IS MASSACHUSETTS BECOMING A LEADING PATENT LITIGATION VENUE?

BY ANDREW O'CONNOR AND REBECCA HARRIS

For years, the U.S. District Court for the Eastern District of Texas has been the home of more patent litigation than any other federal court. Widely considered a patent owner-friendly jurisdiction, the E.D. Texas embraced an expansive view of the language in the patent venue statute that an appropriate forum is where a defendant "resides." 28 U.S.C. §1400(b). The Supreme Court's decision last year in *TC Heartland LLC v. Kraft Foods Group Brands LLC* interpreted this provision more narrowly, holding that "resides" for domestic corporations "refers only to the state of incorporation." In light of this shift, and the recent publication of new local rules governing patent cases in D. Mass., Massachusetts has the potential to become a leading patent litigation venue.

THE SUPREME COURT, THE FEDERAL CIRCUIT AND FORUM-SHOPPING

In its 1957 decision in *Fourco*, the Supreme Court held that a corporate defendant resides only in the jurisdiction of incorporation, citing language used in the original version of 1400(b) as support. The Supreme Court reaffirmed that §1400(b) is the sole and exclusive provision governing venue in patent cases and is a standalone provision not supplanted by 28 U.S.C §1391(c), the general venue statute, which treats "resides" to include "in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question…." This interpretation limited forum shopping in patent cases.

In 1990, the Federal Circuit in *VE Holding* found that an amendment to §1391 conveyed unambiguously that §1391(c) governed all venue provisions in the chapter, including §1400(b). The decision subsumed the venue analysis in patent cases into a personal jurisdiction analysis, which led to significant forum shopping. The Eastern District of Texas emerged as a pro-plaintiff jurisdiction and has been the leading patent litigation venue since 2012, hosting approximately 45 percent of all patent cases filed in the U.S. in 2015. In both 2014 and 2015, over a quarter of patent cases filed in the U.S. were brought before a single judge in the district in Marshall, Texas: Judge Rodney Gilstrap.

TC HEARTLAND SHIFTS THE PATENT VENUE CONVERSATION

The Supreme Court in *TC Heartland* rejected the Federal Circuit's holding in *VE Holding* and found that new language added to §1391(c) in 2011 further supported its holding in *Fourco* that §1400(b) is a standalone provision. The court affirmed that for the purpose of §1400(b), the term "resides" refers only to the jurisdiction of incorporation. This narrower interpretation of the term "resides" weakened Texas' grip on patent litigation and has raised the question of what exactly constitutes a regular and established place of business.

MASSACHUSETTS AS A LEADING PATENT LITIGATION VENUE?

After *TC Heartland*, Judge Gilstrap denied a motion to transfer venue on the basis that the residences of a defendant company's employees who worked from home was sufficient to serve as a regular and established place of business of the defendant. The Federal Circuit overturned this decision in *Cray* and employed a three-pronged test to identify a regular and established place of business: (1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant (not the home of the defendant's employee).

While the three-pronged inquiry is fact-specific, a company's headquarters should almost always be a regular and established place of business. The court in *Cray* clarified that "a physical place" means "a building or part of a building . . . from which business is conducted." A "virtual space or . . . electronic communications from one person to another" is insufficient. A business is considered "regular" if it operates in a steady, uniform, orderly, and methodical manner. "Sporadic activity" or a single act pertaining to a particular business is not considered regular. A business is "established" if it is stable for a period of time, although it can move its location. To be a place of the defendant, the defendant must own, lease, or exercise some other attributes of possession or control over the place.

On Dec. 11, 2017, the judges of U.S. District Court for the District of Massachusetts announced that they were seeking public comment on new proposed patent rules of procedure that would govern patent cases in D. Mass. The public comment period ended on Jan. 26, 2018, and the rules are expected to go into effect this year. Among other things, the rules outline pretrial procedures that set trial in two years; contain specific procedures for disclosures, discovery and claim construction; and provide patent litigants with greater guidance and procedural predictability.

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The combined impact of *TC Heartland* and *Cray* with the proposed local patent rules raises new strategic considerations for Massachusetts-based companies seeking to maintain a home-field advantage. Massachusetts, and Boston in particular, is one of the nation's leading technology hubs, with innovation and tech giants such as TripAdvisor, Gillette, Bose, Staples, Wayfair, Care.com and, most recently, General Electric (not to mention that, as of the date of this article, Amazon had selected Boston as a finalist for its second headquarters). This is in addition to the research and world-class health care industries headquartered in the Boston area. The Bloomberg U.S. Innovation Index ranked Massachusetts the most innovative state ahead of California. It ranked particularly highly with respect to the density of the high-tech industry in the state. While many companies are incorporated in Delaware, and we have already seen a significant increase in patent litigation filed in Delaware since TC Heartland, with so many leading innovation companies in Massachusetts, the U.S. District Court for the District of Massachusetts is primed to host a significant increase in patent litigation. Massachusetts companies should no longer assume that they will likely have to defend patent litigation in the E.D. Texas.

CONSIDERATIONS FOR BRINGING A CASE IN OR TRANSFERRING A CASE TO MASSACHUSETTS

Courts are divided on whether the burden to establish venue rests on the plaintiff or defendant. The First Circuit has held that the burden to establish venue rests on the plaintiff once a defendant has challenged venue through a motion to dismiss. In Massachusetts, a plaintiff must prove both that a defendant has a reg-

CONTINUED ON P. 6

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CORPORATE OFFICER DOCTRINE
CONTINUED FROM P. 2

data is reported up the organization's chain of authority so that all responsible corporate officers are notified of violations, and measures are taken to remedy any violations. In addition, it is important to provide reporting options for front-line employees that enable violations to be reported directly to compliance officers outside the usual chain of authority. The effective reporting of potential violations can be compromised where front-line employees are required to report potential violations to supervisors who are also responsible for production or other business goals that may conflict with remedying compliance issues.

INSURANCE

Insurance, specifically directors and officers (D&O) insurance, may also provide a measure of coverage for criminal charges based on the Responsible Corporate Officer Doctrine. Although most D&O policies exclude claims based on willful or intentional illegal acts, the specific event that triggers the exclusion is important. Criminal charges alone do not typically trigger the exclusion. This allows for the payment of defense costs until such allegations are conclusively established, either at trial or as the result of a plea. In either event, the policy will pay the cost of defense during the investigative phase. However, one must also determine if the policy contains claw-back provisions related to the payment of defense costs, and how aggressively the company will pursue reimbursement.

INDEMNIFICATION OF CORPORATE OFFICERS

D&O and other insurance policies do not cover the payment of criminal penalties. Depending upon the nature of the penalties, an entity may be permitted to indemnify corporate officers against certain criminal fines. Many jurisdictions permit the payment of individual criminal fines, and the advancement of defense costs, where the employee conducted herself in good faith and where the employee's conduct was not adverse to the interests of the corporate entity. In most instances, individual criminal liability based solely on the Responsible Corporate Officer Doctrine will satisfy these factors and permit indemnification and the advancement of defense costs.

Ultimately, effective compliance and reporting programs are the key to avoiding Responsible Corporate Officer liability and the penalties that can flow from such situations. Neither D&O coverage nor indemnification will reverse the exclusion or debarment of a corporate officer. ■

1. In the case of U.S. v. Park, the president of a large grocery store chain was found guilty of violating the criminal provisions of the Food, Drug and Cosmetic Act as a result of rodent contamination in the company's warehouse facilities.
2. FDA Regulatory Procedures Manual, § 6-5-3, "Special Procedures and Considerations for Park Doctrine Prosecutions" (revised Dec. 2017).

PATENT LITIGATION
CONTINUED FROM PAGE 4

ular and established place of business in Massachusetts, and that the infringement occurred in Massachusetts. The Second, Fourth, Seventh, and Ninth circuits join the First Circuit in assigning this burden to the plaintiff. In contrast, the Third and Eighth circuits assign the burden to defendants. The Fifth and Sixth circuits have not ruled on this issue.

Under the Patent Act, direct patent infringement occurs when there is an unauthorized making, using, offering to sell, selling or importing of a patented invention during the term of the patent. 35 U.S.C. § 271(a). Plaintiffs bringing patent suits in Massachusetts against companies headquartered here would likely be successful in keeping the case here so long as they make a sufficient showing that the infringement occurred in Massachusetts. Defendants facing litigation in other districts and seeking to transfer a case to Massachusetts should assess on whom the burden rests according to the governing law in the original district.

A venue objection is waived if a defendant fails to raise it in an initial motion to dismiss or responsive pleading or amendment allowed by FRCP 15(a)(1). An exception to this rule is "if the defense became available thereafter by way of a supervening authority." On Nov. 15, 2017, the Federal Circuit decided on a Writ of Mandamus petition from a decision by D. Mass. Judge First Name Young, that *TC Heartland* would allow defendants who previously waived venue objections on the basis of residence prior to the *TC Heartland* decision to raise these objections in light of the case.[2]

Litigators with Massachusetts-based clients should no longer assume that their clients will have to defend a patent infringement suit in Texas. If Massachusetts-based companies have a presence in Texas, care should be given to determine to what extent the company may still be forced to defend in Texas despite *TC Heartland*, and take remedial actions to increase the chances of a successful motion to dismiss or transfer to Massachusetts. Attorneys should also familiarize themselves with the newly proposed local patent rules to consider whether defending or bringing a patent case in D. Mass. would be advantageous. ■

1. *See Bennett v. City of Holyoke*, 362 F.3d 1, 7 (1st Cir. 2004).
2. *See In re Micron Tech. Inc.*, Fed. Cir., No. 2017-138 (Nov. 15, 2017)