

## Back To The Fourco: High Court's New, Old Patent Venue Test

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For nearly 30 years, courts have liberally construed the patent venue statute, 28 U.S.C. § 1400(b), in determining where patent infringement cases could be brought. Venue in patent cases was effectively coterminous with the personal jurisdiction requirement, that is, if a patent infringement defendant was subject to personal jurisdiction in a particular court, that court was also a proper choice of venue. No more. On May 22, 2017, in the case *TC Heartland LLC v. Kraft Food Brands Group LLC*,<sup>[1]</sup> the U.S. Supreme Court reinstated a more demanding test for determining whether a particular venue is proper in patent infringement cases. Patent owners must now carefully assess not only whether personal jurisdiction exists over a proposed defendant in a particular court, but also whether that court is a proper choice of venue.

It is hard to overstate the impact the court's decision will have on patent litigation going forward. The decision certainly will help curb the unfair practice of forum shopping, which will likely result in weeding out nuisance patent lawsuits brought by plaintiffs who base their decisions primarily on the apparent advantages of a patent-friendly forum. Perhaps most significantly, the ability of patent owners to bring patent cases in the Eastern District of Texas has now been significantly curtailed. As a result, we expect to see a spike in the number of patent cases being brought in the District of Delaware. The Northern District of California is also likely to see an increase in cases, and it is possible we will see more complaints filed in the U.S. International Trade Commission. The impact the decision will have on pending cases is less clear, but at a minimum, with respect to pending cases in their relative infancy, we expect to see a large increase in the number of motions to dismiss brought under Federal Rule of Civil Procedure 12(b)(3) (improper venue).

### Statutory Background

The United States Code defines "venue" to be the "geographic specification of the proper court or courts for the litigation of a civil action."<sup>[2]</sup> Over the last 70 years, two statutes have been interpreted as governing venue selection in a patent infringement lawsuit, namely 28 U.S.C. § 1400(b) and 28 U.S.C. § 1391(c). Relevant to the issues in *TC Heartland*, the below table summarizes congressional amendments to those statutes:



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## CONGRESSIONAL AMENDMENTS TO PATENT VENUE STATUTES

Year of Revision	28 U.S.C. § 1400(b)	28 U.S.C. § 1391(c)
1948	Any civil action for patent infringement may be brought in the judicial district [1] where the defendant resides, or [2] where the defendant has committed acts of infringement and has a regular and established place of business.	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.
1988	Unchanged	For 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.
2011	Unchanged	Except as otherwise provided by law ... RESIDENCY. — For all venue purposes — (2) an entity with the capacity to sue and be sued in its common name under applicable law, 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 ...

### **28 U.S.C. §1400(b)**

In 1948, Congress recodified the patent venue statute, 28 U.S.C. § 1400(b), as part of the revision to the Judicial Code. This statute has remained unchanged since. While § 1400(b) provides in part that a patent infringement lawsuit may be brought in the judicial district where the defendant resides, it does not define “resides.”

### **28 U.S.C. §1391(c)**

As part of the same 1948 revision discussed above, Congress also codified the general venue rules under 28 U.S.C. § 1391, specifically covering corporate defendants under § 1391(c). This statute has since been revised twice.

The first amendment, in 1988, broadened the scope of “residency” to include any judicial district in which a corporate defendant is subject to personal jurisdiction.[3] It also made explicit that this broadening of “residency” was applicable to all the venue statutes in Chapter 87 of Title 28, U.S.C. (which presently include §§ 1390 through 1413). The second amendment, in 2011, revised the statute to state that the definition of “residency” applied “for all venue purposes,” but did not substantively alter the definition as to corporate defendants (that is, the term “residency” in the statute encompassed any judicial district in which the corporate defendant is subject to personal jurisdiction). The 2011

amendment also included a saving clause stating that the statute does not apply when “otherwise provided by law.”[4]

### **Judicial Interpretation of the Venue Statutes in Patent Infringement Cases**

Prior to TC Heartland, the two cases that have governed the choice of venue in patent infringement cases were *Fourco Glass Co. v. Transmirra Products Corp.* [5] and *VE Holding Corp. v. Johnson Gas Appliance Co.*[6]

#### ***Fourco***

After the 1948 recodification of 28 U.S.C. § 1400(b), any ambiguity regarding the application of 28 U.S.C. § 1391(c) in patent infringement cases was resolved by the Supreme Court in 1957 in the *Fourco* decision. The court held that § 1400(b) was the sole statute governing venue in patent cases. Specifically, the court noted “that 28 U.S.C. § 1400(b) is the sole and exclusive provision controlling venue in patent infringement actions, and that it is not to be supplemented by the provisions of 28 U.S.C. § 1391(c).”[7] The court further held that the interpretation of the term “resides,” as used in 28 U.S.C. § 1400(b), meant only the state in which a corporate defendant is incorporated.[8]

By holding 28 U.S.C. § 1400(b) to be “complete, independent and alone controlling in its sphere,”[9] the Supreme Court in *Fourco* set the precedent for determining proper venue in patent infringement cases for over 30 years. The interpretation of the term “resides,” as used in 28 U.S.C. § 1400(b), along with the decision that this patent specific venue statute is not to be supplemented by the provisions of 28 U.S.C. § 1391(c), limited the choice of venue in a patent infringement case to the following:

- the district court where a corporate defendant is incorporated;[10] and
- a district court where the defendant has committed acts of infringement and has a regular and established place of business.[11]

#### ***VE Holding***

Following the 1988 revision to § 1391(c), the Federal Circuit addressed the patent venue issue in 1990 in *VE Holding Corp.* The Federal Circuit held that the 1988 amendment to § 1391(c) changed the definition of “resides” for patent venue purposes.[12] The court focused on the phrase “for purposes of venue under this chapter,” and concluded that § 1391(c) “clearly applies to § 1400(b), and thus redefines the meaning of the term ‘resides’ in that section.”[13] Thus, 28 U.S.C. § 1400(b)’s phrase “the judicial district where the defendant resides” was interpreted by the Federal Circuit to mean “any district where there would be personal jurisdiction over the corporate defendant.”[14] Accordingly, for nearly 30 years, venue over a patent infringement defendant has been proper in any district where the defendant is subject to personal jurisdiction.

The Federal Circuit’s decision in *VE Holding* has supported forum shopping by patentees who have brought cases primarily in districts that have been perceived to be favorable to plaintiffs. Lex Machina’s 2015 end-of-year trends provide support for the presence of such “forum shopping abuse” by pointing out that over 43 percent of all patent infringement cases in 2015 were brought in the Eastern District of Texas and another 9.3 percent in the District of Delaware.[15] Not surprisingly, those two districts were ranked as the top two “patentee-favorable” venues in a study conducted by PriceWaterhouseCoopers.[16]

## **TC Heartland v. Kraft Foods**

### ***Background***

TC Heartland is a limited liability company organized under the laws of Indiana.[17] Kraft Foods is a Delaware corporation that maintains its principal place of business in Illinois.[18] In 2014, Kraft Foods sued TC Heartland for patent infringement in the district of Delaware, in response to which TC Heartland moved to dismiss or transfer the action under 28 U.S.C. § 1406.[19]

In its motion to dismiss, TC Heartland made the following arguments:

- The District of Delaware is not the judicial district where TC Heartland resides or has a regular and established place of business; and
- The 2011 revision to § 1391(c) repealed the statutory language that the Federal Circuit in *VE Holding* relied upon to establish the current law of venue in patent infringement cases.[20]

The district court denied TC Heartland's motion, following which TC Heartland filed a petition for writ of mandamus to the Federal Circuit. The Federal Circuit denied the petition for mandamus, holding that "[i]n 1988, the common law definition of corporate residence for patent cases was superseded by a Congressional one." [21]

TC Heartland timely filed a petition for writ of certiorari, which the Supreme Court granted on Dec. 14, 2016. Oral argument in the case was heard on March 27, 2017, and the Supreme Court's decision issued on May 22, 2017.

### ***The Supreme Court's Decision***

The specific question presented in *TC Heartland* was as follows: "whether 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions and is not to be supplemented by 28 U.S.C. § 1391(c)." TC Heartland, of course, argued that it was, and that neither the 1988 nor the 2011 amendments to § 1391(c) altered that conclusion. Kraft Foods, in turn, argued that, with its 2011 amendment to § 1391(c), Congress effectively ratified, if not extended, the Federal Circuit's decision in *VE Holding*. Both parties received support from numerous amici.[22] TC Heartland and its amici also argued that the Supreme Court could address the problems of patentee forum shopping by reinstating the *Fourco* court's interpretation of the statutes, whereas Kraft Foods and its amici argued that Congress was in a better position to address perceived abuses brought on by forum shopping.

In an 8-0 decision authored by Justice Clarence Thomas, the Supreme Court sided with TC Heartland and held that "the current version of § 1391 does not contain any indication that Congress intended to alter the meaning of § 1400(b) as interpreted by *Fourco*." [23] Addressing the fact that, as relied on by Kraft, § 1391(c) includes the clause "for all venue purposes," the court pointed out that "the version at issue in *Fourco* similarly provided a default rule that applies 'for venue purposes.'" [24] The court stated that it saw no "material difference between the two phrasings." [25] The court was therefore not persuaded that Congress intended to change the scope of § 1400(b) when it amended § 1391(c) in 2011, just as it was not persuaded in 1957 that Congress intended to modify § 1400(b)'s scope with its 1948 amendment to § 1391(c). [26]

The court also believed that, if anything, the 2011 amendment to § 1391(c) confirmed that Congress did not intend to ratify the Federal Circuit's decision in *VE Holding* because it added the saving clause expressly stating that § 1391(c) does not apply when "otherwise provided by law." [27] According to the court, this meant 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." [28]

Accordingly, the court reversed the Federal Circuit and reinstated *Fourco* as the controlling law with respect to patent venue for domestic corporations. Section 1400(b) "is the sole and exclusive provision controlling venue in patent infringement actions, and ... is not to be supplemented by ... § 1391(c)." [29] And with respect to the definition of "resides" as used in § 1400(b), the court reaffirmed its prior holding that "[a]s applied to domestic corporations, 'reside[nce]' in § 1400(b) refers only to the State of incorporation." [30] The net result is that, effective immediately, venue over domestic corporations for purposes of bringing a patent infringement action is proper only (1) in the state where the corporation is incorporated, or (2) where the defendant has committed acts of infringement and has a regular and established place of business.

### **What's Next?**

*TC Heartland* will obviously have a profound and immediate impact on patent litigation going forward. [31] Below we provide insight on how the decision may impact existing cases, as well as future ones.

### ***Existing Cases***

There exists thousands of pending patent litigation cases. *TC Heartland* will impact many of those cases that are in their relative infancy, that is, those cases where the defendant has not yet answered the complaint (or has otherwise preserved an improper venue defense, such as by bringing a motion to dismiss or explicitly objecting to venue in the answer). [32] Domestic corporate defendants who have been sued in a jurisdiction that is not within their state of incorporation, and in which they do not have a regular and established place of business, may rely on the decision in *TC Heartland* to move to dismiss the complaint under Fed. R. Civ. P. 12(b)(3) (improper venue). A district court facing such a motion has the discretion to either dismiss the case, or to transfer the matter to a forum where venue is proper. [33] This raises tactical issues for both plaintiffs and defendants in such pending cases. For example, defendants should consider proactively filing a declaratory judgment in its preferred venue and request the existing district court to transfer the case there, rather than risk the district court transferring the action to a less preferred venue. Patentees who see the handwriting on the wall, in turn, may be better suited to file a new case in a proper venue and then dismiss the existing case or ask the court to transfer the case to the new venue.

In contrast to the types of cases discussed above, the *TC Heartland* decision would appear to have less impact on pending cases where a domestic corporate defendant has already answered and not preserved an improper venue defense. Pursuant to Fed. R. Civ. P. 12(h), an improper venue defense under Rule 12(b)(3) is waived unless explicitly made part of a pre-answer Rule 12(b) motion, or included as an affirmative defense in the first responsive pleading. [34] The only possible relief for defendants in such a situation is to move the district court to amend the answer or Rule 12(b) motion to include improper venue. [35] Factors the court may consider when addressing such a motion include the moving party's good faith, the time interval between the original filing and the motion, and the likelihood that the omission was inadvertent rather than intentional and tactical. [36] Given the court's discretion in

deciding such a motion, it would appear that district courts interested in keeping existing cases will be able to do so if a defendant has not otherwise preserved the improper venue defense.

### ***Future Cases***

TC Heartland now dictates where domestic corporate defendants<sup>[37]</sup> may be sued, and for many such defendants the choices are decidedly limited. One clear option is to bring suit in a jurisdiction located in the state where the defendant is located. As is well known, many U.S. corporations choose to incorporate in the state of Delaware. Thus, it is expected that many patentees will turn to the District of Delaware as their favored forum. This is especially so given the fact that the judges in that district are highly experienced in handling patent cases of all types. Another forum that will likely see an uptick in patent cases is the Northern District of California, given the number of technology companies that are either incorporated in California or have their base of operations physically located in that jurisdiction. Conversely, the Eastern District of Texas will no longer be an option with respect to many companies that were regular targets there, because such companies are neither incorporated in Texas nor have a “regular and established place of business” in the Eastern District of Texas.

If a jurisdiction within the defendant’s state of incorporation is not an attractive option, patentees may also consider the second clause of § 1400(b), which provides for venue where the defendant has a regular and established place of business and acts of alleged infringement have occurred. The question of what constitutes a “regular and established place of business” is likely going to be the next major dispute for courts to tackle in light of TC Heartland. The Supreme Court offered no guidance on this issue, and therefore parties and the courts will need to reacquaint themselves with pre-VE Holding opinions addressing this issue. A full analysis of those opinions is beyond the scope of this article,<sup>[38]</sup> but in general the prevailing view was that “[m]ere ‘doing business’ in a district is not of itself sufficient to confer venue in patent suits. Something more is required. It must appear that a defendant is regularly engaged in carrying on a substantial part of its ordinary business on a permanent basis in a physical location within the district over which it exercised some measure of control.”<sup>[39]</sup>

Finally, another option for certain patentees is to bring a complaint under Section 337 in the International Trade Commission. The ITC’s broad in rem jurisdiction eliminates concerns over personal jurisdiction and venue, and its fast pace make it an attractive option for those patentees who can satisfy the ITC’s domestic industry requirement (which therefore excludes many patent trolls).

### **Conclusion**

TC Heartland is a game-changing decision, as it now requires patentees to carefully examine the business operations of proposed defendants in deciding where to bring patent infringement suits. It is hoped that the court’s decision will help curtail the barrage of nuisance lawsuits, being brought in a handful of districts, by taking away the venue advantage that was the result of the Federal Circuit’s decision in VE Holding. In pending cases, both the patentee and defendant (assuming the defendant is a domestic corporation) should immediately analyze the applicability of TC Heartland to their current lawsuit.

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[1] TC Heartland LLC v. Kraft Foods Group Brands LLC, No. 16-341 (May 22, 2017) (slip op.).

[2] 28 U.S.C. § 1390(a).

[3] 28 U.S.C. § 1391(c) (1988).

[4] 28 U.S.C. § 1391(c).

[5] Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222, 229 (1957).

[6] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1575 (Fed. Cir. 1990).

[7] Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222, 229 (1957).

[8] Id. at 226.

[9] Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222, 228 (1957).

[10] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1583 (Fed. Cir. 1990).

[11] 28 U.S.C. § 1400(b).

[12] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1575 (Fed. Cir. 1990).

[13] Id. at 1578.

[14] Id. at 1583.

[15] Brian Howard, Lex Machina 2015 End-of-Year Trends Fig. 3 (Jan. 7, 2016), available at <http://www.lexmachina.com/lex-machina-2015-end-of-year-trends>.

[16] Chris Barry et. al., 2016 Patent Litigation Study: Are We at an Inflection Point? 15 (2016), available at <http://www.pwc.com/us/en/forensic-services/publications/assets/2016-pwc-patent-litigation-study.pdf>.

[17] See In re TC Heartland LLC, 821 F.2d 1338, 1340 (Fed. Cir. 2016).

[18] Id.

[19] Id.

[20] Id.

[21] Id. at 1342.

[22] A full list of amicus briefs may be found here: <http://www.scotusblog.com/case-files/cases/tc-heartland-llc-v-kraft-foods-group-brands-llc/>.

[23] TC Heartland, slip op. at 8.

[24] Id., quoting Fourco Glass, 353 U.S. at 223.

[25] TC Heartland, slip op. at 8.

[26] Id. at 9.

[27] Id., citing 28 U.S.C. § 1391(c) (2011).

[28] TC Heartland, slip op. at 9.

[29] Id. at 5, quoting Fourco, 353 U.S. at 229.

[30] Id. at 10.

[31] See Harper v. VA Dept. of Taxation, 509 U.S. 86, 97 (2011) (“When this Court applies a rule of federal law to the parties before it, that rule is the controlling interpretation of federal law and must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate our announcement of the rule”).

[32] See, e.g., Argentine Republic v. National Grid Plc, 637 F.3d 365, 367 (D.C. Cir. 2011) (affirmative defenses may be raised through a Rule 12(b) motion or in the first responsive pleading).

[33] See, e.g., Adobe Sys. Inc. v. Blue Source Grp., Inc., 125 F. Supp. 3d 945, 958-59 (N.D. Cal. 2015).

[34] See Fed. R. Civ. P. 12(h); Wachovia Bank v. Schmidt, 546 U.S. 303, 316 (2006) (venue defense is waived if not timely raised).

[35] See Fed. R. Civ. P. 12(h)(1)(B)(ii).

[36] See Nycal Corp. v. Inoco PLC, 949 F. Supp. 1115, 1119-20 (S.D.N.Y. 1997).

[37] The TC Heartland decision does not address the question of proper venue over foreign corporate defendants: “the parties dispute the implications of petitioner’s argument for foreign corporations. We do not here address that question....” TC Heartland, slip op. at 7, fn. 2.

[38] See J. Murphy, TC Heartland And The New Old Venue Rule, Law360 (Jan. 30, 2017).

[39] Mastantuono v. Jacobsen Mfg. Co., 184 F. Supp. 178, 180 (S.D.N.Y. 1960). In this case, the court rejected the plaintiff’s contention that the fact that the defendant had registered agent for service of process was enough to meet the second clause of § 1400(b).