US Supreme Court clarifies definition of corporate residence for purpose of patent venue

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TC Heartland LLC v Kraft Foods Group Brands LLC, 581?US __ (2017), Supreme Court of the United States, 22 May 2017

The US Supreme Court unanimously held that 'a domestic corporation "resides" only in its state of incorporation for purposes of the patent venue statute.' The court reversed the decision of the United States Court of Appeals for the Federal Circuit, rejecting a line of authority which dates back to at least 1990 in *VE Holding Corp. v Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), in which the Federal Circuit held that the statutory definition of corporate residence found in the general venue statute is incorporated into the patent venue statute.

Legal context

The patent venue statute, 28 USC §1400(b), provides:

> [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.

In *Fourco Glass Co. v Transmirra Products Corp*., 353?US 222 (1957), the United States Supreme Court held that, for purposes of §1400(b), a defendant that is a domestic corporation 'resides' only in its state of incorporation. In rendering its decision in *Fourco*, the court rejected an argument that §1400(b) incorporated the definition of corporate 'residence' that was found in the general venue statute, 28 USC §1391(c).

Since the court's decision in *Fourco*, §1400(b) has not been amended, but Congress has amended §1391 twice, in 1988 and again in 2011. The current version of §1391 reads as follows:

> (a) Applicability of Section.—Except as otherwise provided by law—…

> (c) Residency.—For all venue purposes—… 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 … .

The issue in the present case, *TC Heartland LLC v Kraft Foods Group Brands LLC* (*TC Heartland*) was whether the definition of corporate 'residence' that is found in the current version of §1391(c) superseded the definition set forth by the court in *Fourco* and thus permitted a corporation to be sued for patent infringement in any district in which the corporation is subject to the personal jurisdiction of the district court. Unlike other areas of law where the US Supreme Court has refused to find patent law special, in this case the court found that it was in fact special.

Facts

TC Heartland LLC (Heartland) is an Indiana limited liability company whose headquarters is in Indiana. *In re TC Heartland*, 821 F.3d 1338, 1340 (Fed. Cir. 2016). (The case came to the Supreme Court on the understanding that Heartland is a corporation.) Heartland manufactures liquid water enhancer products. Kraft Foods Group Brands LLC (Kraft) is a Delaware corporation whose principal place of business is in Illinois. Kraft sued Heartland in the United States District Court for the District of Delaware, accusing certain of Heartland's products of infringing three of Kraft's patents.

Based on Heartland's admission that it had shipped orders of the accused products into Delaware pursuant to two national accounts, the Magistrate Judge of the district court concluded that the district court had personal jurisdiction over Heartland for Kraft's patent infringement claims.

Heartland nonetheless alleged that it had no specific contacts with the District of Delaware, including no physical presence in Delaware, no supply contracts or sales accounts in Delaware, and no registration to do business in Delaware. Accordingly, Heartland argued that the current version of §1391, as amended in 2011, rendered the District of Delaware an improper venue for Kraft's patent infringement lawsuit.

In its opinion, the Federal Circuit held that Congress's 2011 amendments to §1391(c) did not affect its holding in *VE Holding Corp. v Johnson Gas Appliance Co.* and that the definition of corporate residence in §1391(c) applies to §1400(b) as well. *In re TC Heartland LLC*, 821 F.3d at 1341–2. The Federal Circuit explained that in *VE Holding* it found that Congress vitiated the *Fourco* decision with its 1988 amendments to §1391 by making the definition of corporate residence in §1391 applicable to patent cases as well. The Federal Circuit also rejected Heartland's argument that Congress's 2011 amendments to §1391 codified the *Fourco* decision.

Analysis

In *TC Heartland*, a unanimous (Justice Gorsuch took no part in the consideration or decision of this case) Supreme Court reversed the Federal Circuit, and held that 'a domestic corporation "resides" only in its State of incorporation for purposes of the patent venue statute.' Slip op. at 2.

Since Congress has not amended §1400(b) since *Fourco*, the court considered whether the meaning of §1400(b) changed when Congress amended §1391. The court concluded that there was no clear indication in the text of §1391 that Congress intended to change the meaning of §1400(b) as interpreted by *Fourco* when it amended §1391. In particular, the court reasoned that the current version of §1391(c)—whose default applicability is '[f]or all venue purposes'—is essentially the same as the version that was at issue in *Fourco*—whose default applicability was 'for venue purposes'. The court pointed out that in *Fourco* it rejected the argument that such language in §1391 includes patent venue.

The court also noted that the current version of §1391 includes a 'saving clause', which states that §1391 is inapplicable when 'otherwise provided by law'. Slip op. at 9. In the court's opinion, the inclusion of a saving clause in §1391 provides an even firmer basis for the court's holding in *Fourco*, because it recognizes that other venue statutes may include a definition of 'resides' which conflicts with the default definition provided in §1391(c).

Finally, the court found no indication that the 2011 amendments to §1391 ratified the Federal Circuit's decision in *VE Holding*. In particular, in 1988 Congress amended §1391(c) so that on its face it was applicable '[f]or purposes of venue under this chapter'. 28 USC §1391(c) (1988). The Federal Circuit interpreted the phrase 'this chapter' to refer to chapter 87 of title 28, which includes both §§1391(c) and 1400(b). *VE Holding*, 917 F.2d at 1578. Accordingly, the Federal Circuit held that the 1988 amendment to §1391(c) redefined the meaning of the word 'resides' in §1400(b). As the Supreme Court pointed out in *TC Heartland*, Congress's amendment of §1391 in 2011 deleted the phrase 'under this chapter' from §1391(c) and thus returned §1391 to the almost identical language it had in its original version, thereby undermining the Federal Circuit's rationale in *VE Holding*. Slip op. at 9–10.

Practical significance

By narrowing the definition of corporate residence for patent venue purposes to the state where a corporation is incorporated, *TC Heartland* significantly reduces the number of judicial districts where a corporation can be sued for patent infringement. However, *TC Heartland* was not without limits. The statute leaves open the possibility of a domestic corporation being sued 'where the defendant has committed acts of infringement and has a regular and established place of business'. The statute also does not address where unincorporated entities or foreign corporations may be sued and the court expressly reserved

judgement on those issues.

No doubt the number of lawsuits where the venue will be appropriate in the popular United States District Court for the Eastern District of Texas will be reduced. It is anticipated, that since many corporations are incorporated in the State of Delaware, the number of patent cases filed in the District of Delaware will increase. It is likely that lawsuits in other venues with significant business operations and incorporated entities, like New York, will also see an increase in lawsuits filed.