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Foreign Cos. Expected To Test Venue Rules After TC Heartland

By **Matthew Bultman**

Law360, New York (June 5, 2017, 8:50 PM EDT) -- Foreign companies could be at the center of another round of legal battles over patent venue following the U.S. Supreme Court's decision to limit where U.S. companies can be sued, as patent owners look for ways around the restrictions and foreign companies work to stay out of plaintiff-friendly districts.

The federal law covering patent venue says lawsuits can be filed where a defendant resides or where it has infringed and has a regular and established place of business. Ruling last month in TC Heartland v. Kraft Food Brands Group, the Supreme Court said "resides" means the place of incorporation.

The decision upended the Federal Circuit's more broad interpretation of the term, which allowed a company to be sued just about anywhere it made sales. But the justices were careful to say the ruling applied only to domestic corporations and did not extend to foreign companies.

So the question becomes, what does this mean for non-U.S. defendants?

John Sganga of Knobbe Martens Olson & Bear LLP said that in the short term, "the venue law on foreign defendants is the same as it was before TC Heartland, which is that you can sue them anywhere."

"The long term, though, it is kind of interesting in that the reasoning of TC Heartland does make you wonder whether there may well be a challenge to the venue rules as to foreign defendants in patent cases," he said.

The Supreme Court addressed venue restrictions for foreign companies in a 1972 decision.

In Brunette Machine Works Ltd. v. Kockum Industries Inc., the court held that a foreign corporation can be sued for patent infringement in any judicial district. This was based on a long-standing rule that venue restrictions do not apply to foreign companies.

In a footnote to the May 22 ruling in TC Heartland, Justice Clarence Thomas wrote that the court did not "express any opinion on this court's holding" in Brunette or on the implications of the decision on foreign corporations.

As such, it would appear that foreign companies without an established place of business in the U.S. can be sued anywhere personal jurisdiction is found, including the Eastern District of Texas and other courts perceived to be favorable to plaintiffs.

For those with a U.S. subsidiary, experts expect to see more lawsuits targeting just the foreign parent, as patent owners attempt to get around the Supreme Court's restrictions in TC Heartland and keep cases in preferred districts.

"You may see some more creative attempts to try and get the foreign entities as the sole party in the

For example, rather than naming both Samsung Electronics and Samsung Electronics America in an infringement complaint, as is often done, a plaintiff might target just the South Korean parent. While some are skeptical this strategy will ultimately be successful, many agree it will be tested.

"I think we're going to be litigating this for a little bit. I think there are plaintiffs who are going to try to name just the foreign corporation," said Yar Chaikovsky, global co-chair of Paul Hastings LLP's IP practice.

Another potential battleground could be whether the Supreme Court's ruling in Brunette remains good law. This could lead to another case on venue similar to TC Heartland, but specifically relating to foreign defendants.

"I would expect foreign companies to definitely challenge venue and to challenge Brunette in the future," Jenny Colgate of Rothwell Figg Ernst & Manbeck PC said.

It would seem there is at least a debate to be had.

In TC Heartland, one of Kraft's main arguments was that Congress effectively changed the patent venue statute when it amended a related statute. The justices rejected this position, saying there was nothing to suggest Congress intended such an outcome.

But Sganga said the statute dealing with venue for foreign corporations was itself revised by a fairly significant amendment.

"That's another argument that I think will be interesting to see get fleshed out, which is now the section of 1391 that the Supreme Court was relying on in Brunette has been changed a fair amount," he said, referring to Section 1391 of the U.S. Code. "I don't know whether the Brunette reasoning still applies because of that."

Sganga also pointed to what might be seen as an inconsistency in the law.

With TC Heartland and other decisions, the Supreme Court has in effect said the special patent venue statute — Section 1400(b) — is the "be all and end all" for patent venue, he said. Some might then question why courts are looking to another section when it comes to foreign defendants.

"TC Heartland has, I think, created a little more ammunition for people who want to challenge Brunette and say, 'Alright, let's decide this once and for all: Is 1400(b) standing alone or is it kind of interdependent with 1391?'" he said.

How these sorts of venue issues play out could impact how companies make certain decisions.

For example, if courts reject patent owners' attempts to avoid the stricter venue rules by naming just the foreign parent in infringement complaints, foreign companies without an established place of business in the U.S. might be inclined to set up a subsidiary in the country.

"Right now, if you're a foreign corporation with nothing here, you … probably can be sued anywhere," Chaikovsky said, though he noted it's uncommon for a major company not to have a U.S. subsidiary. Such a scenario likely applies to more nascent companies.

"If you're a growing business with growing business in the U.S., you probably should have a regular and established place of business in the U.S.," he said. "If you're already doing that right now and it's brand spanking new, you might as well set it up in a venue you want to be sued in."

--Editing by Mark Lebetkin and Philip Shea.