Where Can Corporations Be Sued for Patent Infringement? Part II

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As discussed in Part I of this two-part Sidebar, in May 2017, the U.S. Supreme Court in TC Heartland v. Kraft Foods Group Brands, overturned the U.S. Court of Appeals for the Federal Circuit (Federal Circuit)’s longstanding precedent regarding where proper venue lies in patent infringement cases. The venue statute specifically applicable to patent cases requires plaintiffs to file: (1) in the judicial district where the defendant “resides,” or (2) “where the defendant has committed acts of infringement and has a regular and established place of business.” In TC Heartland, a unanimous Supreme Court concluded that a domestic corporation accused of patent infringement “resides” only in its state of incorporation. While Part I provides background on patent venue law jurisprudence and discusses the impact of the TC Heartland decision on the patent litigation system generally, this Part discusses other implications of the decision, including two notable recent decisions in the Federal Circuit interpreting the decision, In re Cray and In re Micron Technology, Inc., as well as other potential issues raised by TC Heartland and options for Congress.

In re Cray

While TC Heartland definitively settles the meaning of the word “reside” in the patent venue statute, the opinion did not address the second place where venue is proper under the statute: the judicial district “where the defendant has committed acts of infringement and has a regular and established place of business.” Because the Federal Circuit’s 27-year-old precedent regarding corporate residence made it relatively easy for plaintiffs to assert proper venue under the first clause of the patent venue statute, the second clause has received little judicial scrutiny beyond a 1985 Federal Circuit opinion. Post-TC Heartland, parties have increasingly litigated the meaning and scope of the phrase “a regular and established place of business” in cases filed outside of the domestic corporate defendant’s state of incorporation. For example, in June 2017, Judge Rodney Gilstrap of the Eastern District of Texas (who has handled more patent cases than any other judge in the nation) denied a venue transfer request from...
defendants “may be sued in any district” Court entity or a foreign defendant may be sued foreign corporations by commentators. For example, the The Other consider the timeliness and adequacy of a venue objection reject a defendant’s venue defense using their Heartland Rule 12(b)(3) motion (h)(1)(A) inapplicable.” The interpretation of the venue statute was not decided that provides an Circuit that resolves this question by holding that TC Heartland, this question by holding that TC Heartland was decided. The Federal Circuit explained, however, that there is “no precise rule” for deciding if a defendant has a regular and established place of business in a district, and that a court must conduct an analysis of proper venue based on the specific facts of each case.

**In re Micron Technology, Inc.**

Many defendants in patent cases pending when TC Heartland was issued filed motions under Federal Rule of Civil Procedure 12(b)(3) to dismiss or transfer their cases for lack of venue, citing the TC Heartland standard. However, for months after the Supreme Court opinion, federal district courts disagreed about whether these defendants were precluded from making a Rule 12(b)(3) motion by Rules 12(g)(2) and 12(h)(1)(A), which provide that a party waives the right to challenge venue if the improper venue defense “was available to the party but omitted from” its first responsive pleading in the case. In November 2017, again on writ of mandamus, the Federal Circuit in In re Micron Technology, Inc., resolved this question by holding that TC Heartland constitutes an intervening change in controlling law that provides an exception to Rule 12(h)(1)(A)’s waiver of the improper venue defense. The Federal Circuit noted that “at the time of the [defendant’s] initial motion to dismiss, before the [Supreme] Court decided TC Heartland, the venue defense now raised by Micron (and others) based on TC Heartland’s interpretation of the venue statute was not ‘available,’ thus making the waiver rule of Rule 12(g)(2) and (h)(1)(A) inapplicable.” As a result of In re Micron Technology, district courts may not deny a defendant’s Rule 12(b)(3) motion based on the Rule 12(h)(1)(A) waiver rule, in cases still pending when TC Heartland was decided. However, the Federal Circuit left open the possibility that district courts could reject a defendant’s venue defense using their inherent powers and standard procedural devices “to consider the timeliness and adequacy of a venue objection.”

**Other Potential Venue Issues and Options for Congress**

The TC Heartland Court did not address certain other issues that have been raised in the lower courts or by commentators. For example, the TC Heartland Court expressly declined to consider how, if at all, the decision applies to unincorporated entities (such as partnerships or limited liability companies) or to foreign corporations. While the general federal venue statute expressly provides that an unincorporated entity or a foreign defendant may be sued anywhere it is subject to personal jurisdiction, the patent-specific venue statute does not specifically mention these types of defendants. Similarly, a 1972 Supreme Court decision, Brunette Machine Works, Ltd. v. Kockum Industries, had determined that foreign patent defendants “may be sued in any district” under the then-applicable general federal venue statute.
Congress could amend the patent venue statute to address these unresolved issues, or in response to any concerns it may have about the way that lower courts have interpreted TC Heartland. Though no patent venue legislation has yet been introduced in the 115th Congress, two bills in the 114th Congress (S. 2733 (Venue Equity and Non-Uniformity Elimination Act of 2016) and H.R. 9 (Innovation Act) (as reported)) would have: (1) clarified that the patent venue statute applies to unincorporated entities; (2) substantially revised the second prong of the patent venue statute to allow a defendant to be sued in several specific circumstances; and (3) permitted foreign defendants that lack a principal place of business or are not incorporated in the United States, or that do not maintain regular and established physical facilities in the United States, to be sued for patent infringement in any judicial district (under S. 2733) or where they are subject to a court’s personal jurisdiction (under H.R. 9, as reported).

Another issue that either the courts or Congress may clarify is whether a domestic corporation may be sued for patent infringement in any judicial district in the state of its incorporation, if the state (such as California, New York, and Texas) has multiple judicial districts. (The TC Heartland Court was not confronted with this specific situation, as the patent infringement suit in the case was filed in Delaware, which has only one judicial district.) In July 2017, Judge Gilstrap ruled that a company primarily based in the Western District of Texas “resides” in all of the judicial districts of Texas for purposes of the patent venue statute (despite the defendant lacking any connections to the Eastern District of Texas). In reaching this conclusion, he relied on language in TC Heartland that says a domestic corporation “resides” in its state of incorporation. In late December 2017, the defendant filed a petition for writ of mandamus to the Federal Circuit asking the appellate court to determine which judicial district a domestic corporation incorporated in a multidistrict state “resides” under the patent venue statute. The Federal Circuit has not yet ruled on the petition. In late January 2018, a federal judge in the Central District of California provided another view on this issue, holding that a domestic corporation “resides” within a multidistrict state “only in the judicial district in which it maintains its principal place of business.”

Yet another venue issue that courts or Congress may consider involves the application of the first part of the second prong of the patent venue statute (“where the defendant has committed acts of infringement”) to patent infringement cases specifically authorized by a provision of the Hatch-Waxman Act (codified at 35 U.S.C. § 271(e)(2)) that involve the validity and scope of pharmaceutical drug patents. In “regular” patent infringement cases, the question of where and how a defendant has infringed a patented invention (through unauthorized use, manufacture, or sale, for example) is not typically difficult to determine. However, some observers argue that what is considered “acts of infringement” to establish venue is not as clear in Hatch-Waxman lawsuits, in which brand-name pharmaceutical companies sue generic drug manufacturers that have filed an “Abbreviated New Drug Application” (ANDA) with the Food and Drug Administration seeking approval of a generic version of a patented drug. The question in an ANDA-related lawsuit is whether a drug patent will or will not be infringed by the manufacture, use, or sale of the generic drug following FDA approval of it. A federal district court has opined that the verb tense of the second prong of the patent venue statute (“where the defendant has committed acts of infringement”) “creates an almost impenetrable problem in the particular context of Hatch-Waxman patent litigation” that considers future events. This same federal court took a broader interpretation of “acts of infringement” in ANDA cases, allowing a generic company to be sued in any state in which it intends to market its drug after receiving FDA approval (and in which it has a regular and established place of business) because such an intent to sell would be considered an act of infringement. However, another federal district court has interpreted the statutory language more narrowly, holding that proper venue in a Hatch-Waxman case lies in the forum where the generic company prepared and submitted the ANDA filing. It remains to be seen whether the Federal Circuit will act to resolve this unsettled question.