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In re Cray Inc.: The Federal Circuit's Antidote to Patent-Venue Forum Shopping

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Two months ago, the U.S. Court of Appeals for the Federal Circuit secured a revolution in patent venue that the Supreme Court had launched four months earlier. On May 22, 2017, the Court restored the boundaries of patent venue that Congress crafted 120 years ago. *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017). On September 21, 2017 the Federal Circuit erected a bulwark protecting those borders. *In re Cray Inc.*, 871 F.3d 1355, 1367 (Fed. Cir. 2017) (granting mandamus and reversing No. 2:15-CV-01554-JRG, 2017 WL 2813896 (E.D. Tex. June 29, 2017) ("District Court Decision")).

Since 1897, a special venue statute has governed where a patentee can sue for infringement. Currently codified at 28 U.S.C. § 1400(b), the statute permits venue "in the judicial district [1] where the defendant resides, or [2] where the defendant has committed acts of infringement and has a regular and established place of business." The Supreme Court has long held that this provision's first clause incorporates the conception of corporate "residence" prevalent in 1897—under which a corporation resides in its "state of incorporation only." *Fourco Glass Co. v. Transmirra Prod. Corp.*, 353 U.S. 222, 226 (1957).

Yet, in 1990, the Federal Circuit held that the general venue statute, 28 U.S.C. § 1391, defines "resides" as used in § 1400(b)—and that this definition allowed venue virtually anywhere in the country. *See VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1578-80 (1990); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1565 (Fed. Cir. 1994).

Predictably, patent plaintiffs used this tool to select the forum most advantageous to them. They chose courts they believed would accord them favorable treatment, both on the merits and on procedure—which is more insulated from appellate oversight. Commenters suggested that, in response, some courts tried to *attract* patent cases, adopting even more plaintiff-friendly postures. The court that patent plaintiffs selected most frequently—and patent trolls selected overwhelmingly—was the Eastern District of Texas.

The Supreme Court finally put a stop to this rampant and unseemly forum shopping in *TC Heartland*, ruling once again that, "[a]s applied to domestic corporations, 'reside[nce]' in § 1400(b) refers only to the State of incorporation." 137 S. Ct. at 1521. Observers expected the decision to be revolutionary. *E.g.*, Ryan Davis, *TC Heartland Is Already Remaking The Patent Litigation Map*, Law360 (July 5, 2017, 5:03 PM), https://www.law360.com/articles/940341/tc-heartland-is-already-remaking-the-patent-litigation-map.

The revolution was almost stopped in its tracks, however, when the old guard fought to hold onto its power. After *TC Heartland* had foreclosed plaintiffs' and their favored courts' use of § 1400(b)'s residence clause to authorize suits in virtually any jurisdiction of the plaintiffs' choosing, plaintiffs turned to the statute's second

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provision for venue, permitting suits where "the defendant has committed acts of infringement and has a regular and established place of business." With little recent precedent addressing this provision—which had been moribund since 1990—district courts struggled with its application.

Into this fray stepped the Eastern District of Texas. Because few companies are incorporated in that district, and few have any facilities or stores there, *TC Heartland* threatened to drain most of cases filed in that venue into other courts. Barely one month after *TC Heartland*, the Eastern District of Texas issued an opinion that purported to resolve the "uncertainty" that had plagued litigants and courts concerning the meaning of "regular and established place of business." District Court Decision at *10.

The decision announced four "factors" that, it said, were "gleaned from prior courts and adapted to apply in the modern era." *Id.* at *11. First, the court would consider "the extent to which a defendant has a physical presence in the district." *Ibid.* This factor was entirely logical; the statute requires a "place of business," after all. However, the court designated this necessity merely one "factor," to be balanced against others, and called on courts to consider not only "property," but also "inventory, infrastructure, or people," present in the district—even though none of the three latter items are a "place." *Ibid.* The other factors were entirely untethered from the statutory language, and appeared to many observers and litigants calculated to place weights on the scale in favor of venue: the defendant's "represent[ations], internally or externally, that it has a presence in the district;" the "benefits" the defendant derives "from its presence in the district, including but not limited to sales revenue;" and the defendant's "targeted" interactions "with existing or potential customers, consumers, users, or entities within a district." *Id.* at *12-14. Applying these factors, the court found that venue was proper based on the fact that one sales representative had made sales from his home in the district, using a phone number with a local area code, and that an internal company presentation listed him at that location. *Id.* at *1-2, *9-10.

The defendant, supercomputer maker Cray, Inc., petitioned the Federal Circuit to issue a writ of mandamus. The court of appeals granted the petition, and ordered the case transferred. *Cray*, 871 F.3d at 1367. The Federal Circuit held that, rather than an agglomeration of factors, there are three irreducible "requirements" for a defendant to have a "regular and established place of business" in the judicial district. *Id.* at 1360.

First, "there must be a physical place in the district." *Ibid.* In ruling that "a fixed physical location in the district is not a prerequisite," the district court had "impermissibly expand[ed] the statute." *Id.* at 1362. *Second*, the location "must be a regular and established place of business." *Id.* at 1360. The "nature and activity of the" location (considered in light of the defendant's other locations) must show that it is a "place of business," and one with "sufficient permanence." *Id.* at 1362-64. *Third*, the location "must be a place *of the defendant*, not solely a place of the defendant's employee." *Id.* at 1363 (emphasis in original). Courts should therefore ask "whether the defendant owns or leases the place." *Ibid.* While courts may also consider "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," it is not enough that the defendant *knew* the employee lives in the district when it hired her. *Id.* at 1363-64.

Unlike the district court's four factors, *Cray*'s three requirements follow directly from the statutory text. Moreover, by closing off courts' ability to consider a universe of irrelevant factors, the Federal Circuit made the venue inquiry vastly simpler. This in turn will reduce the scope—and thus the duration and expense—of venue discovery. Plaintiffs should normally be able to determine, before filing suit, where a defendant has stores or facilities; many companies list that information on their websites and other public documentation. Plaintiffs accordingly can bring suit where such facilities exist (and plead their existence in the complaint), instead of blindly guessing and hoping that the defendant has employees working from the district. As a result of this decision, much litigation ancillary to the merits now can be avoided, and patent suits can proceed only in the districts Congress intended.

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