IP Alert: Venue Okay in Cray? Federal Circuit Says “No Way”

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Federal Circuit Interprets Patent Venue Statute Post TC Heartland

By Jeffrey H. Chang

Ever since the Supreme Court held in TC Heartland that “a domestic corporation ‘resides’ only in its State of incorporation for purposes of the patent venue statute,” litigants and judges have focused on the other option under the § 1400 patent venue statute: “where the defendant … has a regular and established place of business.” The inquiry is highly fact-dependent, but yesterday the Federal Circuit, in In re Cray, gave us some guidance.

Eastern District of Texas Proceedings

In 2015, Raytheon sued supercomputer maker Cray for patent infringement in the U.S. District Court for the Eastern District of Texas, and the case was assigned to Judge Gilstrap. Cray filed a motion to transfer the case, but Judge Gilstrap found that venue was proper and denied the motion. Cray renewed its motion to transfer the case 10 days after the Supreme Court decided TC Heartland, arguing that Cray did not have a "regular and established place of business" in the Eastern District of Texas under the new standard. Judge Gilstrap once again denied the motion, keeping the case in his district. Judge Gilstrap laid out four factors for identifying a "regular and established place of business": physical presence in the district, the defendant's representations about its presence in the district, the benefits the defendant receives from the district, and the defendant's targeted interactions in the district. For the physical presence factor, Judge Gilstrap stated that "the lack of a physical building in the district is not dispositive" and "the presence of employees in the district" can be used to identify the regular and established place of business of the defendant. Judge Gilstrap denied Cray's motion to transfer the case, in part, because Cray allowed a sales executive employee to work from his home within the Eastern District of Texas, and provided the employee with administrative support so that the employee could continue to work from his home. Cray promptly asked the Federal Circuit to reverse Judge Gilstrap's decision.

Federal Circuit's Patent Venue Test

Yesterday, the Federal Circuit agreed with Cray and directed Judge Gilstrap to transfer the case to a more appropriate venue. The court acknowledged that the law was "unclear" and that Judge Gilstrap's legal error was "understandable," so the court identified its own three requirements to satisfy the patent venue statute:

(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.

First, there "must be a physical place in the district." The place does not have to be a store or a formal office, but "there must still be a physical, geographical location in the district from which the business of the defendant is carried out," according to the court. Relying on a dictionary, the court defined "place" as "[a] building or a part of a building set apart for any purpose" or "'quarters of any kind' from which business is conducted."

Second, the place "must be a regular and established place of business." The court explained that a single act of the business or sporadic activity at the place are not considered "regular." Rather, a business is regular "if it operates in a 'steady[,] uniform[,] orderly[, and] methodical' manner." The place of business is "established" if it is "settle[d] certainly, or fix[ed] permanently." The court

suggested that the amount of time that the business has been at the location matters, concluding that a transient place of business is not "established." On the other hand, a business is "established" at a place if it has, for example, had a five-year continuous presence there, according to the court.

Third, the regular and established place of business must be "the place of the defendant," and not simply a residence or home office of the defendant's employee. What matters, according to the court, is whether the defendant has possession or control over the alleged place of business, such as if the defendant owns or leases it. For example, the defendant might operate a small business from a home, and that home could satisfy the place of the defendant requirement under the statute. District courts can also consider the defendant's activities in the alleged place of business compared to the defendant's activities in other places.

Eastern District of Texas Abused Its Discretion

Based on these three requirements, the Federal Circuit held that the district court abused its discretion by not transferring the case. "The district court erred as a matter of law in holding that 'a fixed physical location in the district is not a prerequisite to proper venue.'" For example, Judge Gilstrap's test appears to cover a virtual space or electronic communications, according to the Federal Circuit, but the statute covers only a "physical, geographical location in the district from which the business of the defendant is carried out." Whether the defendant has "a regular and established place of business" in the district is highly fact-dependent, and the Federal Circuit stressed that "no one fact is controlling." Nevertheless, the facts here failed to show that Cray had "a regular and established place of business" in the Eastern District of Texas. The Federal Circuit pointed out that Cray merely allowed its employees to work from home, such as the sales executive working within the district. However, the employees working from home were free to live anywhere they wanted: "if an employee can move his or her home out of the district at his or her own instigation, without the approval of the defendant, that would cut against the employee's home being considered a place of business of the defendant." Cray also did not own, lease, or rent any portion of the employee's home.

It will be interesting to see how district courts react in light of the Federal Circuit's guidance on establishing venue, and in particular, a "regular and established place of business" in the wake of TC Heartland.

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