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Did TC Heartland Change Law? Judges Can't Seem To Agree

By **Ryan Davis**

Law360, New York (June 29, 2017, 3:57 PM EDT) -- The U.S. Supreme Court's TC Heartland decision restricting where patent suits can be filed has shaken up the patent world, but the seemingly simple question of whether the decision actually changed the law has sharply divided judges, thwarting some defendants' bids to transfer cases.

If the high court's May ruling is found to have changed the law, it would be a boon for defendants seeking to transfer pending patent cases to a different venue. Companies that do not raise a venue argument early in a case are generally deemed to have waived it, but courts recognize an exception to waiver when there has been an "intervening change in the law."

However, some judges have denied transfer motions in recent weeks on the grounds that TC Heartland did not change the law because the high court only reaffirmed longstanding precedent. Other judges have called the ruling a major change that no one could have anticipated.

Unless and until the Federal Circuit provides a definitive answer, a defendant's chances of getting a pending case transferred out of a district that is improper under TC Heartland may hinge on how the judge views the philosophical question of what constitutes a change in the law.

"It's a very unusual situation," said Douglas Stewart of Bracewell LLP. "I think people's assumption when the case came out was that it would apply to every case that was pending."

The differing viewpoints on whether TC Heartland changed the law has a "significant practical impact," he added, so "it seems like something that needs to be resolved quickly because there is definitely some uncertainty now."

Understanding how judges could disagree on whether TC Heartland, a decision widely expected to bring about major shifts in patent lawsuit filing patterns, changed the law requires comparing the two seminal patent venue decisions that the justices analyzed in the opinion.

The patent venue statute holds that suits can be filed where a company resides, among other factors, and in a 1957 decision known as Fourco Glass, the Supreme Court held that a company resides only in the state where it was incorporated.

In 1990 decision known as VE Holding, however, the Federal Circuit held that companies reside effectively anywhere they make sales. Courts had applied that standard for decades, giving plaintiffs

wide latitude to select where to file patent suits, but the Supreme Court said in May that it was wrong. The justices held that the Fourco standard that a company resides where it is incorporated is still the law.

The question judges have grappled with since is whether Fourco has always been the law, despite never being applied during the 27 years the Federal Circuit's VE Holding standard was controlling, or whether the high court changed the law in TC Heartland by throwing out VE Holding. Both views have found support among judges.

In one case, Brunswick Corp. moved to transfer a patent suit against it by Cobalt Boats LLC out of the Eastern District of Virginia under TC Heartland, shortly before a trial was set to begin. U.S. District Judge Henry Coke Morgan denied the motion on June 7, ruling that Brunswick waived the argument by never contesting the venue until TC Heartland and that the decision did not change the law.

"TC Heartland does not qualify for the intervening law exception to waiver because it merely affirms the viability of Fourco," he wrote. "Defendant Brunswick's assumption that Fourco was no longer good law [after VE Holding] was reasonable but wrong, and it cannot be excused from its waiver by saying there was a change in the law."

The judge noted that Brunswick had a "rational perspective" that "the passage of substantial time" since VE Holding suggested that Fourco ceased to be the law and that there would be no reason to argue that it was. But while it was "certainly surprising" that the Supreme Court let VE Holding stand for 27 years before correcting it, Fourco was always the law and "thus, it has been available to every defendant since 1957," he concluded.

Brunswick then made a last-ditch petition for writ of mandamus asking the Federal Circuit to transfer the case, days before trial. It was rejected on June 9, but Judge Pauline Newman dissented and said the court should have addressed "this important question," writing that "there is little doubt that the court's decision in TC Heartland ... was a change in the law of venue."

The case then proceeded to trial in Virginia, and Brunswick was found to infringe on June 21 and ordered to pay $2.7 million in damages.

A similar situation played out days later when Hughes Networks Systems LLC and BlueTide Communications Inc. sought to transfer a patent suit against them by Elbit Systems of America LLC out of the Eastern District of Texas, less than two months before trial.

U.S. Magistrate Judge Roy Payne ruled on June 20 that the defendants waived the venue argument by not making it earlier and there was no exception because TC Heartland did not change the law. The Federal Circuit had no authority in VE Holding to reach a different conclusion on venue rules that the Supreme Court had reached in 1957 in Fourco, he said.

The defendants argued that until TC Heartland, VE Holding had been in place for so long that any attempt to argue that only Fourco was the correct venue standard would have been pointless. Judge Payne was unsympathetic.

"While such a motion might have been viewed as meritless in a lower court, that does not change the harsh reality that Hughes would have ultimately succeeded in convincing the Supreme Court to reaffirm Fourco, just as the petitioner in TC Heartland did," he wrote.

On June 27, Judge Barbara Lynn of the Northern District of Texas quoted that same line from Judge Payne's decision to deny Nintendo of America Inc.'s motion to transfer a suit against it by iLife Technologies Inc. and hold once again that TC Heartland did not change the law.

3M Co. became the first defendant to persuade a judge that TC Heartland did change the law. Judge Ronald Leighton of the Western District of Washington on June 21 granted 3M's leave to amend its motion to dismiss a suit by Westech Aerosol Corp. to argue that venue is improper, writing that "TC Heartland changed the venue landscape."

Lower courts have had to follow the Federal Circuit's expansive view of venue since VE Holding was decided, but "TC Heartland abrogated approximately 27 years of patent law precedent."

"Defendants could not have reasonably anticipated this sea change, and so did not waive the defense of improper venue by omitting it from their initial pleading and motions," he concluded.

The approaches judges have taken to the issue so far shows that "it's clear that reasonable people can come to two different outcomes on this issue," said Megan Woodworth of Venable LLP. She noted that the judges who have held that TC Heartland didn't change the law nonetheless said that the defendants had at least a reasonable belief that it did.

According to Stewart, the decisions holding that TC Heartland didn't change the law are perplexing for attorneys who have begun practicing during the nearly three decades where VE Holding was the venue standard and never knew anything else. The judges are basically saying that attorneys had an obligation to challenge VE Holding, even though it was settled law for 27 years, he noted.

"It seems strange," he said. "All attorneys had accepted that the Federal Circuit was correct all this time. To say that attorneys should have been doing things differently is not reasonable, frankly."

When the issue does reach the Federal Circuit, it seems likely to be divisive, given Judge Newman's dissent in the Brunswick case.

"There seems to be some disagreement at the Federal Circuit as to whether this qualifies as an intervening change in the law," said Paul Hughes of Mayer Brown LLP.

Nevertheless, it's hard to read too much into that decision, he noted, since mandamus petitions are only granted in extraordinary circumstances, and the case was an unusual situation where Brunswick petitioned the Federal Circuit only three days before the trial date.

That case may have been too far along to properly address whether TC Heartland changed the law, but there will be no shortage of opportunities for other judges to tackle it in the coming months.

"It's definitely and interesting and timely issue," Woodworth said. "We will continue to see a lot of cases and few more divergent opinions before the courts hopefully coalesce."

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