Insights: Alerts

Federal Circuit Holds that the "Required and Established Place of Business" for Patent Infringement Venue Under §1400(b) Requires Identification of a Physical Location of the Defendant's Business

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Brief Summary

The U.S. Court of Appeals for the Federal Circuit held that to find a "required and established place of business" for venue in a civil action for patent infringement, the court must identify "a physical place, of business, of the defendant." Namely, the place of business must be a physical location that the defendant exercises control over and from which it conducts steady, uniform, and methodical business activities. This ruling vacates the district court's denial of motion to transfer in the underlying district court case, and criticizes the four-factor test announced by Judge Gilstrap in Case No. 15-cv-01554, 2017 WL 2813896 (E.D. Tex. June 29, 2017).

Complete Summary

For the past 27 years since the Federal Circuit's holding in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1584 (Fed. Cir. 1990), *cert denied*, 499 U.S. 922 (1991), courts have incorrectly applied § 1391(c)'s definition of residence to § 1400(b) and used personal jurisdiction to establish venue in patent cases. The Supreme Court in *TC Heartland LLC v. Kraft Foods Group Brands*, 137 S. Ct. 1514, 1516 (2017), unanimously held that 28 U.S.C. § 1400(b) is the only proper statute for determining venue in patent litigation matters, and § 1391 does not alter the meaning of § 1400(b). *TC Heartland* analyzed the first prong of § 1400(b) and found that a corporate defendant "resides" only in its state of incorporation. The Supreme Court, however, did not address the second prong of § 1400(b). The second prong of § 1400(b) permits venue where the defendant "has committed acts of infringement and has a regular and established place of business" in the district.

In the patent infringement action filed against Cray in the Eastern District of Texas, Cray filed a motion to transfer under 28 U.S.C. § 1406(a). Cray argued that it did not "reside" in the Eastern District of Texas in light of the Supreme Court's decision in *TC Heartland*. Cray further argued that venue was improper because Cray had not committed acts of infringement and did not maintain a regular and established place of business within the district. Cray was incorporated in Washington State, and it had offices in Bloomington, MN, Cippewa Falls, WI, Pleasanton and San Jose, CA, and Austin and Houston, TX (which are not in the Eastern District). Cray's only relationship to the Eastern District was two employees, a senior territory manager (who was no longer employed by Cray at the time the complaint was filed) and a sales executive, both who worked remotely from their homes. The activity of the sales executive was the only employee considered by the court. He was compensated for expenses ancillary to his work for

Cray (business use of a cell phone, Internet service, and mileage), but not for use of his home. He kept no products in his home, and his home was not advertised as a Cray place of business.

Relying heavily on the Federal Circuit's decision in *In re Cordis Corp*., 769 F.2d 733 (Fed. Cir. 1985), the district court denied Cray's motion, finding the Eastern District of Texas was the proper venue because the one work-at-home salesperson in the district satisfied the "regular and established place of business" requirement. As part of the decision, the court highlighted the challenges modern technology presented in determining a "regular and established place of business," and set out four factors for inquiry (although the court did not apply this purported test to the facts of the case):

1) Physical presence;

2) Defendants' representation to others;

3) Benefits received from presence in the district; and

4) Targeted interactions within the district

Cray filed a petition for a writ of mandamus asking the Federal Circuit to address two issues: whether a company can have a "regular and established place of business" in a district where it does not have a physical presence, and whether a work-at-home employee suffices as that place of business.

The Federal Circuit found the lower court misunderstood the scope and effect of the *Cordis* decision, and held that the language of the statute should be the focus in considering venue. As such, the Federal Circuit set forth three requirements, all of which much be satisfied for proper venue: "(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." Addressing patent cases that have taken a more liberal standard to determining venue, the Federal Circuit noted that patent venue is a more restrictive standard than general venue statutes or personal jurisdiction that are based on "doing business" in the district.

The Order emphasizes that there must be a specific geographical location within the district to satisfy the statutory requirements for venue. Recognizing the modern era of business, the Order highlights that the statute cannot be satisfied by reference to "a virtual space or to electronic communications from one person to another."

With respect to determining if the location serves as a regular and established place of business, the Order defines "regular" as operating in a "steady[,] uniform[,] orderly[, and] methodical manner," and specifically excludes "sporadic" activity. The "regular" requirement is reinforced by requiring that the place be "established", which relates to having a sufficient permanence (as opposed to transient activity) to justify venue. The ability of Cray's sales representative to leave his residence and move out of the district without Cray's approval weighed against a finding of permanence for the Federal Circuit.

The last requirement to establish that the presence is of the defendant, as opposed to the presence of the employee, requires a showing that it is the defendant that engaging in business from the location – not just an employee who happens to be doing business from a place in the district. Factors that might permit an employee's residence in the district to satisfy this prong of the test include whether continued employment was conditioned on maintaining a residence in the district, or whether products were stored so they could be distributed within the district.

Applying these factors to the case, the Federal Circuit agreed with Cray that the employee's presence in the district did not establish a place of business for Cray. There was no evidence to support that "Cray believed a location within the Eastern District of Texas [was] important to the business performed, or that it had any intention to maintain some place of business in that district in the event [either employee] decided to terminate their residences as a place where they conducted business."

With respect to the four-factor test presented by the district court, the Federal Circuit found the "test is not sufficiently tethered to this statutory language and thus it fails to inform each of the necessary requirements of the statutes." As a result, it vacated the district court's denial of the motion to transfer, and remanded for the district court to decide the district to which the case should be transferred.

In re: Cray Inc., Case No. 17-129, D.I. 50 (Fed. Cir. Sept. 21, 2017) (Panel: Lourie, Reyna, and Stoll)