NOT READY TO STICK A *FOURCO* IN IT YET: EXISTING PATENT VENUE LAW WILL REMAIN UNCHANGED UNTIL CONGRESS INTERVENES[1]

By Howard A. Newman, Esq.
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These past seven days have been a banner week in the Supreme Court for those of us practitioners who work in the area of patent law. Last Tuesday, the Supreme Court issued an entirely expected ruling in ***SCA v. First Quality***,[2] tossing the defense of laches in patent cases where there is a stated statute of limitations and a legal remedy sought. That day, the Supreme Court heard argument in ***Impressions v. Lexmark***,[3] a difficult case that will fundamentally affect more people and companies than any other case this term (and perhaps for quite some time) that involves patent exhaustion, and whether a conditioned sale (in the U.S. or abroad) 'exhausts' a patent holder's ability to enforce its rights, if any, post-sale. Not to be outdone, yesterday, the Court heard argument in ***Heartland v. Kraft***,[4] which has the potential to disrupt modern patent litigation, since the justices will either restore more exacting restrictions on venue in patent litigation or more likely, maintain the potential ubiquity for where a patent owner may file a complaint. Based on oral argument and the following analysis, the justices seemed vexed with overturning almost thirty years of patent venue practice. Indeed, we had a real treat this week.

Like ***SCA*** decided last week, ***Heartland*** hinges on statutory interpretation, this time, concerning federal venue statutes. Like ***SCA***, the issues in ***Heartland*** should be decided by Congress. Regardless, any ruling therein will follow basic canons of statutory interpretation: if the language of a statute is plain, the sole function of the courts is enforcement according to said statute's terms. If there is an ambiguity, any resulting judicial statutory construction must be narrowly tailored that is in harmony with the statutes at issue.

Looking at the number of *amici* that have filed on behalf of either party in ***Heartland***, a few big-picture points are clear: 1) there is a lot at stake, especially at the perceived concentration of patent litigation, particularly in the Eastern District of Texas, and how said

[1] This author had considered a different title: "Not Ready to Stick a *Fourco* in It: Blue Frog Grill will Continue to Serve Patent Lawyers in Marshal, Texas." However, that title was too esoteric as only those who have been—or know others who have been—to Marshal, Texas, home to the rocket docket in the Eastern District of Texas, would know of the Blue Frog Grill, a famous restaurant and catering establishment that neutrally works for both plaintiffs and defendants! It is unknown whether such a restaurant would be a going concern should the Supreme Court, or more appropriately, Congress, clearly change patent venue.

[2] ***SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC***, No. 15-927, was argued on November 1, 2016 and decided March 21, 2017, and during the interim, was discussed here and later referenced here.

[3] ***Impression Products, Inc. v. Lexmark International, Inc.***, No. 15-1189, was argued on March 17, 2017, and an opinion is expected at the very end of the Court's term, June, 2017.

[4] ***TC Heartland LLC v. Kraft Foods Group Brands LLC***, No. 16-341, was argued on March 27, 2017.

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concentration affects litigation outcomes; 2) there are interesting bedfellows supporting Heartland, the petitioner, and Kraft, the respondent;[5]

	For Petitioner (Heartland)	Neither Party[5]	Respondent (Kraft)
1	Hon. Paul R. Michel	Chicago IP Ass'n	PhRMA
2	Orange County	AIPLA	Ericsson, et al.
3	48 Internet Co.'s Retailers Ass'ns	GE	22 Law Eco/Biz Professors
4	Generic Pharmaceutical Ass'n		Mr. P. Chaudhari
5	Unified Patent Inc.		Genentech
6	ACT / APP Assn		Biotech. Innovation Org.
7	Intel		Whirlpool
8	Amer. Bankers Ass'n		TDE Petroleum Data Solns.
9	Wash. Legal Found.		Patent & Civ. Pro Professors
10	BSA / Software Alliance		33 Practicing Entities
11	Software Ind. & Info. Ass'n		Petroleum Data Solutions
12	Engine Advocacy		18 Ind./Orgs. Inventors/Pat. Owners
13	ABA		
14	17 States (incl. TX)		
15	Electric Frontier Found.		
16	Nat'l As'sn Realtors		
17	61 Law Professors		
18	Dell		

and 3) reading the same, seemingly-clear statutes, reasonable and competent minds simply disagree on what those statutes plainly mean. Of course, considering their judicial districts might be affected by any ruling in ***Heartland***, it was surprising—though not serious—that neither the chambers of commerce for the State of Delaware nor Marshal, Texas filed briefs in support of Heartland and Kraft, respectively! A background is warranted.

Venue is the location where a case may be heard. Venue statutes exist to protect defendants from having to defend an action in a court that is distant from the defendant's residence or from the place where the acts underlying the controversy occurred. For patent litigation, a statute governs venue specifically: 28 U.S.C. § 1400(b). It provides that that venue is appropriate either:

(1) in the judicial district where the defendant resides, or

[5] The attached table breaks down the *amici* including the (stated) neutrals; AIPLA's brief was *de facto* in favor of Kraft while the Chicago IP Association and GE's briefs were in favor of Heartland. Notably, this author included a brief from the petition stage from the Honorable Paul R. Michel, retired Chief Judge who sat on the Federal Circuit for twenty-two years. He believes that the 2011 amendments to the American Invents Act were dispositive in the analysis.

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> (2) where the defendant has committed acts of infringement and has a regular and established place of business.

Id.

In 1957, the Supreme Court ruled in ***Fourco***[6] that § 1400(b) cannot be supplemented by the general venue statute (for all civil litigation) as found in the same chapter, i.e., § 1391(c). ***Fourco*** also held that as applied to corporate entities, the phrase "where the defendant resides" in § 1400(b) means *only* the state of incorporation. Thus, one might expect the issue to be quite straightforward. Not so fast for the Federal Circuit.

In 1988, Congress amended § 1391(c) in multiple ways. Of relevance, the beginning of the provision now had a new clause, a prefatory clause:

> For purposes of venue under this chapter

28 U.S.C. § 1391 (am. 1988).[7] The remainder of the statute from said prefatory clause read:

> 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

Id. at c (emphasis added).[8] Additionally, as stated earlier, Chapter 87 of Title 28 of the U.S. Code contains Sections 1391 and 1400 and it (the latter) refers to where the defendant "resides."

Then, in 1990, the Federal Circuit in ***VE Holding***[9] had an opportunity to interpret the amendment to § 1391(c). The Federal Circuit reasoned that since Sections 1391 and 1400 resided in the same chapter, that the 1988 amendment of § 1391 now modified § 1400(b). Despite the fact that the statute is plain, thus obviating any judicial construction, the panel in ***VE Holding*** for thoroughness looked to and found silence in the legislative history. Additionally, the Federal Circuit also considered the basic canon of statutory construction, as stated in ***Fourco***, that specificity in one chapter will control the analysis over a general statute, even if the general statute "otherwise might be controlling." However, the Federal Circuit concluded that Congress

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[6] ***Fourco Glass Co. v. Transmirra Prods. Corp.***, 353 U.S. 222, 229 (1957).

[7] The amendment added an additional sentence, while not at issue, concerns proper venue when a corporation consents to federal jurisdiction.

[8] At the time of ***Fourco***, § 1391(c), read:

> 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*.

28 U.S.C. § 1391(c) (1957) (emphasis identifying the moving of language to said prefatory clause in the 1988 amendment).

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

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gave a clear and plain directive in changing venue, ruling that Congress wanted to read the general venue statute into the special patent venue statute. This holding armed patent plaintiffs with the means to sue an alleged corporate infringer in any district court in which the corporation is "subject to personal jurisdiction."[10]

So that a reader clearly understands, the Supreme Court can certainly hold that a general statute, *as written,* may not modify a special statute. However, that command is not eternally etched since Congress has the power to modify any statute, including the case where a general statute modifies a specific statute. Once modified, a Supreme Court holding may get, *inter alia*, legislatively overruled. And that is what, based on a plain reading, Congress did. Congress rendered ***Fourco*** obsolete (even, perhaps, regardless of intent).

Whether Congress' intent was known about what it wanted to do by the insertion of that clause—and it is not known—intent is not required for basic statutory construction if the statute is clear. Additionally, others have argued that the large majority of congressional overrides are merely perfunctory or routine overrides that reflect an updated policy. Thus, the ruling in ***VE Holding*** was, in this author's opinion, correct, and that is why the Eastern District of Texas can thank the Federal Circuit (and Texas Instruments)[11] for the boon to that court's docket and to the town where it resides, Marshal, Texas. However, some justices may disagree with this author's conclusion from ***VE Holding***.

During oral argument in ***Heartland***, some justices questioned whether the Federal Circuit's decision was correct. Justice Ginsburg wondered aloud, "maybe the Federal Circuit was wrong in not following ***Fourco***." Justice Kagan went further: "for thirty years the Federal Circuit has been ignoring our decision and the law has effectively been otherwise."[12] Yet, they made this point to show another: their reluctance to overturn existing patent venue law that has conformed, rightly or wrongly, to the decision in ***VE Holding***.

Looking back to 2011, Congress again amended § 1391(c) where it also instituted the greatest patent reform in our lifetimes, the American Invents Act (AIA). In § 1391(c), Congress deleted the 1988 prefatory clause amendment ("For purposes of venue under this chapter") and replaced it with:

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[10] A reader might wonder why cert was not sought to challenge the holding in ***VE Holding***. 1990 was a much different time where in the preceding decade, i.e., 1980s, the Supreme Court took (relatively) very few cases to what its docket looks like in this decade and the 21st century. Moreover, this author believes the holding in ***VE Holding*** was correct and the thorough panel opinion might have dissuaded further affirmative conduct in seeking a discretionary writ from the Supreme Court.

[11] Based on memory, which may be clouded, Texas Instruments cherry-picked the Eastern District of Texas in order to satisfy its growing thirst of suing, based on its large patent portfolio, rivals, conduct which at some point, caused TI's revenue resulting from litigation to rival or exceed that of its operating divisions.

[12] Standing out to this author, Chief Justice Roberts early during argument asked whether ***Fourco*** was good law and then later referred to it as a decision, seemingly a binding one, by the Supreme Court.

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> For all venue purposes

§ 1391(c) (2011). A plain reading is self-evident: instead of applying to venue only under Chapter 87, § 1391(c) would apply to all venue statutes, a point where at least some justices concurred.[13] Though a plain reading would preclude judicial construction by reviewing legislative intent and history, such a gratuitous review would lead to the same result, especially since Congress made the following representation:

> proposed § 1391(c) would apply to all venue statutes, including venue provisions that appear elsewhere in the United States Code

H.R. Rep. 112-10, 20 (2011).

Additionally, Congress amended § 1391 by adding to the beginning of that statute the phrase "[e]xcept as otherwise provided by law," as seen in its entirety:

> (a) Applicability of Section.—Except as otherwise provided by law—
>
> > (1) this section shall govern the venue of all civil actions brought in district courts of the United States;

§ 1391(a) (2011). The question now becomes: which law? For this author, this is the dispositive question should ***Heartland*** get decided on the merits. Additionally, this part of the analysis gives this author the greatest pause (and which Judge Michel, in his brief, thought was dispositive as well).

The law, as referenced in § 1391(a), could be case law such as ***Fourco.*** However, if the previous analysis that Congress rendered ***Fourco*** obsolete is correct, then its holding was not the law in 2011. If true, then Congress did not intend to restore ***Fourco's*** holding since it was not the law. Moreover, Chief Justice Roberts would suggest that said clause was not intended to overrule ***Fourco***. Of course, that begs the question, what was the intent of this clause and which law did Congress refer? Again, the answer may lie in the legislative history.

The American Law Institute compiled a list of applicable statutes that would get subsumed under said clause. **H.R. Rep. 112-10.** Notably, said list did not include § 1400(b). Moreover, as Kraft argued, in a compelling way to this author, the referenced clause was in the original 1948 re-codification and was in the general venue statute as well as the diversity statute, and Congress merely move said clause. Additionally, as Justice Kagan hypothesized during oral argument, if Congress was legislating (in 2011) with a backdrop, it concerned ***VE Holding*** and not ***Fourco***. Furthermore, Justice Roberts may have also tipped his hand when he stated as

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[13] Notably, courts had already incorporated § 1391 into specific statutes. ***E.g., Brunette Mach. Works, Ltd. v. Kockum Indus., Inc.***, 406 U.S. 706, 714 (1966) (interpreting section 1391(d) to apply to patent cases, in addition to the patent venue statute, section 1400(b)); ***Delong Equip. Co. v. Washington Mills Abrasive Co.***, 840 F. 2d 843, 855 (11th Cir. 1988) (providing venue in a number of statutes).

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matter of fact that: "there is a difference between 'for venue purposes' and 'for all venue purposes' and 'for venue under this chapter,'" a conclusion previously questioned by Justice Kagan.

Not having the late Justice Scalia on the bench for this patent venue case matters in two ways: 1) subscribing to textualism, he would have offered his usual wit in deciding this case which, as shown, turns on statutory construction; and 2) Scalia once referred to the Eastern District as a "renegade jurisdiction." Regardless, like ***SCA***, ***Heartland*** will be (or should be) decided by basic statutory construction devoid of policy considerations.[14] Accordingly, this could be a case that might produce a near-unanimous result.

The elephant in this case is that Heartland is not a corporation; it is a limited liability company, which for legal purposes, is an unincorporated association. Thus, a case that interpreted a statute that controls venue for corporations cannot be applicable. Justice Breyer wondered, paraphrased, why the Supreme Court was even deciding the case. And when he did not get an answer from Heartland's counsel the first time he asked, he asked again. Chief Justice Roberts probably had similar concerns, otherwise as he stated to counsel for Kraft, it seemingly would have already raised the issue in the lower court. Later in the argument, Justice Breyer summed it up: ***Fourco*** does not apply to unincorporated associations and thus does not apply to Heartland (and the question arose as to whether Kraft had preserved that argument).

Though this author is tempered by the fact that the Supreme Court rarely takes cases to affirm the Federal Circuit, that outcome is one of the three potential avenues most likely to occur. Any one of these three will benefit Kraft. Instead of affirmance, the Supreme Court may punt this case by either remanding to decide whether Kraft had waived the unincorporated associations argument or dismiss the case as improvidently granted, the least likely of the three.[15] The reason the Supreme Court may punt is that it seems unlikely that the Supreme Court would allow venue in patent cases, both for infringement and declaratory actions, to be limited only to the defendant's place of incorporation.[16] Regardless, Heartland is in a difficult position as the justices do not appear poised to upset the status quo.

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[14] Indeed, forum shopping should be minimized, something petitioner and its *amici* desire. However, there would be unintended consequences from the Supreme Court ignoring its own principles on statutory construction and making a strained interpretation of the law. Such a result would cause the substitution of one venue for another: instead of the Eastern District of Texas being a rocket docket, Delaware (where many companies are organized), northern California (replete with technology companies), and New Jersey (pharmaceuticals) would invariably place a stranglehold on patent litigation until Congress intervened.

[15] Without researching the issue, it would be useful to know how many Supreme Court cases get dismissed as improvidently granted after oral argument has occurred, let alone after a writ has been granted. This author would imagine it is a very low percentage.

[16] Heartland repeatedly relied on ***Radzanower v. Touche Ross Co.***, 426 U.S. 148 (1976) as an important case that was "very, very analogous case to [***Heartland***]." However, ***Radzanower*** involved two specific venue statutes concerning banking (and not a general venue statute with a specific venue statute).

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