ROPES & GRAY ALERT

Intellectual Property Litigation

September 25, 2017

Federal Circuit Provides Guidance on Patent Venue Post *TC Heartland*

Attorneys
Matthew J. Rizzolo
Rachael Bacha
Darlena Subashi (Kern)

In its September 21, 2017 decision in *In re Cray, Inc.*, the Federal Circuit provided guidance on the meaning of a "regular and established place of business" under the patent venue statute, 28 U.S.C. § 1400(b). Since the Supreme Court's May 2017 ruling in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, which held that the patent venue statute is the exclusive test for venue in patent cases, district courts had grappled with when a defendant should be found to have "a regular and established place of business" in a particular district. In *Cray*, the Federal Circuit for the first time in over 30 years addressed this issue.

The Federal Circuit has now laid out three requirements for what constitutes a "regular and established place of business" under the 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." This precedential opinion may further restrict the venues in which a patent infringement suit may be filed, limiting venue to districts in which defendants have an established physical presence.

Background

Prior to the Supreme Court's decision in *TC Heartland*, courts had interpreted the "resides" prong of the patent venue statute as informed by the general civil venue statute, 28 U.S.C. § 1391(c), which provides that a defendant "resides" in any district in which it is subject to personal jurisdiction. This interpretation generally rendered the "regular and established place of business" prong of 28 U.S.C. § 1400(b) irrelevant, as patent infringement defendants could, until *TC Heartland*, be sued anywhere they were subject to personal jurisdiction. The last time the Federal Circuit weighed in on the "regular and established place of business" prong was in *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir. 1985).

In re: Cray Inc.

Following *TC Heartland*, the Eastern District of Texas (Gilstrap, J.) refused supercomputer maker Cray Inc.'s request to transfer a case brought by Raytheon Co., laying out a four-factor test for determining whether a defendant had a "regular and established place of business" in the district. Cray petitioned for a writ of mandamus to the Federal Circuit, requesting that it direct the Eastern District of Texas to transfer the case for improper venue.

The Federal Circuit granted the petition for mandamus, stating that the Eastern District of Texas had "abused its discretion by applying an incorrect legal standard, which we now clarify in this opinion." The Federal Circuit laid out three requirements for "a regular and established place of business:" "(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." Rejecting a broad interpretation of the statute that would allow a virtual storefront to suffice as a "place of business," the court ruled that "[w]hile the 'place' need not 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." As for the second factor, the court emphasized that the place of business must be "regular" and "for a meaningful time period be stable, established," rather than "sporadic activity." Finally, the court stressed that the place of business must be a place "establish[ed] or ratif[ied] by the defendant," rather than the employee. The court held that in Cray's case, the "third requirement … is crucial." Though "no one fact is controlling … taken together, the facts cannot support a finding that Cray established a place of business in the Eastern District of Texas."

Implications

This opinion provides guidance to lower courts and litigants grappling with the meaning of "regular and established place of business." This opinion may further restrict the venues in which a patent infringement suit may be filed, limiting them to districts in which defendants have an established physical presence. In addition, the court's ruling appears to imply that any efforts by infringement plaintiffs to extend the patent venue statute to cover virtual business locations are better addressed in Congress as opposed to the courts.

If you would like to discuss the foregoing or any related patent litigation matter, please contact the Ropes & Gray attorney with whom you regularly work or any attorney in our IP litigation practice.