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Venue

Impact of *In re Cray* on Post-*TC Heartland* District Court Decisions

BY BART RANKIN AND YOON CHAE

Recent court decisions have changed the analysis of what constitutes a proper venue for patent infringement lawsuits.

The U.S. Supreme Court's *TC Heartland* decision in May 2017 held that, under 28 U.S.C. § 1400(b), patent infringement cases brought against domestic corporations must be filed in a venue where either (1) "the defendant resides," or (2) "the defendant has committed acts of infringement and has a regular and established place of business." The decision made clear that a U.S. defendant "resides" only in the state of its incorporation, but left the meaning of what constitutes "a regular and established place of business" open to interpretation.

During the four months after the *TC Heartland* decision, different district courts gave varying interpretations, considering a range of factors and often issuing decisions that applied inconsistent standards. On September 21, however, the U.S. Court of Appeals for the Federal Circuit rendered a precedential decision on this issue in *In re Cray Inc.*, providing guidance to district courts and practitioners alike.

The Federal Circuit's *Cray* decision struck down the four-factor test set forth by the U.S. District Court for the Eastern District of Texas. But its effects on the post-*TC Heartland* decisions that were issued by other district courts remain to be seen. Given that it is important for litigants to understand how lower courts will be impacted by the *Cray* decision, this article aims to provide summaries of decisions issued between *TC Heartland* and *Cray*, and how they may be impacted by the latter.

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The *Cray* Standard In *Cray*, the Federal Circuit provided three general requirements for determining whether there is a "regular and established place of business" in the district: (1) There must be a *physical* place in the district, (2) the place of business must be "*regular*" and "*established*," and (3) the place of business must be the "place of the *defendant*." The court parsed the language of § 1400(b) to get to the three "requirements." The court explained that the words "regular" and "established" are adjectives modifying the noun "place." It also said that "of business" indicates the nature and purpose of the "place," and the phrase "the defendant," indicates that it must be that of the defendant.

The court emphasized that the venue "analysis must be closely tied to the language of the statute" and held that venue is improper under § 1400(b) if any of the three requirements is not satisfied.

Physical place: The court held that there must be a physical "place," which is "[a] building or a part of a building set apart for any purpose" or "quarters of any kind" from which business is conducted. It explained that, while the "place" does not need to be a "fixed physical presence in the sense of a formal office or store," there must still be "a physical, geographical location in the district from which the business of the defendant is carried out." The court clarified that virtual spaces or electronic communications from one person to another do not qualify as a "place" under § 1400(b).

"Regular" and "established" place of business: The court explained that a business may be "regular," for example, if it operates in a steady, uniform, orderly, and methodical manner, and that sporadic activity cannot create venue. The court explained that "a single act pertaining to a particular business will not be considered engaging in or carrying on the business," whereas "a series of such acts would be so considered." With regard to the "established" limitation, the court explained

that the place of business must not be transient and that the place in question must be ''settle[d] certainly, or fix[ed] permanently.''

Place of the defendant: The court clarified that the place of business must be ''the place of the defendant,'' and not solely a place of the defendant's employee. The court explained that the ''[d]efendant must establish or ratify the place of business'' and that it ''is not enough that the employee does so on his or her own.'' The court also noted the following relevant considerations: (1) ''whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place,'' (2) the size of the business, where a small business might operate from a home as long as that is a place of business of the defendant, (3) ''whether the defendant conditioned employment on an employee's continued residence in the district or the storing of materials at a place in the district so that they can be distributed or sold from that place,'' (4) the defendant's representations that it has a place of business in the district, and (5) ''the nature and activity of the alleged place of business of the defendant in the district in *comparison with* that of other places of business of the defendant in other venues.''

The court explained that it has previously addressed the phrase ''regular and established place of business'' in *In re Cordis Corp*. The Federal Circuit did not vacate its earlier *Cordis* decision, but did explain that the *Cordis* court had ''not consider[ed] itself obliged to'' focus on the full and unchanged language of § 1400(b). The court held that the Eastern District of Texas in the underlying *Cray* case misunderstood the scope and effect of the *Cordis* decision.

Impact of *Cray* on Post-*TC Heartland* Decisions Finding Venue Improper The majority of the post-*TC Heartland* district court decisions issued before *Cray* have found venue to be improper. Because the Federal Circuit in *Cray* did not broaden the standard on what constitutes a ''regular and established place of business,'' it is unlikely that these decisions will be impacted. It should be understood, however, that this is certainly a fact-intensive inquiry and that each case must be analyzed based on its own unique set of facts. With that understanding, the following is a summary of those interim decisions and the facts those courts considered when making the venue determination:

The District of Arizona: The District of Arizona in *OptoLum, Inc. v. Cree, Inc.* held that the mere presence of two employees, without more, will not suffice as a ''regular and established place of business.'' Relying on *Cordis*, the court explained that ''the appropriate inquiry is whether the corporate defendant does its business in that district through a permanent and continuous presence there,'' and found that the plaintiff has not, on the present record, met its burden of showing that venue is proper. Based on these facts alone, it is doubtful that the court's decision would be overturned in view of *Cray*.

The Central District of California: The Central District of California in *Prolacta Bioscience, Inc. v. Ni-Q, LLC* held that ''the mere presence of a high-level employee of a corporate defendant within a particular judicial district'' is not ''sufficient to satisfy the rigors of Section 1400(b),'' and that ''[r]egistering with the Secretary of State is a passive act that is not expressly aimed at California'' or cause harm that the defendant knows is likely to be suffered in California.

The court also distinguished two cases cited by the plaintiff by explaining that, here, there was no evidence of the defendant's employees having (1) made offers to sell within the district or (2) maintained home offices where they stored company literature, documents, and products and completed their paperwork and administrative tasks. The court in this instance applied reasoning that resembles aspects of the standard employed by the Federal Circuit in the *Cray* decision.

The District of Delaware: In *Boston Science Corp. v. Cook Group, Inc.*, the court required (i) a place of business that is (ii) regular and (iii) established. The court also clarified that, although the *Cordis* decision held that no fixed physical presence in the sense of a formal office or store is required, the *Cordis* decision should ''not be understood as eliminating the statutory requirement that a defendant have some regular and established 'place of business' in the venue.''

Thus, the court held that ''while no fixed space in the sense of a formal office or store is necessary, some *physical* presence is nevertheless required.'' The court also explained that each of the acts of (1) doing business or being registered to do business in a district, (2) demonstrating that the entity has sufficient ''minimum contacts'' with the district for purposes of personal jurisdiction, (3) maintaining a website that allows consumers to purchase the goods within the district, and (4) merely shipping goods into the district, without more, is insufficient for satisfying the second prong of § 1400(b).

The standard adopted by the court thus appears to generally be in line with most of the *Cray* requirements. The court held that venue was improper for both defendants Cook Group, Inc. and Cook Medical. The court held that Cook Group ''has no physical facilities or corporate offices in Delaware'' and ''no employees based in Delaware,'' and thereby failing to have any presence in Delaware, let alone a permanent and continuous one. The court held that Cook Medical's following contacts did not amount to ''a regular and established place of business'': (a) sales of accused products throughout the United States, including in the District of Delaware, (b) sales representatives who ''occasionally call on physicians and hospitals'' in Delaware but do not live in Delaware, and (c) one sales representative who lived in Delaware for 19 months, but had no responsibility for sales in Delaware and is no longer employed by the defendant. The court pointed out that Cook Medical, like Cook Group, has no physical facilities or corporate offices in Delaware and, at least since the departure of the one sales representative, no employees based in the district.

The District of Kansas: The District of Kansas in *Neonatal Product Group, Inc. v. Shields* held that venue is improper for a party that (1) has its place of incorporation and principal place of business outside Kansas, (2) has no employees, offices, real property, bank accounts, phone listings, or post office addresses within the district, and (3) has no parent company, sister companies, and subsidiaries that are organized under Kansas law

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or has Kansas offices. The court held that the act of entering into a contract in Kansas and being registered to do business in Kansas are ''not the same as maintaining a 'regular and established place of business.' ''

The District of Nevada: The District of Nevada in *Percept Technologies v. FOVE, Inc.* held that venue is improper for the defendant that ''does not have any offices, employees, or land in Nevada'' and has offices only in California. The only relation the defendant had with Nevada was a prototype that was imported and used at the Consumer Electronics Trade Show, which was found to be insufficient in supporting a venue finding.

The Southern District of Ohio: The Southern District of Ohio in *Stuebing Automatic Machine Co. v. Gavronsky* held that venue is improper for the defendant based on the plaintiff's allegations that the defendant (1) had solicitations of sales and completion of transactions in the district, (2) exchanged emails, telephone calls, and product specifications with customers in the district, (3) received purchase orders and payments from customers in the district, (4) shipped infringing products to the district, (5) had potential visits and/or stays in the district for business, and (6) owned a home in the district where infringing activities allegedly occurred. The court held that these allegations were insufficient to support a finding that the defendant had a regular and established place of business in the district.

The District of South Carolina: The District of South Carolina in *Hand Held Products, Inc. v. Code Corp.* held that venue is improper for the defendant and that (1) the location of the defendant's founding, (2) the identity of the defendant's South Carolina customers, (3) the volume of the defendant's sales to South Carolina customers, and (4) the presence of third parties in South Carolina that distribute the defendant's products are not relevant to the § 1400(b) venue analysis.

The only fact that was deemed relevant was the presence of a single employee of the defendant in South Carolina—but the court held that ''a single, recently hired employee who does not make sales or interact with customers in South Carolina and who maintains no inventory in South Carolina'' is insufficient to qualify as having a ''regular and established place of business.'' The court also mentioned that the fact that the defendant ''is not even licensed to do business in South Carolina is practically dispositive in determining that'' the defendant does not conduct business in South Carolina through a ''permanent and continuous presence.''

Impact of *Cray* on Decisions That Found ''Regular and Established Place of Business'' The decisions issued by the U.S. District Courts for the Western District of North Carolina and the Eastern District of Texas, as summarized below, are at greater risk of being impacted than those issued by the other district courts mentioned above because they are more likely to fail in satisfying one or more of the *Cray* requirements.

The Western District of North Carolina: The Western District of North Carolina in *InVue Security Products Inc. v. Mobile Technology, Inc.* held that venue is proper for the defendant that (1) has six field technicians that actively work on-site and engage with customers throughout the district that have purchased the allegedly infringing products, (2) actively manages and directs service calls to those technicians, and (3) is registered to do business in the state. This decision was made despite the court's admission that the ''defendant does not have a fixed office location in the district and does not have any warehouse or storage facility therein.''

The Eastern District of Texas: The Eastern District of Texas issued *Kranos IP Corp. v. Riddell, Inc.*, which also followed the now-struck four-factor test set forth in the underlying *Cray* district court decision. The court in *Kranos IP* held that venue was proper based on, among other things, sales representatives that worked from their personal residences in the district.

The ''personal residences'' in the *Kranos IP* case are unlikely to satisfy the *Cray* standard requiring that the ''place of business'' be physical and belong to the defendant; however, this inquiry further depends on other facts, such as the size of the defendant's business and whether the defendant pays for those personal residences of its employees. Further, the court mentioned that the plaintiff alleges that the defendant has ''sales showrooms'' in the district, without confirming the validity of that allegation or providing any further details on those showrooms. And thus, more information will likely be needed to properly evaluate whether such ''sales showrooms'' suffice to satisfy the *Cray* requirements.

The *Cray* decision provides helpful guidance for the district courts moving forward. But there remains some uncertainty as to how the district courts will specifically adopt the *Cray* standard. The district courts' prior decisions summarized above may be helpful considerations for practitioners when attempting to forecast how a particular district court may approach this issue.

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