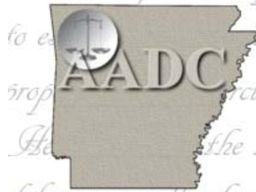

Arkansas Association of Defense Counsel

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VENUE CONSDERATIONS IN PATENT INFRINGEMENT CASES IN THE .COM WORLD

By Keith McPherson

In a recently resolved patent infringement case, Plaintiffs specialized in the manufacture and distribution of stun guns, and stun devices, including its most popular, and evidently sought after Blast Knuckles™ stun gun. Apparently this clever device is designed to deliver an electric shock to the person on the receiving end of a punch wielded by someone wearing the turbo charged "brass knuckles" device.

In Plaintiffs' suit against Amazon.com and Amazon Technologies (collectively "Amazon") they asserted patent infringement claims for the alleged sale of counterfeit versions (originating from China) of Plaintiffs stun devices. However,

Plaintiffs did not allege venue under Section 1400(b)—the patent venue statute. Instead, Plaintiffs alleged that "[p]ursuant to 28 U.S.C. § 1391, venue in this suit lies in the Eastern District of Arkansas because the actions which gave rise to the claims presented in this complaint occurred in Little Rock, Arkansas, within the Eastern District of Arkansas." Plaintiffs also alleged that Amazon had "business dealings with customers in Arkansas and that Amazon.com, Inc. was organized under the laws of Delaware and had a principal place of business in Washington.

On behalf of Amazon, we considered a motion to dismiss the patent claims for improper venue based on Federal Rule of Civil Procedure 12(b)(3) and 28 U.S.C. § 1406(a).

Plaintiffs Complaint purported to state five claims against Amazon - two claims for alleged patent infringement, a claim for trademark infringement, a claim for contributory trade dress infringement, and a claim for alleged unfair trade practices.

Amazons' contention was that Plaintiffs' patent infringement claims were subject to dismissal for improper venue because Amazon lacked the required ties to the Eastern District of Arkansas. Under 28 U.S.C. § 1400(b), a corporation may be sued for patent infringement only where it "resides" or, alternatively, where it has allegedly "committed acts of infringement and has a regular and established place of business." In the context of Section 1400(b), "resides" means "the state of incorporation only." *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222, 229 (1957). Amazon.com is a Delaware corporation with a principal place of business in Seattle, Washington. Amazon Technologies is incorporated in Nevada with a principal place of business in Las Vegas. Neither maintained any offices, retail establishments, manufacturing facilities, or warehouses in the Eastern District of Arkansas. Accordingly, arguably pursuant to Rule 12(b)(3) and 28 U.S.C. § 1406(a), Plaintiffs' patent claims against Amazon were subject to dismissal.

Plaintiffs bear the burden of establishing that venue is proper in this District. *Transamerica Life Ins. Co. v. IMG Mktg., Inc.*, No. 4:11CV00020 SWW, 2011 WL 861130, at *2 (E.D. Ark. Mar. 10, 2011) "In determining whether venue is proper, all well-plead allegations in the complaint bearing on the venue question generally are taken as true, unless contradicted by the defendant's affidavits.… However, when an objection to venue is properly raised, the plaintiff shoulders the burden to show that venue is proper." Moreover, plaintiff must establish proper venue for each claim it asserts. *See Bredberg v. Long*, 778 F.2d 1285, 1288 (8th Cir.1985).

A long line of Supreme Court cases establishes that Section 1400(b) is the sole and exclusive venue provision in patent infringement actions. Title 28 U.S.C. § 1400(b), which has been unchanged since 1948, provides:

> Any 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.

Section 1400(b) has its origins in the Act of 1897, which Congress enacted as a result of venue abuses "to define the exact jurisdiction of the federal courts in actions to enforce patent rights." *Stonite Prods. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 565 (1942) (citing H. Rpt. No. 2905, 54th Cong., 2d Sess. (1897)); *see also Pure Oil Co. v. Suarez*, 384 U.S. 202, 207 (1966) (Congress passed original venue statute "specifically to narrow venue" in patent infringement suits). Since then, the Supreme Court has consistently held that Section 1400(b) (or its predecessor) is: (1) the exclusive provision controlling venue in patent cases; and (2) not supplemented by the general venue statute, 28 U.S.C. § 1391. *See, e.g.*, *Stonite*, 315 U.S. at 563, 567 ("[the patent venue statute] is the exclusive provision controlling venue in patent infringement proceedings" and "[the general venue provision] is, of course, not applicable to patent infringement proceedings"); *Fourco*, 353 U.S. at 229 ("We hold that 28 U.S.C. § 1400(b) is the sole and exclusive provision controlling venue in patent infringement actions, and that it is not to be supplemented by the provisions of 28 U.S.C. § 1391(c)."); *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260, 262 (1961) (Section 1400(b) was "designed 'to define the exact jurisdiction of the [] courts in [patent infringement] matters, and not to 'dovetail with the general (venue) provisions'") (citations omitted); *Brunette Mach. Works, Ltd. v. Kockum Indus., Inc.*, 406 U.S. 706, 712 (1972) ("[I]n 1897 Congress placed patent infringement cases in a class by themselves, outside the scope of general venue legislation."); *Atl. Marine Const. Co., Inc. v. U.S. Dist. Court for the W. Dist. of Tex.*, 134 S. Ct. 568, 577 n.2 (2013) ("Section 1391 governs 'venue generally,' that is, in cases where a more specific venue provision does not apply. *Cf., e.g.*, § 1400 (identifying proper venue for copyright and patent suits.)."). In sum, the Supreme Court has made clear that Section 1400(b) alone controls venue in patent infringement actions.

Amazon believed Plaintiff could not meet their burden to establish venue under either prong of § 1400(b). The Supreme Court has explained that the word "resides" in Section 1400(b) "in respect of corporations, mean[s] the state of incorporation only." *Fourco*, 353 U.S. at 226. Plaintiffs Complaint acknowledged that Amazon.com, Inc. was incorporated in Delaware. Amazon Technologies, Inc. was incorporated in Nevada. Thus, Amazon did not "reside" in Arkansas for the purposes of venue under the first prong of Section 1400(b). Further, because Amazon was not incorporated in Arkansas, venue was arguably improper unless Plaintiffs could show under the second prong of Section 1400(b) that Amazon "has a regular and established place of business" in the Eastern District of Arkansas. Plaintiffs cannot make that showing. "[I]n determining whether a corporate defendant has a regular and established place of business in a district, the appropriate inquiry is whether the corporate defendant does its business in that district through a permanent and continuous presence there." *In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985). Merely "doing business" in a district is not sufficient to constitute a "regular and established place of business" under Section 1400(b). *See, e.g., Fourco*, 353 U.S. at 226 (noting Congress's intent to "make corporations [not] suable, in patent infringement cases, where they are merely 'doing business'"). Indeed, district courts have required the existence of a physical location in determining venue under Section 1400(b). *See, e.g., Kinetic Instruments, Inc. v. Lares*, 802 F. Supp. 976, 987 (S.D.N.Y. 1992) (Section 1400(b) not satisfied where there was no allegation that defendant "carries on business on a permanent basis in a physical location [within the district] over which it has some control"); *Michod v. Walker Magnetics Grp., Inc.*, 115 F.R.D. 345, 347 (N.D. Ill. 1987) (defendant "has a regular and established place of business in a judicial district only if it actually has a place of business there; activities such as the maintenance of independent sales agents, visits by company representatives, and the solicitation of orders are not enough"); *Magee v. Essex-Tec Corp.*, 704 F. Supp. 543, 545 (D. Del. 1988) ("[W]here a defendant has a fixed business location evidenced by a business phone, letterheads and, in fact, carries on activities connected with the business at that location, then it has a regular and established place of business."); *Roblor Mtkg. Grp., Inc. v. GPS Indus., Inc.*, 645 F. Supp. 2d 1130, 1145-46 (S.D. Fla. 2009) ("The standard 'regular and established place of business,' is quite narrow: it involves more 'than doing business'"…); *HomeBingo Network, Inc. v. Chayevsky*, 428 F. Supp. 2d 1232, 1249 (S.D. Ala. 2006) (in assessing whether a defendant has a 'regular and established place of business' in a district 'the appropriate inquiry is whether the corporate defendant does its business in that district through a permanent and continuous presence there'"); *MTEC, LLC v. Nash*, No. CV 08-563-AC, 2008 WL 4723483, at *7 (D. Or. Oct. 20, 2008).

Here, Plaintiffs did not allege facts showing that Amazon had "a permanent and continuous presence" in the Eastern District of Arkansas. In fact, Plaintiffs did not even allege Amazon had any facilities in this District. Rather, Plaintiffs' only contentions regarding Amazon's alleged presence in this District were that "the actions which gave rise to the claims presented in this complaint occurred in Little Rock, Arkansas, within the Eastern District of Arkansas," that "Defendants have maintained substantial, continuous and systemic contacts with the state of Arkansas through its business dealings with customers in Arkansas," and Amazon "does business in Arkansas." These conclusory allegations are

not sufficient to meet the "permanent and continuous presence" requirement. Although Amazon offers products and services to customers across the country, this type of nationwide commerce is not a "permanent" or "continuous" presence in this District. *See, e.g.*, *Schoofs v. Union Carbide Corp.*, 633 F. Supp. 4, 6 (E.D. Cal. 1985) (venue not proper under Section 1400(b) where all sales made within district were "subject to approval and acceptance" from headquarters outside of the district, no inventory was regularly maintained within the district, and products were shipped directly to customers from a factory outside of the district). Instead, this is a straightforward example of "merely 'doing business'" that the Supreme Court has made clear cannot satisfy Section 1400(b). *Fourco*, 353 U.S. at 226 (noting that Congress's treatment of the words "inhabitant" and "resident" as synonymous "seem[ed] to negative any intention to make corporations suable, in patent infringement cases, where they are merely 'doing business,' because those synonymous words mean domicile, and, in respect of corporations, the state of incorporation only"); *cf. Daimler AG v. Bauman*, 134 S. Ct. 746, 762 n.20 (2014) (explaining, with respect to general jurisdiction, that "[a] corporation that operates in many places can scarcely be deemed at home in all of them."). Plaintiffs have not met and cannot meet its burden to show that venue is proper in the Eastern District of Arkansas with respect to its patent claims against Amazon under Section 1400(b).

Plaintiffs' Complaint cites only 28 U.S.C. § 1391—the general venue provision for civil actions—as a basis for venue in this District. As detailed above, the Supreme Court has repeatedly held—as recently as 2013—that Section 1400, not Section 1391, governs venue in patent cases. *Atl. Marine*, 134 S. Ct. at 577 n.2 ("Section 1391 governs 'venue generally,' that is in cases where a more specific venue provision does not apply. *Cf., e.g.,* § 1400 (identifying proper venue for copyright and patent suits.).").

Finally, Amazon also contended that Plaintiffs could not meet their burden of establishing venue under a pendent venue theory. Pendent venue is a doctrine that sometimes permits courts to exercise venue over a claim when an independent basis for venue does not exist, if the claim arises out of the same transaction or occurrence as a claim in the action where venue is proper. *Wilson v. U.S.*, No. 4:05-CV-562, 2006 WL 3431895, *3 (E.D. Ark. Nov. 28, 2006). However, under both Eighth Circuit and U.S. Supreme Court precedent, the use of pendent venue is not permitted in this case.

Eighth Circuit precedent does not allow the use of one claim to create pendent venue for a related claim governed by a more restrictive venue statute. *Bredberg* included state law claims that invoked diversity jurisdiction and federal claims that invoked federal question jurisdiction. 778 F.2d at 1288. The general venue statute's provision for diversity actions applied to the state law claims, and the general venue statute's more restrictive provision for federal question actions applied to the federal claims. Venue existed under the former provision but not the latter. The Eighth Circuit reversed the trial court's application of pendent venue in this situation, holding that it was "irreconcilable" with the requirements in the more restrictive federal question venue provision, and ruled that the federal question claims should be dismissed for improper venue. *Id.*

Bredberg did not rule out pendent venue for some special circumstances, but none applied in this case. Those special circumstances are when additional claims are asserted as counterclaims or cross-claims, or come in through impleader, interpleader, or intervention, or when pendent jurisdiction exists over state law claims joined with federal claims. *Id.* This case did not involve any claims of this type. As a result, pendent venue cannot create venue over the patent claims, when venue does not exist under the patent venue statute. Pendent venue cannot apply in this case for the additional reason that the Supreme Court has held that the patent venue statute is the exclusive venue provision for patent infringement actions. *See, e.g.*, *Fourco*, 353 U.S. at 229 ("§ 1400(b) is the sole and exclusive provision controlling venue in patent infringement actions"). Allowing pendent venue to create a way around Section 1400(b) would violate this express teaching. Accordingly, courts around the country have rejected the application of pendent venue for patent claims. "The doctrine of pendent venue has received limited application and acceptance and has been rejected in numerous cases involving section 1400(b)." *Network Sys. Corp. v. Masstor Sys. Corp.*, 612 F. Supp. 438, 440 (D. Minn. 1984)

The primacy of Section 1400 over Section 1391 for patent actions is consistent with the canon of statutory interpretation that a specific statute applies over a general statute. *See, e.g., Fourco*, 353 U.S. at 228 ("[Section] 1391(c) is a general corporation venue statute, whereas § 1400(b) is a special venue statute applicable, specifically, to all defendants in . . . patent infringement actions"). It is also consistent with logic, because Section 1400(b) has been consistently interpreted as ***barring*** an infringement suit against a corporation in a district outside its state of incorporation unless the corporation has a regular and established place of business (and has committed acts of infringement) in that district. *Id.* at 226. As the Supreme Court has recognized, Section 1400(b) alone controls venue for patent actions.

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