There's No Place Like Home – Supreme Court Ruling on Patent Venues

By Richard D. Fladung / May 25, 2017

As the famous line spoken by the character Dorothy in *The Wizard of Oz* suggests, companies facing patent litigation claims are now more likely to have cases brought in district courts where they are incorporated or headquartered, rather than in the present popular patent districts or "hot spots." The recent ruling by the Supreme Court of the United States in *TC Heartland LLC v. Kraft Foods Group Brands LLC* interpreted one of the two prongs that will restrict future patent litigation filings in federal district courts across the country.

The first prong redefines where a patent infringement action may be filed. The Supreme Court, citing back to its 1957 *Fourco Glass* holding, holds that, as applied to domestic corporations, "reside[nce]" in §1400(b) refers only to a defendant's State of incorporation. This State of incorporation interpretation is more restrictive than the reversed Federal Circuit's decision of 27 years ago that found a broader and patent holder friendly interpretation of "resides." This may mean a significant shift in the volume of filings present in the popular patent districts such as the EDTEX in coming months.

The second prong, which has not been exercised in the past 27 years due the Federal Circuit's decision, allows filings to occur in the district where the defendant has "a regular and established place of business." This prong will challenge for patent holders to show that defendant has "a regular and established place of business. The challenge may be unattainable for rural, less populated districts, such as EDTEX where 40% of all intellectual property civil actions were filed last year in a desired district.

While getting "home" was Dorothy's goal, the *TC Heartland LLC v. Kraft Foods Group Brands LLC* ruling will cause numerous challenges for both clients and law firms to find a "home" for their patent litigation matter.

Analysis of the 2 Prongs of the Patent Venue Statute for Domestic Corporations after the May 22, 2017 TC Heartland U.S. Supreme Court Decision.

First Prong of 28 USC 1400(b) – "[a]ny civil action for patent infringement may be brought in the judicial district where the defendant 'resides',"

- The Supreme Court, citing back to its 1957 Fourco Glass holding, holds that, as applied to domestic corporations, "reside[nce]" in §1400(b) refers only to a defendant's State of incorporation.
- This State of incorporation interpretation is more restrictive than the reversed Federal Circuit's decision of 27 years ago that found a broader and patent holder friendly interpretation of "resides."
- Reduced Filings
  - Eastern District of Texas "EDTEX"
- Increased Filings
  - District of Delaware (more than 50 percent of publicly traded companies in the U.S. and more than 60 percent of Fortune 500 companies are incorporated in Delaware), District of Nevada and in other districts where industry is incorporated.
- Look for increase of Motions to Dismiss for Improper Venue or, in the Alternative, Transfers to be filed in present popular patent districts, such as EDTEX, in coming months. See Fed. R. Civ. P. 12(g)(2).

Second Prong of 28 USC 1400(b) – "or, where the defendant has committed acts of infringement and has a regular and established place of business."

- This second prong has not been exercised in the past 27 years in view of the broader and patent holder friendly interpretation of "reside" in the first prong of 28 USC 1400(b).
- Even if a defendant has committed acts of infringement in a district, the patent holder needs to show that defendant has "a regular and established place of business" in the desired district – harder to do for rural, less populated districts, such as EDTEX where 40% of all intellectual property civil actions were filed last year.
- Patent holders will now need to develop and plead "contact" facts for a "regular and established place of business" in original and amended Complaints. But consider that in 2016, as with past years, California, Texas and New York are the states with the most Fortune 1000 company headquarters. Therefore, highly populated districts with a large number of company headquarters, such as the Northern District of California (e.g. San Francisco), Southern District of New York (e.g. New York City), Northern District of Texas (e.g. Dallas), and Southern District of Texas (e.g. Houston) may see an increase in patent filings under this second patent venue prong.

The Venue Statute for *Foreign* Corporations for Patent Defendants after the May 22, 2017 *TC Heartland* US Supreme Court Decision.

- In one of the 2 footnotes of the TC Heartland decision, the Supreme Court stated it would not address the pending patent venue dispute for a foreign corporation.
- In that same footnote, the Supreme Court declined to express any opinion on the Court's holding in Brunette Machine Works, Ltd. v. Kockum Industries, Inc., 406 U.S. 706 (1972) (determining proper venue for foreign corporations in patent infringement cases under then existing statutory regime).
- However, the Supreme Court did quote from the 1972 Brunette case to distinguish the patent venue §1400(b) statute in issue from general venue legislation, as follows: "placed patent infringement cases in a class by themselves, outside the scope of general venue legislation." 406 U.S. at 713.

- The *Brunette* case held that 28 USC §1391(d), not the patent venue §1400(b) statute, governed venue in a patent suit that includes a foreign corporation. In the 1972 decision, the Court noted the "longstanding rule that suits against alien defendants are outside" specific venue statutes (406 U.S. at 713) and reaffirmed the rule that a foreign defendant may be sued in any district. See 406 U.S. at 714.
- In view of above, foreign defendants, who can be sued "in any district," may be sued more frequently with their indispensable "domestic" subsidiaries in the proper venue(s) under 28 USC §1400(b) as now interpreted by the *TC Heartland* decision.