1400(b), holding that §1400(b) "is the sole and exclusive provision controlling venue in patent infringement actions."

In 1988, Congress amended §1391(c) such 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." The U.S. Court of Appeals for the Federal Circuit then interpreted §1391(c) in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (1990), holding that this new language in §1391 "established the definition for all other venue statutes under the same 'chapter'" – including §1400(b). In 2011, Congress further amended §1391. Amended §1391(c)(2) stated "[f]or all venue purposes," certain entities, "whether or not incorporated, 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."

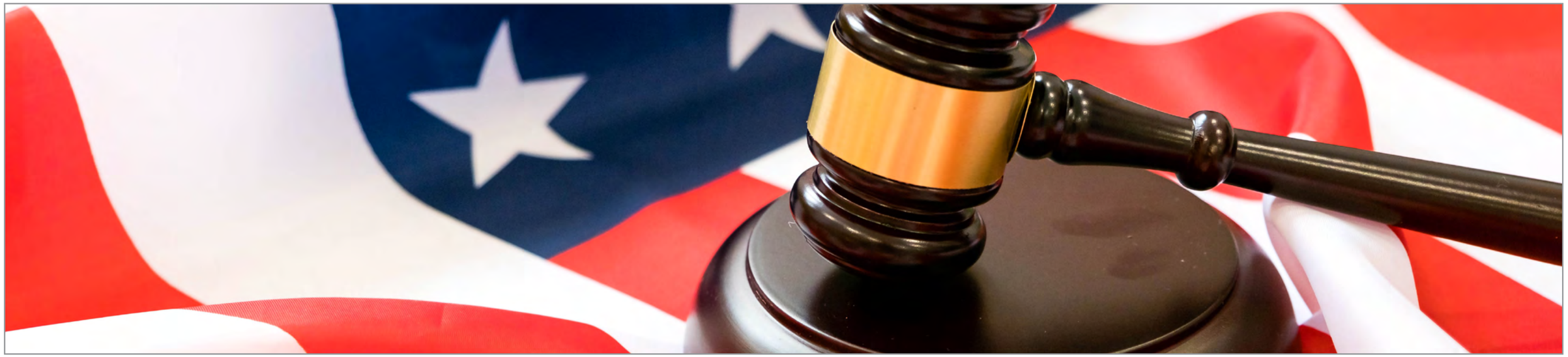
TC Heartland

TC Heartland originated as a jurisdictional dispute between Kraft Foods Group Brands LLC ("Kraft") and TC Heartland LLC ("TC Heartland"). Kraft sued TC Heartland in the U.S. District Court of Delaware alleging infringement of Kraft's patents. TC Heartland was not registered to conduct business in Delaware and had

no meaningful local presence there, but did ship its allegedly infringing products into the state.

TC Heartland moved to either dismiss the case or to transfer venue, arguing that it did not "reside" in Delaware under the first clause of 28 U.S.C. §1400(b), and that it had no "regular and established place of business" in Delaware under the second clause of §1400(b). The court rejected TC Heartland's motion. TC Heartland petitioned the Federal Circuit for a writ of mandamus, which the Federal Circuit denied. The Federal Circuit concluded that subsequent statutory amendments to 28 U.S.C. §1391(c) had effectively amended §1400(b), and that the definition of "resides" for purposes of §1400(b) was now the definition under §1391(c). Under this interpretation, TC Heartland resided in Delaware under §1391(c), and, thus, under §1400(b). TC Heartland petitioned the Supreme Court for certiorari, which was granted.

The Supreme Court reversed the Federal Circuit's holding that the court in Delaware had jurisdiction over TC Heartland under §1400(b). The Court stated that, in *Fourco*[3], it had "definitively and unambiguously" held that "reside[nce]" under §1400(b) meant the state of incorporation in the context of domestic corporations. While the amended §1391 included the phrase "[f]or all venue purposes," the version of §1391 at issue in *Fourco* included similar phrasing – "for venue purposes" – and the Court did not see material differences between these two phrases. Kraft argued that the phrase "all venue purposes" meant *all* venue purposes, not "all venue purposes *except* for patent venue." The Court, however, noted that the plaintiffs in *Fourco* advanced this same argument, which remained unpersuasive. Moreover, the Court held that the addition of the word "all" to the phrase "for venue purposes" did not evidence any intent on the part of Congress to reconsider *Fourco*.



The Court further noted that the amended §1391 has a "saving clause" expressly providing that §1391 does not apply when "otherwise provided by law." *Fourco*'s version of §1391 included no such exception, yet the Court in *Fourco* still held that "resides" in §1400(b) had its original meaning and was not affected by §1391(c). By including the "saving clause," Congress "makes explicit the qualification that this Court previously found implicit in the statute."

Finally, the Court noted that Congress in 2011 gave no indication of intent to ratify the Federal Circuit's 1990 *VE Holding* decision, and found that the amendments to §1391 "undermine that decision's rationale." Therefore, the Court found that "reside[nce]" in §1400(b) referred only to the state of incorporation, as held in *Fourco*.

In re Cray[4] and the Aftermath of TC Heartland

Since *TC Heartland*, fewer cases have been filed in historically popular patent venues (such as the Eastern District of Texas), while more cases have been filed in common states of incorporation (such as Delaware). A survey from September 2017 found that, in the four months following the *TC Heartland* decision, the number of cases filed in the Eastern District of Texas dropped by almost two-thirds. Conversely, the number of cases filed in the District of Delaware nearly doubled.[5]

Motions to transfer based on lack of jurisdiction were filed in many ongoing cases following *TC Heartland*. These motions, however, have not been universally successful. Some courts have taken the view that *TC Heartland* did not constitute a change in the law, but only affirmed the previous interpretation of §1400(b) and the holding of *Fourco*, which "has been available to every defendant since 1957."[6] In these cases, if a defendant had not already brought a timely venue challenge, it was found to have waived its right to challenge venue, and could not raise the challenge now based on *TC Heartland*.

In re Cray raised one of these venue challenges, which addressed the "alternative" way of finding jurisdiction under §1400(b) – "where the defendant … has a regular and established place of business."[7] *Cray* originated in the Eastern District of Texas, and the Wisconsin corporation Cray, Inc.'s only connection to the forum was a sales employee who lived in the district and worked from home. The district court found the employee's residence qualified as a "regular and established" place of business, and set forth a four-part test for what constitutes such a place.[8] The Federal Circuit granted Cray mandamus relief, and vacated the district court's finding that venue was appropriate. The Federal Circuit rejected the four-part test, and established what constituted a "regular and established" place of business: (a) a "physical place" (not merely a physical presence); (b) which is "regular and established"; and (c) "of the defendant." In *Cray*, the employee's home did not qualify as being "of the defendant," and therefore jurisdiction in Texas was inappropriate. *Cray* thus further narrowed the venues available to a patent owner under §1400(b).

Considerations Going Forward

Both *TC Heartland* and *In re Cray* restrict venue options for patent cases. These restrictions should simplify choosing venue for patent owners. Now a patent owner is likely to file in the state where a potential defendant is incorporated. This will ultimately decrease "forum-shopping" in patent cases.

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1. *TC Heartland LLC v. Kraft Foods Group Brands LLC* No. 16-341 (U.S. May 22, 2017).
2. Act of March 3, 1897, ch. 395, 29 Stat. 695
3. *Fourco*, 353 U.S. at 226, 228.
4. *In re Cray Inc.*, 871 F.3d 1355 (Fed. Cir. 2017).
5. Ryan Davis, *Delaware Booming, Texas Fading as TC Heartland Takes Hold*, Law360.com, https://www.law360.com/articles/965982/delaware-booming-texas-fading-as-tc-heartland-takes-hold (Sept. 21, 2017).
6. *Cobalt Boats, LLC v. Sea Ray Boats, Inc.*, No. 2:15-cv-21 (E.D. Va. June 7, 2017); James Dabney, *TC Heartland And Its Aftermath: A Litigant's View*, Law360.com, https://www.law360.com/articles/966696/tc-heartland-and-its-aftermath-a-litigant-s-view (Sept. 28, 2017).
7. *In re Cray*, 871 F.3d at 1360.
8. *Raytheon v. Cray*, No. 15-cv-01554 (E.D. Tex. Jun. 29, 2017).

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