September 22, 2017

In re: Cray Inc.

Federal Circuit, Granting Mandamus Petition, Rejects Eastern District of Texas' New Patent Venue Rules and Provides Guidance Under Supreme Court's Decision in *TC Heartland*

SUMMARY

In *TC Heartland LLC* v. *Kraft Foods Group Brands LLC,* the Supreme Court reversed decades of authority that essentially allowed a defendant to be sued for patent infringement anywhere the accused product was sold. Since that decision, the lower courts have disagreed over where venue is proper. In *In re Cray*[1] the Federal Circuit granted a mandamus petition and overturned a district court decision finding venue in the Eastern District of Texas. The Court directed the district court to transfer the case out of the District pursuant to the patent venue statute, 28 U.S.C. § 1400(b), which provides that "[a]ny 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." Rejecting the district court's analysis, the Federal Circuit set forth a new three-part test to determine when a defendant has a "regular and established place of business" for purposes of venue. The new test requires that defendant have (1) a physical location in the district, (2) a regular and established place of business in the district, and (3) that the physical location and business be those of the defendant, not merely its employees.

BACKGROUND

The question *Cray* addresses—where a defendant accused of patent infringement has a "regular and established place of business" for venue purposes—gained new significance after the Supreme Court's decision in *TC Heartland LLC* v. *Kraft Foods Group Brands LLC*.[2] The patent venue statute, 35, U.S.C. § 1400(b), provides that "[a]ny 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." In *TC Heartland*, the Supreme Court upended nearly 30 years of case law in which courts had given the term "resides" in section 1400(b) the same meaning as the term "residence" in the general venue state, 28 U.S.C. § 1391(c), such that an action for infringement could be brought in any district in which the defendant did business. *TC Heartland* rejected that approach, holding that the term "'reside[s]' in § 1400(b) has a particular meaning" that "refers only to the [defendant's] State of incorporation."[3] As the Federal Circuit recognized in *Cray*, because fewer defendants can be said to "reside" in a district for venue purposes under *TC Heartland*, "litigants and courts are raising with increased frequency the question of where a defendant has a 'regular and established place of business."[4]

In *Cray*, the plaintiff, Raytheon, sued Cray, a seller of supercomputers, for patent infringement in the Eastern District of Texas. Cray has its principal place of business in Washington state, as well as facilities in Minnesota, Wisconsin, California, and Texas, but none in the Eastern District of Texas. However, Cray had employed two individuals who worked remotely from their homes located in the Eastern District of Texas. After Cray objected to venue and sought to transfer the case, Raytheon pointed to the homes of those employees as the "regular and established place of business" required by section 1400(b). The district court (Judge Gilstrap) agreed with respect to the activities of at least one of Cray's employees and held that the case could remain in the Eastern District. Relying on an earlier Federal Circuit case, *In re Cordis Corp.*,[5] that also involved a sales representative, Judge Gilstrap identified "four factors for inquiries into what constitutes a regular and established place of business"—"physical presence, defendant's representations, benefits received, and targeted interactions with the district."[6] Following Judge Gilstrap's decision, Cray petitioned the Federal Circuit for a writ of mandamus.

THE FEDERAL CIRCUIT'S DECISION

The Federal Circuit granted mandamus, and rejected the district court's four-factor framework. Instead, the court set out its own three-part test for venue under section 1400(b). Writing for a unanimous panel, Judge Lourie first explained that the interpretation of the venue statute was "unique to patent law," and therefore governed by Federal Circuit precedent.[7] He then held that there are "three general requirements relevant to the [venue] inquiry: (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."[8]

In establishing a *physical place* requirement, the Federal Circuit explicitly rejected the district court's statement that "a fixed physical location in the district is not a prerequisite to proper venue."[9] The Court held that virtual and electronic spaces that have no physical location are not sufficient. While the Federal Circuit recognized that "the 'place' need not be a 'fixed physical presence in the sense of a formal office or store,'" it found that "there must still be a physical, geographical location in the district from which the business of the defendant is carried out."[10]

The Federal Circuit next emphasized the statutory requirement that the business be *regular* and *established*, rather than sporadic or transient. According to the Court, while a place of business may change locations and still qualify as "regular and established," it can do so only if it remained stable for some meaningful period of time, at least more than the time necessary for a single transaction or single act pertaining to the business. By contrast, the fact that an employee could "move his or her home out of the district at his or her own instigation without the approval of the defendant . . . would cut against the employee's home being considered a place of business of the defendant."[11] Under that interpretation, activities that Cray's employees happened to carry out at their own homes, at their discretion, would not create a "regular and established" place of business.

With respect to the third requirement, the Federal Circuit made clear that proper venue requires "a place *of the defendant*, not solely a place of the defendant's employee."[12] Recognizing that "[e]mployees change jobs," the court explained that "the defendant," not just its employee, "must establish or ratify the place of business."[13] This requirement was singled out as "crucial" to the court's conclusion that the district court manifestly erred in treating the home of Cray's employee as the regular and established place of business of Cray itself.[14] Implicitly acknowledging that this factor might not be as clear-cut in other cases, the court also listed other relevant considerations, including "whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place," as well as "the nature and activity of the alleged place of business of the defendant in the district in comparison with" businesses the defendant has elsewhere.[15]

Applying its three-factor test to *Cray,* the Federal Circuit found that, although *Cray* had an employee working from home in the district, it had no other personnel or property in the district, and did not own or control the physical space in which the employee worked. Accordingly, the Federal Circuit concluded that the high standard for a writ of mandamus had been met, and directed the district court to transfer the case out of the Eastern District of Texas to the district it deemed proper on remand.

IMPLICATIONS

As the Federal Circuit stated in *Cray*, following *TC Heartland*, "district courts, including the trial court in this case, have noted the uncertainty surrounding and the need for greater uniformity" regarding the determination of venue in patent cases.[16] The *Cray* decision helps provide clarity by specifying what is required to show that a defendant has a "regular and established place of business" within the meaning of section 1400(b). In doing so, *Cray* likely ended the role of the Eastern District of Texas as a preferred venue for plaintiffs in many patent infringement cases, and increased the likelihood that such cases will have to be brought in the defendant's home jurisdiction, or at least in a jurisdiction where defendant is incorporated or it has a substantial presence.

In *Cray*, the Federal Circuit has provided some guidance for venue in patent cases by classifying the question as one unique to patent law such that its own precedent will govern, and setting out a test for

applying section 1400(b). The law will continue to develop as the district courts apply the Federal Circuit's guidance.

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ENDNOTES

[1] __ F.3d __, No. 2017-129 (Fed. Cir. Sept. 21, 2017).

[2] 137 S. Ct. 1514 (2017).

[3] *Id.* at 1520.

[4] *Cray*, slip op. at *5.

[5] 769 F.2d 733 (Fed. Cir. 1985)

[6] *Cray*, slip op. at *4 (citation omitted).

[7] *Id.* at *8.

[8] *Id.*

[9] *Id.* at *11 (citation omitted).

[10] *Id.*

[11] *Id.* at **12-13 (internal quotation marks and citation omitted).

[12] *Id.* at *13 (emphasis in original).

[13] *Id.*

[14] *Id.* at *15.

[15] *Id.* at **13-14.

[16] *Id.* at *6 (citations omitted).

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