GT GreenbergTraurig | 50TH ANNIVERSARY

# Alert | Intellectual Property Litigation

September 2017

## Federal Circuit Clarifies 'Regular and Established Place of Business' for Venue in Patent Actions

On Sept. 21, 2017, after summarily addressing a number of *mandamus* petitions arising in response to the Supreme Court's *TC Heartland LLC v. Kraft Food Group Brands LLC*, 137 S. Ct. 1514 (2017) decision regarding venue, the Federal Circuit weighed in on what is required to establish venue in patent actions in *In re: Cray, Inc.*, No. 2017-129.[1] Specifically, the court held there are three general requirements for having a "regular and established place of business" in a district: "(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." *Id.* at 8. Venue is improper under § 1400(b) if any of these three requirements are not met.

**Factual Background**

This decision arose from a petition for a writ of *mandamus* seeking to vacate an Eastern District of Texas order denying defendant's motion to transfer under 28 U.S.C. § 1406(a). Defendant, Cray, is incorporated in Washington with its principal place of business also located there. Cray does not rent or own an office or property in the Eastern District of Texas but employs two individuals who work remotely from their homes in the district as sales professionals. These individuals do not maintain any inventory or product literature at their homes.

The district court found the activities of one of defendant's employees "were factually similar to the activities performed by the representatives in *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985), in which

[1] For more information on analyzing venue after *TC Heartland*, please read our prior Alert, "New Patent Infringement Cases Provide Guidance on Analyzing Venue in the Wake of TC Heartland."

[the Federal Circuit] rejected a mandamus request to reverse an order denying transfer for improper venue." *Id.* at 3. In its opinion, the district court set forth an expansive four-factor test for determining whether a defendant has a "regular and established place of business" to guide future litigants, with no single factor being dispositive: (1) whether the business maintains any physical presence in the district; (2) the extent the business represents it maintains a presence in the district; (3) the extent the business derives benefit, such as sales revenue, from the district; and (4) the extent the business interacts with potential customers, consumers, users, or entities within the district.

**Decision**

The court began by stressing the importance of the statutory history of § 1400(b), which was to eliminate abuses engendered by previous venue provisions that allowed suits to be brought anywhere the defendant could be served, and cautioned district courts to "be careful not to conflate showings that may be sufficient for other purposes, e.g., personal jurisdiction or the general venue statute, with the necessary showing to establish proper venue in patent cases." *Id.* at 10. Any fact-specific inquiry into whether venue is proper under § 1400(b) must therefore "be closely tied to the language of the statute." *Id.* at 11.

Rejecting the district court's four-factor test as "not sufficiently tethered" to the language of § 1400(b), the Federal Circuit then set forth three requirements for determining whether a defendant has a "regular and established *place* of business": (1) there must be a physical place in the district; (2) it must be regular and established; and (3) it must be the place of the defendant.

Turning to the first requirement, the Federal Circuit found that the district court's "holding that a 'fixed physical location in the district is not a prerequisite to proper venue'" was an impermissible expansion of the statute. The court explained that while the text of § 1400(b) does not require a formal office or store, "a physical, geographical location in the district from which the business of the defendant is carried out" is required. Therefore, the court concluded that a regular and established place of business "cannot be read to refer merely to a virtual space or to electronic communications from one person to another." *Id.*

Next, the Federal Circuit explained that a business is "regular" within the meaning of § 1400(b) "if it operates in a 'steady[,] uniform[,] orderly[, and] methodical' manner." *Id.* at 12. Sporadic activity and single acts within a district, therefore, "cannot create venue." *Id.* The Federal Circuit further clarified that an "established" business must be "settle[d] certainly, or fix[ed] permanently." *Id.* "[I]f 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 for the defendant." *Id.* at 12-13.

Finally, the Federal Circuit clarified that the "place" in §1400(b) must be "the place *of the defendant*, not solely a place of the defendant's employee." Relevant considerations into whether the place is of the defendant include: (1) "whether the defendant owns or leases the place or exercises other attributes of possession or control over the place;" (2) "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;" (3) "whether the defendant lists the alleged place of business on a website, or in a telephone or other directory;" (4) whether the defendant places physical advertisements 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. *Id.* at 13-14.

In applying the three requirements, the Federal Circuit concluded that "the facts here do not show that Cray maintains a regular and established place of business in the Eastern District of Texas; they merely

show that there exists within the district a physical location where an employee of the defendant carries on certain work for his employer." *Id*. at 19.

**Conclusion**

This decision provides much needed clarity as to what business activity does and does not create a "regular and established place of business" under § 1400(b) and should eliminate many of the requests for venue discovery that arose out the Eastern District of Texas' expansive four-factor test.

## Authors

This GT Alert was prepared by **Scott J. Bornstein, Richard C. Pettus, Jeffrey R. Colin,** and **Giancarlo Scaccia**. Questions about this information can be directed to:


- Scott J. Bornstein | +1 212.801.2172 | bornsteins@gtlaw.com
- Richard C. Pettus | +1 212.801.9387 | pettusr@gtlaw.com
- Jeffrey R. Colin | +1 212.801.6494 | colinj@gtlaw.com
- Giancarlo Scaccia | +1 212.801.6831 | scacciag@gtlaw.com
- Or your Greenberg Traurig attorney