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CLIENT MEMORANDUM

Supreme Court Ruling in *TC Heartland* Revives Focus on the Corporate "Place of Business"

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On May 22, 2017, the U.S. Supreme Court issued its much-anticipated decision in *TC Heartland*,[1] holding that patent infringement litigation against corporate defendants may be brought only in (1) the district in which the defendant is incorporated; or (2) a district in which the defendant has committed acts of infringement ***and*** has a regular and established place of business. In reaching this decision, the Court changed nearly three decades of practice, which had often been predicated on a ruling by the U.S. Court of Appeals for the Federal Circuit that venue in a patent infringement case was proper in any district that could exercise personal jurisdiction over a corporate defendant.

In the wake of the Supreme Court's decision, parties will need to reassess which judicial districts may be proper forums for patent infringement litigation. Decisions by the Federal Circuit and other circuit courts that have been little-noticed in recent years may provide some insights into whether a defendant's conduct within a forum rises to the level of creating a "regular and established place of business," thus making it an appropriate venue. These decisions are likely to be the basis for further clarification of the new ground rules for venue in patent litigation.

Overview of the Supreme Court's Decision

TC Heartland focused on the interplay between two federal statutes: the patent venue statute, 28 U.S.C. § 1400(b), and the general venue statute, 28 U.S.C. § 1391. Under § 1400(b), venue is appropriate in the judicial district "where the

defendant resides," while § 1391(c) defines "residence" for a corporation as any judicial district in which the defendant "is subject to the court's personal jurisdiction with respect to the civil action in question." In *TC Heartland*, the Supreme Court held that § 1400(b) does not incorporate the definition of "residence" from § 1391(c). Thus, in the patent context, residence "refers only to the State of incorporation."[2]

The decision in *TC Heartland* restores an earlier test for venue in patent infringement cases dating to a 1957 Supreme Court decision.[3] Under that regime, venue often was based on the location where acts of infringement occurred, provided that the defendant had a "regular and established place of business" in that district. However, following a change in 1988 to § 1391(c) stating that the statute applied "[f]or purposes of venue under this chapter," the Federal Circuit in *VE Holdings* extended the definition of "residence" for corporate defendants to any district where personal jurisdiction existed over the defendant.[4] The Supreme Court chose not to weigh in, and this decision became the standard for the ensuing decades.

The question of appropriate venue in patent cases was revisited in *TC Heartland* because Congress again amended § 1391 in 2011. The statute now states that its definition of "residence" applies "for all venue purposes," "except as otherwise provided by law."[5] In proceedings before the Federal Circuit, Heartland contended that these amendments – which the Federal Circuit deemed "minor" – were meant to overrule *VE Holdings* both by narrowing the applicability of § 1391(c) and by either carving out an exception for patent venue under § 1400(b) or by codifying the Supreme Court's earlier ruling.[6] The Federal Circuit rejected both arguments,[7] but the Supreme Court disagreed.

In reversing the Federal Circuit, the Supreme Court agreed with Heartland that *both* amendments weighed towards a reaffirmation of its 1957 *Fourco* decision. First, the current provision "for all venue purposes" aligned with the *Fourco*-era default language that § 1391(c) applied "for venue purposes," which did not preclude a different definition of "residence" in patent cases.[8] The Supreme Court also noted that the "exception" clause provided "even firmer footing" for reversal, as the clause made explicit what it had determined in *Fourco*: that "residence" may have a distinct meaning in the context of different venue provisions.[9]

Recasting the Venue Inquiry on the Corporate "Place of Business"

With patent venue no longer capable of being premised on personal jurisdiction over corporate defendants, it will be important for the courts to interpret what constitutes a "regular and established place of business" under § 1400(b) – a question that had been rendered effectively academic by the prior "personal jurisdiction" threshold. In its early decisions, the Federal Circuit had appeared to suggest that a physical presence in the forum district was necessary, but that a conventional brick-and-mortar office might not be a prerequisite. Changes in business practices over the ensuing decades likely will force the Federal Circuit to grapple with new fact patterns brought about by the advent of the internet age, the rise of telecommuting, and new approaches to work sites.

In one of its few cases addressing the question, the Federal Circuit held that a company that does business in a district through a "permanent and continuous presence" has a regular and established place of business there, regardless of whether it has a *fixed* physical presence "in the sense of a formal office or store."[10] Thus, the Federal Circuit affirmed that

venue was proper where the defendant committed alleged acts of infringement in a district in which it employed two full-time sales representatives, who also provided technical consultations, gave presentations, and had engaged a secretarial service.[11]

Because of the relative dearth of Federal Circuit precedent, cases from other circuits may also prove instructive to district courts now encountering the question of what constitutes a "regular and established place of business."

For instance, the Fifth Circuit has looked to a variety of circumstances to determine whether venue was proper.[12] The court relied on a confluence of the defendant's activities within the district – including listings for the defendant in the local telephone directory, maintaining sales representatives, and listing its name on the building directory of the sales representatives' office – as rising to a regular and established place of business, and confirmed the district as an appropriate venue for a patent infringement case.[13] The Fifth Circuit also ruled that the particular accused *division* of a corporate defendant need not have a place of business in the district, suggesting rather that activities by associated divisions could suffice for venue purposes.[14]

In contrast, the Seventh Circuit has found that a variety of separate actions in the forum district, when taken together, did *not* establish a regular place of business, holding that "the very diffusion" of the defendant's activities "is the antithesis of a 'regular' and 'established' place of business."[15] In that case, too, the defendant had a sales representative within the district, and the company name listed on a building directory.[16] However, the Seventh Circuit ruled that was "not determinative" because the sales representative was deemed an independent businessman, rather than an employee, and his expenses were not paid by the defendant company.[17] Although the defendant had "many varied contacts" with the district, and may have even been "doing business" there, the court ruled that those activities did not create a regular and established place of business.[18]

These cases are illustrative of the questions posed in the early case law. Moving forward, courts and litigants likely will focus significant attention on what constitutes a regular and established place of business for corporations that conduct business over the internet and/or with employees regularly working "remotely." Other factors such as whether, for instance, computer server locations or order fulfillment centers in a particular district may suffice to establish it as an appropriate venue for patent infringement litigation may also play a role in future cases.

Conclusion

The Supreme Court's decision in *TC Heartland* will affect both companies seeking to assert patents to protect their intellectual property and those that are the target of infringement litigation. Although the personal jurisdiction standard has been removed from the patent plaintiff's arsenal, appropriate venue in patent cases will not be limited to the defendant's state of incorporation. Rather, future guidance on what constitutes a "regular and established place of business" will prove instructive, and perhaps paramount, as this dormant inquiry takes on new life.

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1 *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, No. 16-341, 581 U.S. __ (May 22, 2016).

2 *Id.*, slip op. at 7-8.

3 *See Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222 (1957).

4 *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1579 (Fed. Cir. 1990), *cert. denied*, 499 U.S. 922 (1991).

5 *In re TC Heartland LLC*, 821 F.32d 1338, 1341 (Fed. Cir. 2016).

6 *Id.*

7 *Id.* at 1342-43.

8 *TC Heartland*, slip op. at 8.

9 *Id.*, slip op. at 9.

10 *In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985) (denying writ of mandamus).

11 *Id.* at 735.

12 *Gaddis v. Calgon Corp.*, 449 F.2d 1318, 1319-20 (5th Cir. 1971).

13 *Id.* at 1320.

[14] *Id.*

[15] *Knapp-Monarch Co. v. Casco Prods. Corp.*, 342 F.2d 622, 625-26 (7th Cir. 1965).

[16] *Id.* at 625.

[17] *Id.*

[18] *Id.* at 624-25.