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Much More Than East Texas Is At Stake In TC Heartland

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Law360, New York (February 9, 2017, 11:41 AM EST) -- Oral argument before the U.S. Supreme Court is now set in TC Heartland for March 27.[1] The Supreme Court will determine where patent cases can be filed under the patent venue statute, 28 U.S.C. § 1400(b).[2] This decision will affect all federal districts across our nation by determining whether companies large and small can seek redress for the infringement of their patents in their home districts, or whether they must file suit in the infringers' home districts. In essence, TC Heartland will decide who gets the "home court" advantage — the patentee or the infringer. Under the current law, the patentee gets the home court advantage in choosing the venue for the enforcement of its patents. If the petitioner's argument in TC Heartland prevails, the infringers will often get the home court advantage. A nationwide sea change to patent litigation is therefore at stake in TC Heartland — not just the Eastern District of Texas.

Specifically at issue in TC Heartland is the Federal Circuit's 1990 decision in VE Holding.[3] In that case, the Federal Circuit held that for purposes of determining venue in a patent infringement suit, the definition of "resides" in the general venue statute, 28 U.S.C. § 1391(c),[4] applies to the patent venue statute, 28 U.S.C. § 1400(b), which uses the word "resides," but does not define the term. Section 1391(c) specifies that an entity "resides" in any district in which it is subject to personal jurisdiction. Thus, under VE Holding, a patentee can sue for infringement in any district in which the defendant is making infringing sales, and therefore, is subject to personal jurisdiction. This has been the law now for nearly 30 years.

The petitioner in TC Heartland as well as several supporting amici are arguing that the definition of "resides" in § 1391(c) should not apply to § 1400(b), and that instead, the Supreme Court's 1957 decision in Fourco Glass Co. v. Transmirra Products Corp.[5] should govern. In Fourco, the Supreme Court held that the district courts should look exclusively at § 1400(b) in determining the bases for venue of a patent infringement suit, not § 1391(c), which, at the time of the Fourco decision in 1957, did not specify its scope of applicability.[6]

Applying only § 1400(b), Fourco held that a corporation was deemed to "reside" only in its state of incorporation.[7] Thus, if the Supreme Court accepts the petitioner's argument in TC Heartland, the district courts would look at where the defendant is incorporated or "where the defendant has committed acts of infringement and has a regular and established place of business"[8] in determining

venue for a patent infringement suit. As a large percentage of companies are incorporated in the state of Delaware, there would be a drastic increase in the number of patent infringement suits filed in the District of Delaware if VE Holding is overruled. Alternatively, patent holders would have the option of filing suit where the defendant "has a regular and established place of business."[9]

To date, the Supreme Court's grant of certiorari has received a considerable amount of press with respect to the potential impact on the Eastern District of Texas and its ability to retain patent infringement litigation. However, what legal commentators have neglected to address is how the overruling of VE Holding would, in many cases, prohibit patent holders throughout the country from filing suit in their home districts.

Under the current law, numerous practicing companies file patent infringement suits in their home districts in order to enforce their patent rights. For example, in December 2015, the St. Paul, Minnesota-based adhesive manufacturing giant 3M Co. filed suit against the San Antonio, Texas-based technology company XPEL Technologies Corp. in the U.S. District Court of Minnesota, alleging that XPEL's products infringed a 3M patent relating to the design of multilayer polyurethane protective films.[10]

As most patent complaints have done since the Federal Circuit's decision in VE Holding in 1990, 3M's complaint alleges that venue lies in the District of Minnesota pursuant to §§ 1391(c) and 1400(b) because the defendant makes infringing sales in the district and is therefore subject to the court's personal jurisdiction. If the petitioner's argument in TC Heartland prevails, practicing companies may no longer be able to seek redress for patent infringement in their home districts. In the future, 3M could be forced to file any new patent infringement suit against XPEL in the Western District of Texas, as opposed to its home district of Minnesota. Undoubtedly, this venue change would increase the litigation costs and inconvenience borne by 3M in enforcing its patent rights. These same consequences could potentially be faced by thousands of other practicing companies across the United States if the Federal Circuit's holding in VE Holding is overruled.[11]

While the practical implications of the Supreme Court's decision in TC Heartland will certainly be considered by the justices, the decision will likely focus upon the proper statutory construction of the relevant statutes. In particular, the critical questions in the case will likely center upon the correct interpretation of Congress' 1988 and 2011 amendments to § 1391(c). In 1988, Congress amended § 1391(c) to include the current definition of an entity's residence (i.e., where a company is subject to personal jurisdiction), and specified that this applies "[f]or purposes of venue under this chapter," which includes § 1400(b). Did the Federal Circuit correctly conclude in VE Holding that Congress's 1988 amendment to § 1391(c) — defining "residence" "for purposes of venue under this chapter" — applies to § 1400(b)? Has the Federal Circuit been wrong on this issue for nearly 30 years? Interestingly, the Supreme Court denied certiorari in VE Holding in 1991.

In 2011, Congress further amended § 1391(c) to broaden the reach of the definitions set forth in that subsection so that they apply "[f]or all venue purposes," but also added to a different subpart of § 1391 — namely, § 1391(a) — the clause "[e]xcept as otherwise provided by law."[12] In adding this "[e]xcept as otherwise provided by law" clause to § 1391(a), did Congress intend to overrule the Federal Circuit's decision in VE Holding with respect to § 1391(c), and resurrect the Supreme Court's 1957 decision in Fourco? The answer to this question depends in part on whether Congress was referring to case law as well as statutory law, or just statutory law, when drafting this clause in § 1391(a). If Congress was referring to case law, was it referring to VE Holding, which the federal courts were following at the time the 2011 amendments were passed? Or was Congress referring to Fourco, which the federal courts had not followed since 1990? Is the Supreme Court even be able to consider Fourco, given that the Supreme

Court previously held in Milwaukee v. Illinois that "when Congress addresses a question previously governed by a decision rested on federal common law the need for such an unusual exercise of lawmaking by federal courts disappears"?[13] Finally, does the clause in § 1391(a) even apply to § 1391(c), which specifies that the definitions therein apply "[f]or all venue purposes"?

Moreover, the Fourco decision examined the relationship between § 1400(b) and the version of § 1391(c) that was current in 1957. As discussed above, that version of § 1391(c) did not contain the language "[f]or purposes of venue under this chapter" added in 1988, or the "[f]or all venue purposes" language added in 2011. In this regard, the respondent Kraft Foods in TC Heartland has argued that VE Holding is not inconsistent with Fourco, because Fourco only held that § 1400(b) specifies the exclusive bases for venue in a patent infringement suit. Section 1391(c) does not change these bases for venue; it simply defines a term ("resides") that is otherwise not defined in § 1400(b).

The Supreme Court will need to carefully consider the statutory construction arguments presented by both sides in TC Heartland. At the same time, practicing companies located throughout the United States will need to carefully consider the potential ramifications of the Supreme Court overturning VE Holding. The Supreme Court's decision this term will determine who gets the home court advantage — patentees or infringers.

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[1] On December 14, 2016, the Supreme Court granted certiorari in In re TC Heartland LLC, 821 F.3d 1338 (Fed. Cir. 2016), to review the Federal Circuit's interpretation of the patent venue statute, 28 U.S.C. § 1400(b).

[2] 28 U.S.C. § 1400(b) states, in relevant part: "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) does not define the term "resides."

[3] VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (Fed. Cir. 1990), cert. denied, 499 U.S. 922 (1991).

[4] 28 U.S.C. § 1391(c) states, in relevant part: "For all venue purposes -- . . . (2) an entity with the capacity to sue and be sued in its common name under applicable law, whether or not incorporated, shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question[.]"

[5] 353 U.S. 222 (1957).

[6] The version of 28 U.S.C. § 1391(c) in place when Fourco was decided in 1957 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."

[7] Fourco, 353 U.S. at 226 (citing Shaw v. Quincy Mining Co., 145 U.S. 444, 450 (1892)).

[8] 28 U.S.C. § 1400(b).

[9] Id.

[10] 3M Company, et al. v. XPEL Technologies Corporation, 15-cv-04576-PJS-JSM (D. Minn.).

[11] Just last week, Plaintiff Westech Aerosol Corporation, which is incorporated and based in Washington, filed a patent infringement suit against Defendant Newstar Adhesives, Inc., which is incorporated in Delaware and based in Massachusetts, in the Western District of Washington. See Westech Aerosol Corp. v. Newstar Adhesives, No. 3-17-cv-05082 (W.D. Wash. Feb. 2, 2017). If VE Holding is overruled, Westech would likely not be able to file this suit in its home district.

[12] 28 U.S.C. § 1391(a) states, in relevant part: "(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[.]"

[13] 451 U.S. 304, 314 (1981).
