Was TC Heartland An 'Intervening Change In Law'?

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In its May 22, 2017, TC Heartland opinion, the U.S. Supreme Court "conclude[d] that the [1988] amendments to §1391 did not modify the meaning of §1400(b) as interpreted by Fourco."[1] In other words, in the court's view, nothing changed in the six decades between Fourco and TC Heartland — Fourco defined "residence" under § 1400(b) in 1957, and that definition has been the law ever since.

Practically, however, something did change during that time. That "something" was VE Holding, the 1990 decision in which the Federal Circuit concluded the 1988 amendments to § 1391(c) did modify the meaning of "residence" in patent cases.[2] Because the Supreme Court denied the certiorari petition in VE Holding,[3] patent litigants have operated for the past 27 years in a world in which § 1391(c) governed the venue inquiry and venue was proper wherever a defendant was subject to personal jurisdiction. After decades of decisions from district courts and the Federal Circuit, VE Holding appeared to be well-settled law.

But TC Heartland changed that, overruling VE Holding and reaffirming Fourco.[4] In the aftermath, defendants with pending cases are now moving to dismiss for improper venue, regardless of how far their cases have progressed. These cases require courts to decide an important question: Did these defendants waive their venue objections? The answer to that question depends on whether TC Heartland constituted an intervening change in the law. If so, defendants cannot be said to have waived the defense of improper venue because it was previously unavailable.

Arguably, these defendants should be able to revive their venue challenges (or make them in the first instance), under the rationale that TC Heartland constituted an intervening change in law. The intervening-law exception allows a party to avoid waiver "when 'there was strong precedent' prior to the change such that the failure to raise the issue was not unreasonable and the opposing party was not prejudiced by the failure to raise the issue sooner."[5] The exception "exists to protect those who, despite due diligence, fail to prophesy a reversal of established adverse precedent,"[6] because avoiding waiver should require something less than "clairvoyance."[7]

VE Holding was the operative law for almost 30 years. And no district court after VE Holding followed Fourco. The Federal Circuit routinely repeated that VE Holding was the law.[8] This seemingly constitutes "strong" enough precedent to prevent making the failure to raise Fourco venue challenges before TC Heartland "unreasonable."[9] Indeed, the Sixth Circuit proposed this very scenario (one in which a party "chose not to challenge a controlling proposition of [relevant] Circuit law — only to learn after the appeal that the Supreme Court had chosen to reverse that controlling authority") as one to which the intervening-change-in-law exception would apply to avoid waiver.[10]

But the first district court to address the waiver issue in the aftermath of TC Heartland found that the defendants waived their venue objection, and that TC Heartland did not constitute a change to controlling law.[11] Cobalt Boats had been pending in the Eastern District of Virginia for almost two and a half years when TC Heartland was decided. The defendants answered the complaint on March 12, 2015. One defendant admitted that venue was proper, and the other contested venue, but neither defendant pursued the defense through a motion to dismiss. The district court denied the defendants' venue-

transfer motion under 28 U.S.C. § 1404(a), issued a Markman order, ruled on summary-judgment motions, and prepared the case for trial set for June 12, 2017. At the May 25, 2017 pretrial conference — three days after the TC Heartland opinion came out — the Cobalt Boats defendants indicated that they intended to challenge venue in light of the intervening change in law.

In finding that the defendants waived their venue objection, the court emphasized that the defendants' intervening-change-in-law arguments were both "reasonable" and "rational" in light of TC Heartland. But it nevertheless explained: "Fourco has continued to be binding law since it was decided in 1957, and thus, it has been available to every defendant since 1957. Accordingly, the Court finds that TC Heartland does not qualify for the intervening law exception to waiver because it merely affirms the viability of Fourco." The defendants immediately sought a writ of mandamus to the Federal Circuit.[12] The Federal Circuit — highlighting the fact that the requested relief fell "on the eve of trial" — denied the defendants' mandamus petition. The majority did not address whether TC Heartland constituted a change in controlling law. Instead, the majority denied the writ on the basis that the trial court did not abuse its discretion. Because a court does not have discretion on purely legal issues such as whether TC Heartland constituted an intervening change in the law, the majority seems to have implicitly affirmed the trial court's decision.

Judge Pauline Newman dissented.[13] To her, there could be "little doubt" that TC Heartland constituted an intervening change in law, an issue that required a stay for more thoughtful consideration. As she explained: "Here, where the change of law brings the propriety of the current venue directly into question, this defendant is entitled to consideration of its request. Legitimate questions have been raised; they warrant an answer for these disputants before, not after, trial."

This first district court decision to address whether TC Heartland constituted an intervening change to existing law took the view that the Supreme Court merely reaffirmed its 1957 Fourco decision, which was always the law. And because the Supreme Court reaffirmed its prior decision, according to Cobalt Boats, there was no change to controlling law. But as Judge Newman pointed out, the law that has been applied for almost three decades has not been Fourco, but VE Holding, thereby making VE Holding the controlling law. And the Supreme Court had the opportunity to overrule VE Holding in 1991, but denied cert.

The Eastern and Northern Districts of Texas have since followed Cobalt Boats to conclude that TC Heartland does not qualify as an intervening change in law.[14] The Eastern District reasoned that although a pre-TC Heartland motion arguing that § 1400(b) was the proper standard "might have been viewed as meritless in a lower court, that [did] not change the harsh reality that [the defendant] would have ultimately succeeded in convincing the Supreme Court to reaffirm Fourco, just as the petitioner in TC Heartland did."[15]

The Western District of Washington took the opposite approach.[16] In Westech, that court held that the defendants "did not waive the defense of improper venue by omitting it from their initial pleading and motions," because they "could not reasonably have anticipated this sea change" in the law. The court explained:

> TC Heartland changed the venue landscape. For the first time in 27 years, a defendant may argue credibly that venue is improper in a judicial district where it is subject to a court's

personal jurisdiction but where it is not incorporated and has no regular and established place of business.

These and forthcoming post-TC Heartland waiver opinions will set a significant precedent beyond the patent context. If courts follow the Cobalt Boats approach, litigants will be required to file motions challenging "controlling proposition[s] of [relevant] Circuit law" to avoid risking waiver in the event of a later reversal by a higher court.[17] This requirement will place lawyers in the precarious position of risking Rule 11 violations or waiving litigants' rights in the event of unprophesied changes to controlling law. But if courts follow Judge Newman and the Westech court's approach, a litigant's failure to predict a future "sea change" in a particular area of law will not accompany the risk of sanctions or waiver. To that end, whether the majority of courts consider TC Heartland an "intervening change in law" could impact waiver law far beyond these pending patent cases in which defendants seek relief after TC Heartland.

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[1] TC Heartland LLC v. Kraft Foods Grp. Brands LLC, No. 16-341, 2017 WL 2216934, at *3 (U.S. May 22, 2017).

[2] See VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (1990).

[3] See Johnson Gas Appliance Co. v. VE Holding Corp., 499 U.S. 922 (1991).

[4] Of course, the Fourco Court did not consider in 1957 the issue the Federal Circuit addressed in VE Holding, namely, whether the 1988 amendments to § 1391 modified the scope of § 1400(b). VE Holding thus did not contradict the Supreme Court's Fourco decision, but instead decided a distinct issue. This issue deserves more attention, but is beyond the scope of this article.

[5] See Holland v. Big River Minerals Corp., 181 F.3d 597, 605–06 (4th Cir. 1999) (quoting Curtis Publ'g Co. v. Butts, 388 U.S. 130, 143 (1967)).

[6] GenCorp., Inc. v. Olin Corp., 477 F.3d 368, 374 (6th Cir. 2007).

[7] See Holzsager v. Valley Hosp., 646 F.2d 792, 798 (2d Cir. 1981).

[8] See, e.g., Trintec Indus., Inc. v. Pedre Promotional Prod., Inc., 395 F.3d 1275, 1280 (Fed. Cir. 2005)("[A]lthough Pedre moved to dismiss for lack of personal jurisdiction and improper venue, the venue point is a non-issue. Venue in a patent action against a corporate defendant exists wherever there is personal jurisdiction.").

[9] See Holland, 181 F.3d at 605–06.

[10] See GenCorp., 477 F.3d at 374.

[11] See generally Cobalt Boats, LLC v. Sea Ray Boats, Inc., No. 2:15-cv-00021, 2017 WL 2556679 (E.D. Va. June 7, 2017).

[12] See In re: Sea Ray Boats, Inc., No. 2017-124, 2017 WL 2577399 (Fed. Cir. June 9, 2017).

[13] See id. at *1–2 (Newman, J., dissenting).

[14] See iLife Techs., Inc. v. Nintendo of Am., Inc., No. 3:13-cv-04987, 2017 WL 2778006 (N.D. Tex. June 27, 2017); Elbit Sys. Land & C4I Ltd. v. Hughes Network Sys., LLC, No. 2:15-CV-00037-RWS-RSP, 2017 WL 2651618 (E.D. Tex. June 20, 2017).

[15] Elbit, 2017 WL 2651618, at *20.

[16] See Westech Aerosol Corp. v. 3M Co., No. C17-5067-RBL, 2017 WL 2671297 (W.D. Wash. June 21, 2017).

[17] See GenCorp., 477 F.3d at 374.