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## **Solving the Riddle! Bridging the Gap in the Federal Circuit's Definition of "Regular and Established Place of Business" to Prevent Patent Trolls from Forum Shopping**

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**SOLVING THE RIDDLE! BRIDGING THE GAP IN THE  
FEDERAL CIRCUIT’S DEFINITION OF  
“REGULAR AND ESTABLISHED PLACE OF BUSINESS” TO  
PREVENT PATENT TROLLS FROM FORUM SHOPPING**

*Michael A. Morales\**

**I. INTRODUCTION**

Non-practicing entities, more commonly referred to as patent trolls, own patents and enforce them against other entities without practicing the underlying patented inventions themselves.<sup>1</sup> Although this conduct complies with the United States patent laws, patent trolls manipulate and exploit many weaknesses in the system, such as threatening litigation to extract licensing fees and forum shopping to provide procedural litigation advantages.<sup>2</sup> The differing opinions of the various district courts regarding venue disputes in patent infringement cases enable patent trolls to use forum shopping as a

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<sup>1</sup> Edward Lee, *Patent Trolls: Moral Panics, Motions in Limine, and Patent Reform*, 19 STAN. TECH. L. REV. 113, 115 (2015). An entity practices an invention when it “makes, uses, offers to sell, or sells [its] patented invention, within the United States or imports into the United States [its] patented invention . . .” 35 U.S.C. § 271(a) (2016).

<sup>2</sup> Grace Heinecke, *Pay the Troll Toll: The Patent Troll Model is Fundamentally at Odds with the Patent System’s Goals of Innovation and Competition*, 84 FORDHAM L. REV. 1153, 1155 (2015). “[P]atent trolls . . . use the patents to ‘extort some money’ from companies that actually make things.” Kristen Osenga, *Formerly Manufacturing Entities: Piercing the “Patent Troll” Rhetoric*, 47 CONN. L. REV. 435, 435 (2014).

litigation weapon.<sup>3</sup> The exploitation of the patent system causes companies to allocate resources to defensive litigation strategies instead of developing new technology and fostering innovation, which directly conflicts with Congress's goal for implementing the patent system.<sup>4</sup> Thus, it is no surprise that the overwhelming attitude among legal scholars towards patent trolls is that "[e]veryone seems to *hate* '[them].'"<sup>5</sup>

Although patent trolls have manipulated the United States patent system, one way to discourage and prevent them from exploiting the weaknesses in the system, and ultimately harming innovation, is through the combination of reasoned policy analysis and patent venue reform.<sup>6</sup> For many years, the United States District Court for the Eastern District of Texas has provided a haven for patent trolls to bring patent infringement lawsuits because it tends to favor patent-owners.<sup>7</sup> Therefore, patent trolls typically file patent infringement lawsuits in the Eastern District of Texas instead of other more convenient districts to increase their likelihood of a favorable outcome.<sup>8</sup> Such forum shopping, which is part of the patent troll business model, provides a litigation advantage to a party in a patent infringement lawsuit.<sup>9</sup>

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<sup>3</sup> See Heinecke, *supra* note 2, at 1179-80.

<sup>4</sup> Heinecke, *supra* note 2. Article I of the United States Constitution grants Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]" U.S. CONST. art. 1 § 8, cl. 8.

<sup>5</sup> Osenga, *supra* note 2, at 437 (emphasis added).

<sup>6</sup> See Brian J. Love & James Yoon, *Predictably Expensive: A Critical Look at Patent Litigation in the Eastern District of Texas*, 20 STAN. TECH. L. REV. 1, 35 (2017); see also Osenga, *supra* note 2, at 438.

<sup>7</sup> Patrick H.J. Hughes, *Attorneys Weigh in on Impact of Federal Circuit Patent Venue Ruling*, WESTLAW INTELLECTUAL PROPERTY DAILY BRIEFING, Sept. 28, 2017, 2017 WL 4295782. In fact, "East Texas saw more patent suits since 2014 than the districts that contain California's Silicon Valley, Massachusetts' Route 128, Detroit's Automation Alley, Illinois' Golden Corridor, and North Carolina's Research Triangle." Love & Yoon, *supra* note 6, at 7. According to Lex Machina, between 2014 and mid-2016, the Eastern District of Texas saw 4,736 patent suits, while the Northern District of California saw 595 patent suits, the District of Massachusetts saw 154, the Eastern District of Michigan saw 159, the Northern District of Illinois saw 448, and the Middle and Eastern Districts of North Carolina collectively saw 79. Love & Yoon, *supra* note 6, at 7 n.22.

<sup>8</sup> Love & Yoon, *supra* note 6, at 7.

<sup>9</sup> Patrick H.J. Hughes, *Supreme Court Might End Texas' Preferred Patent Venue Status, Attorneys Say (U.S.)*, WESTLAW INTELLECTUAL PROPERTY DAILY BRIEFING, Dec. 20, 2016, 2016 WL 7362601 (citing Brief of Amici Curiae 56 Professors of Law and Economics in Support of Petition for Writ of Certiorari, *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017) (No. 16-341), 2017 WL 510981, at \*9 (explaining that "[w]hile forum

This Note will argue that courts should apply venue law in a manner that limits a litigant's ability to forum shop for a favorable forum, such as the Eastern District of Texas, in patent infringement lawsuits. This Note will propose several factors that courts should use to determine whether a party has filed a patent infringement lawsuit in a proper venue according to the patent venue statute.<sup>10</sup> It will explain why each factor limits a patent troll's ability to forum shop, thereby fostering innovation and supporting Congress's goal for implementing the patent system.<sup>11</sup>

This Note will be divided into nine sections. Section II will provide an overview of the application of the patent venue statute. Section III will explain Congress's intent when it enacted the patent venue statute. Section IV will discuss the Federal Circuit's analysis of the regular and established place of business requirement for venue purposes, including a discussion of its decisions in *In re Cordis Corp.*<sup>12</sup> and *In re Cray Inc.*<sup>13</sup> Section V will analyze factual considerations that courts should use to determine whether a defendant has a physical place of business in a district within the meaning of the Federal Circuit's definition. Section VI will discuss facts that courts should consider to determine whether a defendant's place of business is regular. Section VII will evaluate factual considerations that courts should use to determine whether a defendant's place of business is established. Section VIII will analyze factual inquiries that courts should consider in addition to the Federal Circuit's factors presented in *In re Cray*. Finally, Section IX will conclude that the courts should apply venue law uniformly to prevent patent trolls from forum shopping.

## II. OVERVIEW OF THE APPLICATION OF THE PATENT VENUE STATUTE

Venue for patent infringement cases is codified in 28 U.S.C. § 1400(b),<sup>14</sup> which provides that “[a]ny civil action for patent

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shopping in general impairs the operation of law, disadvantages those who lack the resources to engage in forum shopping, and creates economic waste, . . . the rise of the troll business model exacerbates these problems in patent litigation . . .” (citation omitted)).

<sup>10</sup> See discussion of factual considerations *infra* Sections V-VIII.

<sup>11</sup> See U.S. CONST. art. 1 § 8, cl. 8.

<sup>12</sup> 769 F.2d 733 (Fed. Cir. 1985). See discussion of this case *infra* Section IV(A).

<sup>13</sup> 871 F.3d 1355 (Fed. Cir. 2017). See discussion of this case *infra* Section IV(B)(2).

<sup>14</sup> 28 U.S.C. § 1400(b) (2016).

infringement may be brought in the judicial district where the defendant *resides*, or where the defendant *has committed acts of infringement and has a regular and established place of business.*<sup>15</sup> For over twenty-five years, in accordance with the United States Court of Appeals for the Federal Circuit's decision in *VE Holding Corp. v. Johnson Gas Appliance Co.*,<sup>16</sup> courts consistently held that a defendant resided in any judicial district where the defendant is subject to the court's personal jurisdiction.<sup>17</sup> Therefore, under this interpretation of the patent venue law, patent trolls forum shopped for patent-owner friendly forums, such as the Eastern District of Texas, merely by arguing that the court had personal jurisdiction over the defendant.<sup>18</sup>

On May 22, 2017, the United States Supreme Court handed down its decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*,<sup>19</sup> in which it held that a defendant resides only in its state of incorporation.<sup>20</sup> Under this change in the law, a defendant corporation resides in any judicial district in its state of incorporation rather than in any judicial district where the defendant is subject to the court's personal jurisdiction.<sup>21</sup> Therefore, in the wake of *TC Heartland*, if a defendant corporation is not incorporated in the state in which a plaintiff files a patent infringement lawsuit, then a court must establish a proper venue by determining where the defendant corporation has

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<sup>15</sup> *Id.* (emphasis added).

<sup>16</sup> 917 F.2d 1574 (Fed. Cir. 1990), *abrogated by* *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514 (2017).

<sup>17</sup> *VE Holding*, 917 F.2d at 1580 (explaining that 28 U.S.C. § 1391(c) supplemented § 1400(b) and, for venue purposes in patent infringement cases, a court is a proper venue if the court has personal jurisdiction over the parties). General venue provisions are codified in 28 U.S.C. § 1391(c), which provides that “an entity with the capacity to sue and be sued in its common name under applicable law, whether or not incorporated, *shall be deemed to reside*, if a defendant, *in any judicial district in which such defendant is subject to the court's personal jurisdiction* with respect to the civil action in question . . . .” 28 U.S.C. § 1391(c)(2) (2016) (emphasis added).

<sup>18</sup> The Eastern District of Texas's popularity stems from its reputation for cases proceeding to trial quickly, which in turn allows plaintiffs to recover damages faster while placing greater pressure on defendants to settle. Love & Yoon, *supra* note 6, at 13. In addition, the Eastern District of Texas is home to judges and jurors who are unusually sympathetic to plaintiffs. Love & Yoon, *supra* note 6, at 15. The Eastern District of Texas's popularity also stems from the combined effect of a number of marginal procedural advantages, including the relative timing of discovery, rulings on procedural motions, and judicial scrutiny of infringement claims. Love & Yoon, *supra* note 6, at 21.

<sup>19</sup> 137 S. Ct. 1514 (2017).

<sup>20</sup> *Id.* at 1521 (holding that 28 U.S.C. § 1391(c) does not supplement 28 U.S.C. § 1400(b) for patent venue purposes).

<sup>21</sup> *Id.* See also *In re Micron Tech., Inc.*, 875 F.3d 1091, 1094 (Fed. Cir. 2017) (stating “[w]e conclude that *TC Heartland* changed the controlling law . . .”).

committed acts of infringement and has a regular and established place of business in a judicial district.<sup>22</sup> The Supreme Court's decision in *TC Heartland* reined in patent trolls and limited their ability to forum shop.<sup>23</sup>

Prior to the Supreme Court's decision in *TC Heartland*, courts rarely determined whether a defendant had a regular and established place of business in a judicial district because, relying on the Federal Circuit's holding in *VE Holding*, courts often determined a proper venue based on where the defendant resided.<sup>24</sup> Therefore, a large gap in the law existed for determining whether a defendant had a regular and established place of business in a judicial district.<sup>25</sup> For over thirty years, district courts struggled to apply venue law uniformly in accordance with the Federal Circuit's decision in *In re Cordis*, the Federal Circuit's only decision which provided guidance on the issue.<sup>26</sup> In the recent decision of *In re Cray*, the Federal Circuit analyzed the statutory framework of the "regular and established place of business" requirement of the patent venue statute and provided guidance for courts to use going forward.<sup>27</sup>

In *In re Cray*, the Federal Circuit held that there are three general requirements to determine whether a defendant corporation has a regular and established place of business in a judicial district.<sup>28</sup> First, there must be a physical place of business in the district.<sup>29</sup> Second, the

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<sup>22</sup> See 28 U.S.C. § 1400(b) (2016).

<sup>23</sup> See Larry Downes, *The U.S. Supreme Court Is Reining in Patent Trolls, Which Is a Win for Innovation*, HARV. BUS. REV. (June 2, 2017), <https://hbr.org/2017/06/the-u-s-supreme-court-is-reining-in-patent-trolls-which-is-a-win-for-innovation>.

<sup>24</sup> *In re Cray, Inc.*, 871 F.3d 1355, 1359 (Fed. Cir. 2017) (explaining that venue in patent infringement cases has largely turned on whether a defendant resides in the district in question).

<sup>25</sup> *Id.* (discussing that district courts have noted the uncertainty surrounding and the need for greater uniformity on the issue of whether a defendant has a regular and established place of business).

<sup>26</sup> *Id.* (citing *In re Cordis*, 769 F.2d at 736-37). The United States Court of Appeals for the Federal Circuit has exclusive jurisdiction "of an appeal from a final decision of a district court of the United States . . . in any civil action arising under . . . any Act of Congress relating to patents . . ." 28 U.S.C. § 1295(a)(1) (2016). Congress formed the Federal Circuit to clear up existing conflicts in the patent law decisions of the circuit courts of appeals and to develop a body of law to instruct district courts in the proper application of the patent laws. Donald R. Dunner, *The U.S. Court of Appeals for the Federal Circuit: Its Critical Role in the Revitalization of U.S. Patent Jurisprudence, Past, Present, and Future*, 43 LOY. L.A. L. REV. 775, 781 (2010). See discussion of the Federal Circuit *infra* Section IV.

<sup>27</sup> See generally *In re Cray*, 871 F.3d at 1355.

<sup>28</sup> *Id.* at 1360.

<sup>29</sup> *Id.*

physical place of business must be regular and established.<sup>30</sup> Third, the regular and established place of business must be the place of the defendant.<sup>31</sup> In this case, the Federal Circuit found that the facts did not support a finding that Cray had a place of business under the third requirement because there was no indication that Cray owned, leased, or rented any portion of its sales executives' homes in the judicial district.<sup>32</sup> Although this case is very helpful in guiding district courts to apply venue law uniformly, the court did not specifically apply the first two requirements to the facts of the case.<sup>33</sup> In contrast with the third requirement, the court did not discuss factors that courts should use to determine whether the place of business is "physical," "regular," and "established."<sup>34</sup> As such, with district courts attempting to resolve venue disputes in the wake of *TC Heartland*, it has become increasingly necessary for courts to uniformly determine whether a defendant corporation has a physical, regular, and established place of business in a district.

Regarding the physical place of business requirement, courts should consider whether a defendant operates solely through virtual means.<sup>35</sup> Courts should also consider whether a defendant has a stand-alone business office or employs a secretarial service in the district.<sup>36</sup> On the other hand, whether a defendant registers as a foreign corporation or appoints an agent to accept service of process should not be factored into a court's analysis.<sup>37</sup>

Regarding the regular and established requirements, courts should split the analysis for regular place of business from the analysis for established place of business because the Federal Circuit defined

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<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *In re Cray*, 871 F.3d at 1366. See discussion of facts *infra* Section IV(B)(2).

<sup>33</sup> See *In re Cray*, 871 F.3d at 1366.

<sup>34</sup> *Id.* at 1362-64.

<sup>35</sup> See analysis of this factor *infra* Section V (A). Although courts have not specifically analyzed the phrase "virtual means" for patent venue purposes, courts hesitate to find that a defendant has a regular and established place of business in a district if the defendant sells products or services through online stores only. See *Talsk Research Inc. v. Evernote Corp.*, No. 16-CV-2167, 2017 WL 4269004, at \*2 (N.D. Ill. Sept. 26, 2017). This result is proper because the Federal Circuit has determined that the place of business must be a physical, geographical location in the district from which the defendant conducts business. See *In re Cray*, 871 F.3d at 1362.

<sup>36</sup> See analysis of this factor *infra* Section V(B).

<sup>37</sup> See analysis of this factor *infra* Section V(C). Consideration of these factors conflates the issues of venue with personal jurisdiction. See *In re Cray*, 871 F.3d at 1361.

the terms “regular” and “established” differently.<sup>38</sup> To determine whether a defendant has a regular place of business in a district, courts should consider how long the defendant has spent in the district as well as the number of times per year that the defendant spends in the district conducting business.<sup>39</sup> To determine whether a defendant has an established place of business in a district, courts should consider the defendant’s revenue generated in the district, the time that the defendant has spent in the district, and the number of employees that the defendant has employed in the district.<sup>40</sup> On the other hand, courts should not evaluate whether the defendant’s employees service customers at the customer’s location.<sup>41</sup>

Regarding the defendant’s place of business requirement, in addition to the requirements that the Federal Circuit discussed in *In re Cray*, courts should also consider whether the place of business in question is the place of the defendant or the defendant’s subsidiary.<sup>42</sup> On the other hand, whether the defendant lists its employee’s home as the place of business on a worker’s compensation insurance policy should not be factored into a court’s analysis.<sup>43</sup> Although a defendant might store its products in its employee’s home, courts should not consider this factor to be determinative.<sup>44</sup>

Courts should continue to rein in patent trolls by uniformly applying patent venue law to prevent them from using forum shopping as a litigation advantage. Companies sued by patent trolls must allocate resources to defensive strategies—funds that otherwise could be spent on developing technology instead of threatened litigation.<sup>45</sup> Without litigation spending, companies can invest more in research and development to create new patentable inventions, thereby

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<sup>38</sup> See *In re Cray*, 871 F.3d at 1362-63 (defining regular as “‘steady[,] uniform[,] orderly[,] and] methodical’ manner” and defining established as “‘settle[d] certainly, or fix[ed] permanently”). Courts should split the analysis to avoid redundancy and conflating the requirements of each term because the Federal Circuit has defined the terms separately.

<sup>39</sup> See analysis of this factor *infra* Section VI(A)-VI(B).

<sup>40</sup> See analysis of this factor *infra* Section VII(B), VII(E).

<sup>41</sup> See analysis of this factor *infra* Section VII(C). A court should find that the defendant’s business is not established in the district if the defendant leaves the district because its presence is not fixed permanently. See analysis of this factor *infra* Section VII(A).

<sup>42</sup> See analysis of this factor *infra* Section VIII(B).

<sup>43</sup> See analysis of this factor *infra* Section VIII(C).

<sup>44</sup> See analysis of this factor *infra* Section VIII(A). See discussion of *In re Cray* *infra* Section IV(B)(2).

<sup>45</sup> Heinecke, *supra* note 2, at 1179-80.



fostering innovation.<sup>46</sup> Under the analysis set forth in *In re Cray*, district courts have wide discretion for determining a proper venue because the Federal Circuit left large gaps in its analysis of the patent venue laws.<sup>47</sup> These gaps permit district courts to have varying opinions regarding whether a defendant has a physical, regular, and established place of business in the district at issue.<sup>48</sup> The differing opinions of the various district courts enable patent trolls to exploit the patent system and use forum shopping as a litigation weapon, thereby continuing to harm innovation.<sup>49</sup> By utilizing the factors analyzed in this Note, courts can begin to apply patent venue law uniformly to prevent patent trolls from exploiting this prevalent weakness in our judicial system.

### III. 28 U.S.C. 1400(B)'S LEGISLATIVE HISTORY AND CONGRESS'S INTENT WHEN IT ENACTED THE "REGULAR AND ESTABLISHED PLACE OF BUSINESS" REQUIREMENT

In the late 1800s, when Congress was considering § 1400(b)'s predecessor,<sup>50</sup> courts were divided over whether a defendant could be sued for patent infringement outside the place of defendant's incorporation.<sup>51</sup> To resolve the uncertainty, Congress enacted § 1400(b)'s predecessor in 1897 to permit suit in the district of which the defendant was an "inhabitant" or in which the defendant both maintained a "regular and established place of business" and committed an act of infringement.<sup>52</sup> The statute's main purpose was

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<sup>46</sup> Heinecke, *supra* note 2, at 1180.

<sup>47</sup> As mentioned, the Federal Circuit's analysis in *In re Cray* guided courts, but it failed to provide specific factual considerations that courts should use to determine if the defendant's place of business in a district is physical, regular, and established. *See generally In re Cray*, 871 F.3d at 1355.

<sup>48</sup> *See* discussion of the shortcomings of the Federal Circuit's test *infra* Section IV(B)(2).

<sup>49</sup> *See* Heinecke, *supra* note 2, at 1179-80.

<sup>50</sup> Act of Mar. 3, 1897, ch. 395, 29 Stat. 695 (1897) (codified as amended at 28 U.S.C. § 1400(b)).

<sup>51</sup> *In re Cray*, 871 F.3d at 1360. *Compare id.* at 1360-61 (explaining that some courts held that plaintiffs must bring suit in the defendant's place of incorporation because "it is very inconvenient to travel across the continent to sue them when they are infringing in a business established near the plaintiff or owner of a patent." (quoting 29 CONG. REC. 2695, 2719 (1897) (statement by Sen. Platt)), *with id.* at 1361 (explaining that "[o]ther courts instead held that [patent] infringement 'suit[s]' may be brought wherever service can be had." (quoting 29 CONG. REC. 1871, 1900 (1897) (statement of Rep. Mitchell))).

<sup>52</sup> Act of Mar. 3, 1897, ch. 395, 29 Stat. 695 (1897) (codified as amended at 28 U.S.C. § 1400(b)).

to “give original jurisdiction to the court where a permanent agency transacting the business [was] located.”<sup>53</sup> Jurisdiction would not be conferred by “[i]solated cases of infringement,” but “only where a permanent agency [was] established.”<sup>54</sup>

The Federal Circuit in *In re Cray* noted that “Congress adopted the predecessor to § 1400(b) as a special venue statute in patent infringement actions to eliminate the ‘abuses engendered’ by previous venue provisions allowing such suits to be brought in any district in which the defendant could be served.”<sup>55</sup> The legislation was “intended to define the exact limits of venue in patent infringement suits.”<sup>56</sup> The Supreme Court therefore has explained that Congress enacted the statute as “a restrictive measure, limiting a prior, broader venue.”<sup>57</sup> The Supreme Court has also instructed that venue requirements are specific and unambiguous and that courts should not give them a liberal construction.<sup>58</sup>

#### IV. APPLICATION OF “REGULAR AND ESTABLISHED PLACE OF BUSINESS” IN FEDERAL COURTS

Prior to the formation of the United States Court of Appeals for the Federal Circuit, appellate review of patent cases took place in the eleven different circuit courts of appeals.<sup>59</sup> The circuit courts’ widely varying views of the patent laws encouraged patent litigators to race to the courthouses of their choice in order to position their clients in the circuit court most friendly to their clients’ interests.<sup>60</sup> This behavior resulted in “an extremely inefficient and unfair administration of justice in the patent law area, not to mention the total unpredictability of patent jurisprudence, contingent on who reached the courthouse first.”<sup>61</sup> Therefore, in the early 1980s, Congress formed the Federal Circuit to clear up existing conflicts in the patent law decisions of the

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<sup>53</sup> *In re Cray*, 871 F.3d at 1361 (quoting 29 CONG. REC. 1871, 1900 (1897) (statement of Rep. Lacey)).

<sup>54</sup> *Id.* (quoting 29 CONG. REC. 1871, 1900 (1897) (statement of Rep. Lacey)).

<sup>55</sup> *Id.* (quoting *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260, 262 (1961)).

<sup>56</sup> *Id.* (quoting *Stonite Prods. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 566 (1942)).

<sup>57</sup> *Id.* (quoting *Stonite*, 315 U.S. at 566).

<sup>58</sup> *In re Cray*, 871 F.3d at 1361 (citing *Schnell*, 365 U.S. at 264).

<sup>59</sup> Dunner, *supra* note 26, at 777.

<sup>60</sup> Dunner, *supra* note 26, at 777.

<sup>61</sup> Dunner, *supra* note 26, at 777.

circuit courts of appeals and to develop a body of law to instruct district courts in the proper application of the patent laws.<sup>62</sup>

In 1985, *In re Cordis* was the Federal Circuit's first decision addressing the issue of whether a defendant corporation has a regular and established place of business in a judicial district.<sup>63</sup> However, *In re Cordis* is viewed as merely persuasive, rather than authoritative, because of its unique procedural posture and its focus on one fact in the countless combinations of relevant factors.<sup>64</sup> The Federal Circuit recently rendered another decision in *In re Cray* to help district courts determine whether a defendant corporation has a regular and established place of business in a judicial district.<sup>65</sup> This section will discuss and analyze the Federal Circuit's decisions in *In re Cordis* and *In re Cray* and the shortcomings of each case.

#### **A. Federal Circuit's Determination that a Defendant Corporation has a Regular and Established Place of Business if it has a "Continuous and Permanent Presence" in the District**

In *In re Cordis*, Medtronic Inc., a Minnesota corporation with its principal place of business in Minneapolis, filed a complaint in the United States District Court for the District of Minnesota alleging that Cordis Corp., a Florida corporation with its principal place of business in Miami, infringed four of Medtronic's patents.<sup>66</sup> Cordis filed a motion to dismiss for improper venue under Rule 12(b)(3) of the Federal Rules of Civil Procedure on the ground that Cordis did not have a regular and established place of business in the District of Minnesota.<sup>67</sup> However, the district court denied Cordis's motion to dismiss.<sup>68</sup>

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<sup>62</sup> Dunner, *supra* note 26. The United States Court of Appeals for the Federal Circuit has exclusive jurisdiction "of an appeal from a final decision of a district court of the United States . . . in any civil action arising under . . . any Act of Congress relating to patents . . . ." 28 U.S.C. 1295(a)(1) (2016).

<sup>63</sup> *In re Cordis*, 769 F.2d at 736.

<sup>64</sup> Ron Vogel & Brian Coggio, *Reviving 'Regular And Established Place Of Biz' Case Law*, LAW 360 (June 12, 2017, 1:28 PM), <https://www.law360.com/articles/930354/reviving-regular-and-established-place-of-biz-case-law> (explaining that the case's procedural posture was unique because of the extraordinary nature of mandamus).

<sup>65</sup> *See generally In re Cray*, 871 F.3d at 1355.

<sup>66</sup> *In re Cordis*, 769 F.2d at 734.

<sup>67</sup> *Id.*

<sup>68</sup> *Id.*

The district court found that Cordis employed two full-time sales representatives, who worked exclusively for Cordis to market the company's pacemakers in Minnesota.<sup>69</sup> The two sales representatives maintained their offices in their homes where they stored Cordis's literature, documents, and products.<sup>70</sup> Furthermore, they acted as technical consultants who were present in the operating room during a significant number of surgical implantations of Cordis's pacemakers, provided post-implantation consultations, and gave small presentations regarding technological developments.<sup>71</sup> Cordis also engaged a Minnesota secretarial service to receive messages, provide typing services, mail Cordis's literature, and receive shipments of Cordis's sales literature.<sup>72</sup> The Minnesota telephone directory included Cordis's name, telephone number and address.<sup>73</sup> However, Cordis was not registered to do business in Minnesota, did not have a bank account within the state, and did not own or lease an office space within the state.<sup>74</sup>

The district court denied Cordis's motion to dismiss and found that Cordis maintained a regular and established place of business in Minnesota even though the two sales representatives did not perform their sales functions from a fixed, physical location.<sup>75</sup> Cordis challenged the district court's finding because it did not rent or own a fixed physical location within Minnesota.<sup>76</sup> Cordis petitioned the Federal Circuit to issue a writ of mandamus to order the District of Minnesota to transfer the case to a proper venue.<sup>77</sup> Pursuant to the All Writs Act,<sup>78</sup> the Federal Circuit had the authority to issue the requested writ as "necessary or appropriate in aid of [its jurisdiction]."<sup>79</sup> However, "[t]he use of mandamus is limited to exceptional

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<sup>69</sup> *Id.* at 735.

<sup>70</sup> *Id.*

<sup>71</sup> *In re Cordis*, 769 F.2d at 735.

<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> *Id.* at 737.

<sup>76</sup> *In re Cordis*, 769 F.2d at 734.

<sup>77</sup> *Id.*

<sup>78</sup> All Writs Act, ch. 139, 63 Stat. 102 (1949) (codified as amended in 28 U.S.C. § 1651(a)).

<sup>79</sup> *In re Cordis*, 769 F.2d at 736 (quoting *Miss. Chem. Corp. v. Swift Agric. Chems. Corp.*, 717 F.2d 1374 (Fed. Cir. 1983)).

circumstances to correct a ‘clear abuse of discretion or “usurpation of judicial power”’ by a trial court.”<sup>80</sup>

The Federal Circuit relied heavily on the decisions of the Court of Appeals for the Ninth Circuit in *Phillips v. Baker*<sup>81</sup> and the Court of Appeals for the Seventh Circuit in *University of Illinois Foundation v. Channel Master Corp.*<sup>82</sup> to determine that Cordis had a regular and established place of business in Minnesota.<sup>83</sup> The court reasoned that these cases indicated that the “appropriate inquiry is whether the corporate defendant does its business in a district through a *permanent and continuous presence*” and not whether the corporate defendant has a “fixed physical presence in the sense of a formal office or store.”<sup>84</sup> If a “rational and substantial legal argument can be made in support of the rule in question, the case is not appropriate for mandamus, even though on normal appeal, a court might find reversible error.”<sup>85</sup> The court found that Medtronic made a rational and substantial legal argument in support of the district court’s order to deny Cordis’s motion to dismiss for lack of proper venue.<sup>86</sup>

The Federal Circuit used a clear abuse of discretion standard of review because Cordis petitioned the Federal Circuit to issue a writ of mandamus to order the district court to transfer the case to a proper venue.<sup>87</sup> If Cordis had instead appealed the case after the district court’s decision on the merits, the outcome might have been different because the Federal Circuit would have likely reviewed the appeal using a de novo standard.<sup>88</sup> If the case had been reviewed de novo, the

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<sup>80</sup> *Id.* (citing *Bankers Life & Casualty Co. v. Holland*, 346 U.S. 379 (1953) (quoting *De Beers Consol. Mines v. United States*, 325 U.S. 212 (1945))).

<sup>81</sup> 121 F.2d 752 (9th Cir. 1941). See discussion of the case *infra* Section VI(A).

<sup>82</sup> 382 F.2d 514 (7th Cir. 1967).

<sup>83</sup> *In re Cordis*, 769 F.2d at 736-37.

<sup>84</sup> *Id.* at 737 (emphasis added).

<sup>85</sup> *Id.*

<sup>86</sup> *Id.*

<sup>87</sup> *Id.* at 736.

<sup>88</sup> See *In re Cordis*, 769 F.2d at 737. When legal error is at issue, the standard of review is de novo, and the Federal Circuit gives the trial court little, if any, deference as to any presumption of legal correctness. Kevin Casey et al., *Standards of Appellate Review in the Federal Circuit: Substance and Semantics*, 11 FED. CIR. B. J. 279, 285 (2002) (citing *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1369 (Fed. Cir. 2001); *Cybor Corp. v. FAS Tech., Inc.*, 138 F.3d 1448, 1456 (Fed. Cir. 1998); *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1563 (Fed. Cir. 1996)). The most lenient standard of review is abuse of discretion, which “may be found when: (1) the tribunal’s decision is clearly unreasonable, arbitrary, or fanciful; (2) the decision was based on an erroneous conclusion of law; (3) the tribunal’s findings are clearly erroneous; or (4) the record contains no evidence

court might have analyzed the issue further. Instead of explaining that the appropriate inquiry is whether a defendant has a permanent and continuous presence in a district,<sup>89</sup> the court might have set forth a comprehensive framework for determining whether a defendant has a regular and established place of business in a district. The Federal Circuit's decision failed to apply its new rule of law from *In re Cordis* to the facts because it did not specifically explain how Cordis's actions in the district amounted to a continuous and permanent presence there.<sup>90</sup> It would have been more helpful for the court to go beyond simply explaining its rule of law by applying the rule of law to the facts and discussing its reasoning for doing so. Instead, the court left it up to the district courts in future cases to determine whether a defendant conducts its business in a district through a permanent and continuous presence.<sup>91</sup> Consequently, district courts have struggled to apply the Federal Circuit's new rule of law uniformly.<sup>92</sup>

### **B. Federal Circuit Defines a Regular and Established Place of Business but Leaves Gaps in its Analysis**

In *Raytheon Co. v. Cray Inc.*,<sup>93</sup> the defendant filed a motion to dismiss for lack of personal jurisdiction and improper venue, but the court denied the motion finding that the defendant had a regular and established place of business in the judicial district based on Judge Gilstrap's newly created four factor test.<sup>94</sup> After the court denied the defendant's motion to dismiss, Cray petitioned the Federal Circuit to

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upon which the tribunal rationally could have based its decision." *Id.* at 286 (citing *Abrutyn v. Giovanniello*, 15 F.3d 1048, 1050-51 (Fed. Cir. 1994); *W. Elec. Co. v. Piezo Tech., Inc.*, 860 F.2d 428 (Fed. Cir. 1998); *Heat & Control, Inc. v. Hester Indus., Inc.*, 785 F.2d 1017 (Fed. Cir. 1986)).

<sup>89</sup> See *In re Cordis*, 769 F.2d at 737.

<sup>90</sup> See *id.* at 736-37.

<sup>91</sup> See generally *id.* at 733.

<sup>92</sup> Compare *Holub Indus., Inc. v. Wyche*, 290 F.2d 852, 853 (4th Cir. 1961) (suggesting that a prerequisite to being considered a regular and established place of business is that the defendant must have a physical presence, such as an office or warehouse, in the district), with *Mastantuono v. Jacobsen Mfg. Co.*, 184 F. Supp. 178, 180 (S.D.N.Y. 1960) (requiring that the defendant must regularly engage "in carrying on a substantial part of its ordinary business on a permanent basis in a physical location within the district over which it exercises some measure of control.").

<sup>93</sup> 258 F. Supp. 3d 781 (E.D. Tex. 2017), vacated by *In re Cray*, 871 F.3d at 1357.

<sup>94</sup> *Raytheon*, 258 F. Supp. 3d at 799. See discussion of Judge Gilstrap's factor test *infra* Section IV(B)(1).

issue a writ of mandamus to order the Eastern District of Texas to transfer the case.<sup>95</sup>

***1. Raytheon Co. v. Cray, Inc.: The District Court Opinion***

Cray had one sales executive working in the Eastern District of Texas for more than seven years and listed the sales executive as the “Named Account Manager” there.<sup>96</sup> In addition, the sales executive listed his telephone number on Cray’s invoices to customers and emails to clients, and the telephone number’s area code was associated with several counties in the Eastern District of Texas.<sup>97</sup> The revenue attributed to the sales executive exceeded \$345 million, and the sales executive received reimbursement for his cellphone used for business purposes, internet fees, mileage and various costs he incurred for business travel.<sup>98</sup> Unlike Cordis in *In re Cordis*, Cray did not pay for any secretarial staff in the district; rather, the sales executive received direct administrative support from Cray’s Minnesota office to allow the sales executive to continue to work from his home office in the Eastern District of Texas.<sup>99</sup>

Before the Federal Circuit’s decision in *VE Holding*, most courts had developed competing and conflicting interpretations of the regular and established place of business element of § 1400(b).<sup>100</sup> One line of cases held, or at least suggested, that an established place of business required a physical presence in the district.<sup>101</sup> In fact, some of these courts held that the physical presence needed to be on land that the defendant owned, leased, or controlled.<sup>102</sup> Other courts required that the physical presence be a “substantial part” of the defendant’s business.<sup>103</sup> The other line of cases found that proper venue did not require a physical presence in the district but that a

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<sup>95</sup> *In re Cray*, 871 F.3d at 1356.

<sup>96</sup> *Raytheon*, 258 F. Supp. 3d at 785.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.* at 792 (explaining that in *Johnston v. IVAC Corp.*, 681 F. Supp. 959, 962 (D. Mass. 1987), courts hoped for greater uniformity after the creation of the Federal Circuit).

<sup>101</sup> *Raytheon*, 258 F. Supp. 3d at 792 (citing *Holub*, 290 F.2d at 853, *Gen. Radio Co. v. Superior Elec. Co.*, 293 F.2d 949 (1st Cir. 1961), and *Phillips*, 121 F.2d at 752).

<sup>102</sup> *Id.* (citing *Johnston*, 681 F. Supp. at 962).

<sup>103</sup> *Id.* See *Mastantuono*, 184 F. Supp. at 178. See also *Coleco Indus., Inc. v. Kransco Mfg., Inc.*, 247 F. Supp. 571, 574 (S.D.N.Y. 1965).

defendant's employee, operating out of his or her home, could constitute a regular and established place of business.<sup>104</sup>

In light of the courts' split in applying patent venue law, Judge Gilstrap created a four factor test to help courts ascertain coverage under the statutory scheme.<sup>105</sup> His test included determining the extent to which (1) "a defendant has a physical presence in the district,"<sup>106</sup> (2) "a defendant represents that it has a presence in the district,"<sup>107</sup> (3) "a defendant derives benefits from its presence in the district,"<sup>108</sup> and (4) "a defendant interacts in a targeted way with entities in the district."<sup>109</sup> He explained that his test did not supplant the statutory language of § 1400(b) and stated that none of the factors should alone be dispositive.<sup>110</sup> He opined that courts should consider other realities present in individual cases based upon fair consideration of the totality of the circumstances and not by a bright-line test.<sup>111</sup> Although Judge Gilstrap discussed each of the four factors of his test, he did not apply each factor to the facts of *Raytheon* or explain how each factor weighed

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<sup>104</sup> *Raytheon*, 258 F. Supp. 3d at 792 (citing *Brunswick Corp. v. Suzuki Motor Co.*, 575 F. Supp. 1412, 1424 (E.D. Wis. 1983) and *Instrumentation Specialties Co. v. Waters Assocs., Inc.*, No. 76 C 4340, 1977 WL 22810, at \*6 (N.D. Ill. Oct. 12, 1977)).

<sup>105</sup> *Id.* at 795-96. Although district courts typically interpret Federal Circuit opinions for patent venue disputes, seeing an opportunity to revitalize a dormant area of patent venue jurisprudence, Judge Gilstrap created the new test to "employ analytical methods for establishing patent venue which are rooted in the wisdom of the past, but which also embrace the future's changes." *Id.* at 799.

<sup>106</sup> *Id.* at 796-97 (explaining that "[a]t the most basic level, a retail store, warehouse, or other facility in the district weighs strongly in favor of finding a regular and established place of business" and that "[f]acts supporting a physical presence could also include the presence of equipment or infrastructure that is owned (or leased) by a defendant and used to provide services to customers.").

<sup>107</sup> *Id.* at 797-98 (discussing that a defendant that "accept[s] a . . . representative's office as one of its own places of business based on, among other things, the advertising that [the] defendant permitted regarding that location and the fact that the defendant naturally expected customer inquiries to be directed toward its agent there" weighs in favor of finding that a defendant has a regular and established place of business in a district).

<sup>108</sup> *Raytheon*, 258 F. Supp. 3d at 798 (explaining that "[c]ourts have often looked to the benefits a defendant has received from its business in a particular district as a factor supporting a regular and established place of business, especially where a defendant has generated significant revenue from such business.").

<sup>109</sup> *Id.* (discussing that courts should look for localized customer support, ongoing contractual relationships, or targeted marketing efforts).

<sup>110</sup> *Id.* at 795, 799.

<sup>111</sup> *Id.* at 799.



in his analysis.<sup>112</sup> He merely concluded that venue was proper in the case after explaining the four factors of his newly created test.<sup>113</sup>

## 2. *In re Cray, Inc.: The Federal Circuit's Opinion*

After Judge Gilstrap's denial of the defendant's motion to dismiss in *Raytheon*, Cray petitioned the Federal Circuit to issue a writ of mandamus to order Judge Gilstrap to transfer the case to a proper venue.<sup>114</sup> Mandamus is appropriate to decide issues important to proper judicial administration, and the Supreme Court has approved the use of mandamus to decide a basic and undecided legal question when the trial court abused its discretion by applying incorrect law.<sup>115</sup> The court reasoned that Judge Gilstrap misunderstood the scope and effect of the Federal Circuit's decision in *In re Cordis*.<sup>116</sup> There was a need for greater uniformity on the issue, and the court saw an opportunity to clarify the regular and established place of business requirement in this case.<sup>117</sup>

The Federal Circuit found that the

[T]hree general requirements relevant to the inquiry [are]: (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.<sup>118</sup>

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<sup>112</sup> See generally *id.* at 781.

<sup>113</sup> *Raytheon*, 258 F. Supp. 3d at 799. Judge Gilstrap analogized this case to *In re Cordis* in several ways but never applied the four factors to the facts of the case. See *id.* Similar to the sales representative in *In re Cordis*, he explained that the sales executive in this case worked exclusively for defendant for several years and did not limit his activity to sales only. *Id.* at 794. Although the sales executive did not have samples or products stored at his home, he could not because the supercomputer systems could take up entire rooms and weigh thousands of pounds. *Id.*

<sup>114</sup> *In re Cray*, 871 F.3d at 1356.

<sup>115</sup> *Id.* at 1358-59. At the outset of the opinion, the court discussed the legally relevant facts and explained that mandamus was reserved for exceptional circumstances and appropriately issued when there is a usurpation of judicial power or a clear abuse of discretion. *Id.* at 1357-59.

<sup>116</sup> *Id.* at 1359. The court acknowledged that the Federal Circuit did not evaluate venue in light of the statutory language of § 1400(b) and decided the case based only on its specific facts. *Id.*

<sup>117</sup> *In re Cray*, 871 F.3d at 1359-60.

<sup>118</sup> *Id.* at 1360. The Federal Circuit cautioned district courts to be mindful of the statute's history and to be careful not to conflate the factors for establishing venue in patent cases with the factors for establishing personal jurisdiction or general venue. *Id.* at 1361 (explaining that

The pertinent noun in § 1400(b) is “place,” while “regular” and “established” are adjectives that modify it.<sup>119</sup> The court explained that words “of business” indicated the nature and purpose of the “place” and the words “the defendant” indicated that the “place” must be the defendant’s.<sup>120</sup> The court reasoned that § 1400(b) requires that “a defendant has” a “place of business” that is “regular” and “established.”<sup>121</sup>

Regarding its first requirement, the court explained that a “place” is “[a] building or a part of a building set apart for any purpose” or “quarters of any kind” from which business is conducted.<sup>122</sup> The “place” component of the definition need not be a fixed, physical location in the sense of a formal office or store, but must “be a physical, geographical location in the district from which the business of the defendant is carried out.”<sup>123</sup> A place does not include a virtual space or electronic communications from one person to another.<sup>124</sup>

Regarding the second requirement, the court defined a business as “regular” if it operates in a “steady[,] uniform[,] orderly[,] and] methodical” manner.<sup>125</sup> However, sporadic activity does not establish venue.<sup>126</sup> The court explained that “[t]he doing of a single act pertaining to a particular business will not be considered engaging in or carrying on the business; yet a series of such acts would be so considered.”<sup>127</sup>

The court explained that “established” means that the defendant’s place of business is “settled] certainly,” “fixed permanently,” or “not transient.”<sup>128</sup> The court also explained that a defendant only has a temporary presence in a district when it

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the regular and established place of business standard requires more than the minimum contacts necessary for establishing personal jurisdiction or for satisfying the doing business standard of the general venue provision).

<sup>119</sup> *Id.* at 1361-62.

<sup>120</sup> *Id.* at 1362.

<sup>121</sup> *In re Cray*, 871 F.3d at 1362.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* (quoting *In re Cordis*, 769 F.2d at 737). See discussion of *In re Cordis* *supra* Section IV(A).

<sup>124</sup> *In re Cray*, 871 F.3d at 1362.

<sup>125</sup> *Id.*

<sup>126</sup> *Id.*

<sup>127</sup> *Id.*

<sup>128</sup> *Id.* at 1363. To make “permanent” clearly accords with the “main purpose” identified in the predecessor statute’s legislative history. *In re Cray*, 871 F.3d at 1363.

semiannually displays its products at a trade show.<sup>129</sup> On the other hand, a business's five-year continuous presence in the district satisfies the established requirement for venue purposes.<sup>130</sup> While a business can move its location, it must be stable for a meaningful period.<sup>131</sup>

Regarding the third requirement, the court articulated that the "place of business" must be of the defendant, not solely a place of the defendant's employee.<sup>132</sup> Since employees can freely move their homes out of the district without the defendant's approval, the defendant must establish or ratify the employee's place as defendant's place of business.<sup>133</sup> Relevant considerations include whether the defendant owns, leases or exercises control over the place.<sup>134</sup> Other factors that might satisfy this requirement include whether the defendant conditioned employment on an employee's continued residence in the district or whether the employee stores materials at the place to allow distribution or sale from there.<sup>135</sup>

The court adopted the second factor of Judge Gilstrap's venue test<sup>136</sup> and noted that an important consideration is how the defendant represents itself in the district.<sup>137</sup> The defendant's marketing or advertising activities may also be relevant, but only to the extent that it indicates that the defendant itself holds a place of business in the district.<sup>138</sup> The court opined that the mere fact that a defendant advertised a place of business or set up an office is not itself sufficient; the defendant must take an extra step and actually engage in business from that location.<sup>139</sup> In addition, other relevant factors include whether the defendant lists the alleged place of business on a website, in a telephone or other directory, or places its name on a sign associated

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<sup>129</sup> *Id.* (explaining the holding in *Knapp–Monarch Co. v. Casco Prods. Corp.*, 342 F.2d 622, 625 (7th Cir. 1965)).

<sup>130</sup> *Id.* (explaining the holding in *Remington Rand Bus. Serv. v. Acme Card Sys. Co.*, 71 F.2d 628, 629 (4th Cir. 1934)).

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

<sup>133</sup> *In re Cray*, 871 F.3d at 1363.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.*

<sup>136</sup> The second factor of Judge Gilstrap's venue test turned on defendant's representations that it has a presence in the district. *Raytheon*, 258 F. Supp. 3d at 797-98.

<sup>137</sup> *In re Cray*, 871 F.3d at 1363. See discussion of Judge Gilstrap's test *supra* Section IV(B)(1).

<sup>138</sup> *In re Cray*, 871 F.3d at 1363.

<sup>139</sup> *Id.*

with the building itself.<sup>140</sup> Another consideration may be the nature and activity of the alleged place of business in the district in comparison with that of defendant's other places of business in other venues.<sup>141</sup>

In applying the court's definitions to this case, the court turned to the third requirement that the place of business be of the defendant and not the defendant's employee.<sup>142</sup> The court found that the sales executive's home was not Cray's place of business because there was no indication that Cray owned, leased, or rented any portion of the sales executive's homes in the Eastern District of Texas, played a part in selecting the place's location, stored inventory or conducted demonstrations there, or conditioned the sales executive's employment on an Eastern District of Texas location.<sup>143</sup> Therefore, the court held that venue did not exist under § 1400(b) because the facts, taken as a whole, did not support a finding that Cray maintained a place of business in the Eastern District of Texas.<sup>144</sup>

The Federal Circuit used a clear abuse of discretion standard of review instead of a de novo standard because Cray petitioned the Federal Circuit to issue a writ of mandamus to order the Eastern District of Texas to transfer the case to a proper venue.<sup>145</sup> Although the court defined several terms of the statute, such as "place," "regular," and "established," the court failed to articulate specific factual considerations that are relevant for each of these elements of the venue statute.<sup>146</sup> For example, regarding the first requirement, the court did not define a virtual space or discuss any relevant factual considerations for determining whether a place of business is virtual or physical.<sup>147</sup> In addition, regarding the second requirement, the court did not discuss any relevant facts that courts should consider when determining whether the place of business is "regular" or

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<sup>140</sup> *Id.* at 1363-64.

<sup>141</sup> *Id.* at 1364 (explaining that "we do not suggest that district courts must scrutinize the nature and activity of the alleged place of business to make relative value judgments on the different types of business activity conducted therein. Rather, a relative comparison of the nature and activity may reveal, for example, that a defendant has a business model whereby many employees' homes are used by the business as a place of business of the defendant.").

<sup>142</sup> *Id.* at 1364.

<sup>143</sup> *In re Cray*, 871 F.3d at 1365.

<sup>144</sup> *Id.* at 1366.

<sup>145</sup> *Id.* at 1359. The procedural posture of *In re Cray* was similar to the procedural posture in *In re Cordis*. See discussion of *In re Cordis* *supra* Section IV(A).

<sup>146</sup> See *In re Cray*, 871 F.3d at 1364-65.

<sup>147</sup> See *id.*

“established.”<sup>148</sup> In fact, the court separately defined the terms “regular” and “established,” but did not explain factual considerations to determine whether a place of business is “regular” as opposed to “established.”<sup>149</sup> Courts often combined these two factual inquiries even though the two terms have different meanings.<sup>150</sup> It would have been very helpful for the court to apply its newly defined requirements to the facts of the case. However, because the court focused primarily on the third requirement, the court left open several gaps in the standards that courts should apply for determining whether a defendant has a regular and established place of business in a judicial district.<sup>151</sup>

## V. DEFINING A “PHYSICAL PLACE OF BUSINESS”

As the Federal Circuit discussed in *In re Cray*, the first requirement is that there must be a physical place of business in the district.<sup>152</sup> Although the court discussed this requirement, it did not discuss relevant facts that courts could use to determine whether a defendant’s presence in the district meets the physical place of business requirement.<sup>153</sup> To determine whether a defendant has a physical place of business in a district, courts should consider whether a defendant operates solely through virtual means.<sup>154</sup> Courts should also consider whether a defendant has a stand-alone business office in the district<sup>155</sup> or whether a defendant employs a secretarial service in the district.<sup>156</sup> On the other hand, whether a defendant registers as a foreign corporation or appoints an agent to accept service of process should not be considered.<sup>157</sup> This section will analyze and discuss factors that courts should consider to determine whether a defendant has a physical place of business in a district.

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<sup>148</sup> *See id.*

<sup>149</sup> *See id.*

<sup>150</sup> *See* discussion of the factual inquiries *infra* Sections VI and VII.

<sup>151</sup> *See generally In re Cray*, 871 F.3d at 1355.

<sup>152</sup> *Id.* at 1360.

<sup>153</sup> *See id.*; *see also* discussion of the shortcomings of *In re Cray supra* Section IV(B)(2).

<sup>154</sup> *See* discussion of this consideration *infra* Section V(A).

<sup>155</sup> *See* discussion of this consideration *infra* Section V(B).

<sup>156</sup> *See* discussion of this consideration *infra* Section V(C).

<sup>157</sup> *See* discussion of this consideration *infra* Section V(D).

### A. Businesses Operating Solely through Virtual Means

In *Talsk Research Inc. v. Evernote Corp.*,<sup>158</sup> the court held that the defendant did not have a physical place of business in the district because its only interaction with the district was by selling its software products over the internet through virtual stores, such as Google Play and the Apple App Store, rather than in a physical retail store.<sup>159</sup> Although the court in *Talsk* provided little reasoning to support its finding,<sup>160</sup> the case indicates that a defendant that sells products over the internet does not have a physical place of business because virtual stores, such as Google Play and the Apple App Store, are not “building[s]” or “quarters of any kind” from which a defendant conducts business as required by the Federal Circuit’s definition of the term “place.”<sup>161</sup>

For clarification, courts should define virtual space as a medium located in no particular geographical location used to conduct business.<sup>162</sup> This definition comports with Congress’s intent because it makes the virtual space definition more exact, specific and unambiguous.<sup>163</sup> Furthermore, it coincides with the Federal Circuit’s requirement that the place of business must “be a physical, geographical location in the district from which the business of the defendant is carried out.”<sup>164</sup> By using this definition of virtual space, patent trolls can be restricted from bringing suit against a defendant in a district based only on the defendant’s virtual presence in the district,

<sup>158</sup> No. 16-CV-2167, 2017 WL 4269004 (N.D. Ill. Sept. 26, 2017).

<sup>159</sup> *Id.* at \*2. See also *Patent Holder LLC v. Lone Wolf Distribs., Inc.*, No. 17-23060-Civ-Scola, 2017 WL 5032989, at \*6 (S.D. Fla. Nov. 2, 2017) (rejecting plaintiff’s argument that the defendant’s dealers in the district constituted defendant’s physical place of business because the dealers sign up online and their places of business are the defendant’s).

<sup>160</sup> *Talsk*, 2017 WL 4269004, at \*2-5.

<sup>161</sup> See *id.* at \*2. See also *In re Cray*, 871 F.3d at 1362.

<sup>162</sup> See *Schnell*, 365 U.S. at 264; see also *Reno v. A.C.L.U.*, 521 U.S. 844, 851 (1997) (explaining the definition of cyberspace).

<sup>163</sup> For example, if a court finds that a defendant sells products through a physical store, then the court can refer to a physical, tangible place of business. If a court finds that a defendant sells products through a medium located in no particular geographical location, such as Google Play or the Apple App Store, then the court can determine that the defendant conducts business through a virtual space. See *Talsk*, 2017 WL 4269004, at \*2.

<sup>164</sup> *In re Cray*, 871 F.3d at 1362 (quoting *In re Cordis*, 769 F.2d at 737). See discussion of *In re Cordis* *supra* Section IV(A). The current distinction between virtual space and physical location promotes the goals of patent law because courts can more easily define the exact limits of a physical place of business. By doing so, courts can more uniformly determine whether a defendant has a physical place of business in the district, which limits a party’s ability to forum shop for a favorable forum.

such as the defendant's online advertising and online stores.<sup>165</sup> Such a restriction eliminates a patent troll's ability to bring suit in any district in which a defendant could be served, which directly supports the intent that Congress had when it enacted the patent venue statute.<sup>166</sup> In addition, by using this definition of virtual space, courts can uniformly decide patent venue disputes dealing with virtual spaces, thereby limiting a patent troll's ability to use forum shopping as a litigation weapon. By limiting forum shopping, companies can allocate resources towards fostering innovation instead of defensive litigation strategies, which directly comports with Congress's goal for implementing the patent system.<sup>167</sup>

The distinction between physical and virtual spaces is still viable considering that developments in technology over the last few decades, including computer enhancements and widespread internet use, have changed the way society communicates and conducts business.<sup>168</sup> In *Lites Out, LLC v. OutdoorLink, Inc.*,<sup>169</sup> the plaintiff filed a patent infringement suit against the defendant in the Eastern District of Texas.<sup>170</sup> Defendant sold surveillance computers to billboard owners to track billboard structural integrity and detect defects as they arose.<sup>171</sup> The surveillance computers wirelessly reported wear-and-tear to the defendant, which enabled the defendant to oversee and control billboards across large areas.<sup>172</sup> The plaintiff argued that the defendant maintained a commercial presence in the Eastern District of Texas sufficient for patent venue purposes because the defendant controlled nearly two thousand billboards and used wireless communication to control light, voltage, outage notifications, and power restoration of the billboards through the surveillance computers.<sup>173</sup> In rejecting the plaintiff's argument, the court reasoned that the defendant's physical offices were located outside of the district

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<sup>165</sup> See *Talsk*, 2017 WL 4269004, at \*2.

<sup>166</sup> See *In re Cray*, 871 F.3d at 1361. See also discussion of Congress's intent when it enacted § 1400(b) *supra* Section III.

<sup>167</sup> See Heinecke, *supra* note 2.

<sup>168</sup> See Brianne M. Sullenger, *Telecommuting: A Reasonable Accommodation Under the Americans With Disabilities Act as Technology Advances*, 19 REGENT U. L. REV. 537, 537 (2007).

<sup>169</sup> No. 4:17-CV-00192, 2017 WL 5068348 (E.D. Tex. Nov. 2, 2017).

<sup>170</sup> *Id.* at \*1.

<sup>171</sup> *Id.* at \*2.

<sup>172</sup> *Id.* (discussing that the defendant monitored about two thousand billboards through nearly one thousand surveillance computers in the district).

<sup>173</sup> *Id.* at \*4.

and that the defendant did not have facilities or property in the district.<sup>174</sup> Although the defendant monitored and controlled many billboards in the district through its surveillance computers, the court opined that this activity in the district constituted a virtual space.<sup>175</sup> Therefore, the distinction between physical and virtual space is still viable because some businesses can operate from virtual spaces, such as the defendant in this case.<sup>176</sup>

### B. Stand-Alone Offices and Secretarial Services

In *Regents of the University of Minnesota v. Gilead Sciences, Inc.*,<sup>177</sup> the defendant's employees worked in the field visiting healthcare providers about defendant's products and drug therapies.<sup>178</sup> In determining whether the defendant had a physical place of business in the district, the court considered whether the defendant used its employees' homes to store literature or products or whether the homes functioned as distribution centers to store inventory.<sup>179</sup> The court also considered whether the defendant employed a secretarial service in the district.<sup>180</sup> The court found that the defendant did not have a physical place of business in the district because the defendant did not work from a stand-alone office, store literature or products in its employees' homes, or employ a secretarial service in the district.<sup>181</sup>

If a defendant operates from a stand-alone office, the analysis is simplified because a court can attach the physical place of business requirement to the stand-alone office.<sup>182</sup> However, when a defendant does not operate from a stand-alone office, a court must find a place to which to attach the physical place of business requirement, such as an employee's home or a secretarial service's place of business.<sup>183</sup> If

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<sup>174</sup> *Lites Out*, 2017 WL 5068348, at \*4.

<sup>175</sup> *Id.*

<sup>176</sup> *See id.* at \*2.

<sup>177</sup> No. 16-CV-2915 (SRN/HB), 2017 WL 4773150 (D. Minn. October 20, 2017).

<sup>178</sup> *Id.* at \*2.

<sup>179</sup> *Id.* at \*5 (citing *In re Cordis*, 769 F.2d at 735).

<sup>180</sup> *Id.*

<sup>181</sup> *Id.* at \*6.

<sup>182</sup> *See generally* *Symbology Innovations, LLC v. Lego Sys., Inc.*, No. 2:17-cv-86, 2017 WL 4324841 (E.D. Va. Sept. 28, 2017) (explaining that the defendant's subsidiary had a retail store in the district).

<sup>183</sup> *See In re Cray*, 871 F.3d at 1360. Under this analysis, the court must consider whether the defendant's employee's home amounts to the place of business of the defendant itself, which is the third requirement that the Federal Circuit discussed in *In re Cray*. *Id.*



venue policy did not allow courts to attach the physical place of business requirement to such places, then a defendant could hide behind its employees' homes or secretarial service to avoid being subject to litigation in a district. Although a defendant might operate solely from its employees' homes or secretarial service's place of business, venue policy should not enable a business to operate vicariously through its employees' homes. Therefore, to determine whether a defendant has a physical place of business in a district, courts should first consider whether the defendant operates from a stand-alone office.<sup>184</sup> In such cases where the defendant operates from its employee's home or secretarial service's place of business, courts should consider whether such places constitute the defendant's physical place of business as analyzed under the third requirement of the Federal Circuit's test in *In re Cray*.<sup>185</sup>

Companies that have at least one stand-alone office in a judicial district should be aware that such offices subject them to the wrath of the dreaded patent troll.<sup>186</sup> Companies that have their employees work from home or that utilize a secretarial service located in a judicial district should be aware that such physical locations might satisfy the "regular and established place of business" requirement, thereby permitting a patent troll to bring suit in the judicial district. These physical locations satisfy the physical place of business requirement of the Federal Circuit's definition from *In re Cray*.<sup>187</sup> However, courts might not consider these locations the defendant's place of business as required by the Federal Circuit's definition in *In re Cray*.<sup>188</sup> Although this analysis might disfavor defendants, the Federal Circuit has found that such physical locations comport with Congress's intent when it enacted the patent venue statute.<sup>189</sup> This analysis provides courts with a platform for uniformly applying patent venue law, which can help courts disarm the patent trolls and prevent them from forum shopping for favorable forums, thereby fostering innovation.

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<sup>184</sup> See *Regents*, 2017 WL 4773150, at \*6.

<sup>185</sup> See discussion of this requirement in *In re Cray supra* Section IV(B)(2); see also discussion of this requirement *infra* Section VIII.

<sup>186</sup> See 28 U.S.C. § 1400(b) (2016). These offices are physical, and courts can find them to be regular and established depending on the circumstances.

<sup>187</sup> An employee's home and a secretarial service's place of business can be considered "building[s] or a part of building set apart for any purpose" or "quarters of any kind" as the Federal Circuit defined the term "place" in *In re Cray*. *In re Cray*, 871 F.3d at 1362.

<sup>188</sup> See *id.* at 1363.

<sup>189</sup> See generally *id.* at 1355; *In re Cordis*, 769 F.2d at 733.

### C. Foreign Registration and Registered Agents to Accept Service of Process

In *Symbology Innovations, LLC v. Lego Systems, Inc.*,<sup>190</sup> the court did not consider whether the defendant was registered as a foreign corporation in the state or whether the defendant appointed a registered agent to accept service of process in the state.<sup>191</sup> The court reasoned that neither fact had any bearing on whether the defendant maintained a physical place of business within the district.<sup>192</sup> The court found that the consideration of the appointed agent was “especially inappropriate because the patent venue statute was intended to eliminate the abuses engendered by subjecting defendants to suit wherever they could be served.”<sup>193</sup>

The court’s holding in *Symbology* not only comports with Congress’s intent when it created the patent venue statute, but it also comports with Congress’s overall goal for implementing the patent system.<sup>194</sup> By preventing a patent troll’s ability to bring an infringement suit in any district where a defendant could be served, courts can limit the dreaded troll’s ability to forum shop for any forum in which the defendant has merely registered as a foreign corporation or registered agents to accept service of process. By limiting the troll’s ability to forum shop, companies can allocate resources on research and development, thereby fostering innovation.<sup>195</sup>

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<sup>190</sup> No. 2:17-cv-86, 2017 WL 4324841 (E.D. Va. Sept. 28, 2017). The defendant was registered as a foreign corporation in Virginia and appointed a registered agent to accept service of process in Virginia. *Id.* at \*9. The plaintiff argued that the courts should consider these factors. *Id.* The plaintiff also argued that the defendant owned and operated three retail stores in the district at issue. *Id.* at \*10. However, the court found that the defendant did not own and operate the retail stores but that the defendant’s parent company, Lego Retail Brand, owned and operated the stores. *Id.*

<sup>191</sup> *Symbology*, 2017 WL 4324841, at \*9.

<sup>192</sup> *Id.*

<sup>193</sup> *Id.* See also *BillingNetwork Patent, Inc. v. Modernizing Med., Inc.*, 2017 WL 5146008, at \*2 (N.D. Ill. Nov. 6, 2017) (explaining that “a defendant [] registered to do business in a particular state has no bearing on whether it has the requisite ‘physical place’ of business in the state, let alone in a particular judicial district.”). Perhaps a party could argue that the defendant’s foreign registration represents that the defendant conducts business in the district, but this argument likely has no merit because the party is conflating the issue of venue with personal jurisdiction. See *In re Cray*, 871 F.3d at 1361.

<sup>194</sup> See U.S. CONST. art. 1 § 8, cl. 8.

<sup>195</sup> See Heinecke, *supra* note 2.

## VI. DEFINING A “REGULAR PLACE OF BUSINESS”

Regarding the second requirement of the Federal Circuit’s requirements, the Federal Circuit defined the terms “regular” and “established” and explained that the two terms have different meanings.<sup>196</sup> However, most courts analyze both requirements using the same facts without explaining whether their analysis pertains to the regular place of business requirement or the established place of business requirement.<sup>197</sup> Courts make it difficult to ascertain whether they are analyzing the regular or established requirement of the Federal Circuit’s test because they combine the analysis for the two different requirements.<sup>198</sup> Instead, courts should separately analyze the regular requirement and the established requirement because the two terms have different meanings.<sup>199</sup> Therefore, this Note separates the factual consideration for the regular requirement and the established requirement. To determine whether a defendant has a regular place of business in a district, a court should consider how long the defendant has spent in the district as well as how frequently the defendant comes to the district.<sup>200</sup> This section will discuss and analyze facts that courts should consider when determining whether a defendant has a regular place of business in a district.

### A. Defendant’s Time Spent in the District

In *Phillips v. Baker*,<sup>201</sup> the defendants allegedly infringed plaintiff’s patent when they used plaintiff’s patented apparatus to complete precooling services for agricultural shippers.<sup>202</sup> In many

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<sup>196</sup> See *In re Cray*, 871 F.3d at 1360.

<sup>197</sup> See *id.* at 1364-65.

<sup>198</sup> See *Regents*, 2017 WL 4773150, at \*5-6 (explaining that even though the defendant employed a sales force of approximately a dozen people over a two-year period in the district, the court found that the defendant’s presence in the district was not regular and established because the physical location of the sales force was not fixed permanently). The court in *Regents* combined the “regular” and “established” requirements of the second requirement and did not discuss whether the two-year period was sufficient for a court to consider it regular. See *id.*

<sup>199</sup> See *In re Cray*, 871 F.3d at 1362-63 (defining regular as “‘steady[,] uniform[,] orderly[,] and] methodical’ manner” and defining established as “settle[d] certainly, or fix[ed] permanently”). Courts should split the analysis to avoid redundancy and conflating the requirements of each term because the Federal Circuit has defined the terms separately.

<sup>200</sup> See discussion of these factors *infra* Sections VI(A)-(B).

<sup>201</sup> 121 F.2d 752 (9th Cir. 1941).

<sup>202</sup> *Id.* at 754.

widely separated agricultural districts in the United States, the shippers needed defendants' services for only a few weeks of the year.<sup>203</sup> The defendants travelled from one agricultural district to another each season to secure business at the shippers' premises and perform the precooling operations.<sup>204</sup> Upon procurement of a contract, defendants installed the patented apparatus to perform the precooling service and then removed it once it finished the service.<sup>205</sup> The court reasoned that the defendants merely conducted the precooling services on a box car temporarily standing at a railroad siding, whereby the car was there one day and gone the next.<sup>206</sup> The court found that the shippers' premises constituted a temporary place of business and was just a location for a particular transaction.<sup>207</sup>

The Ninth Circuit's holding in *Phillips* comports with the Federal Circuit's definition of regular.<sup>208</sup> The defendant's presence at the shippers' premises was merely sporadic and temporary; it was not steady, uniform, orderly, or methodical as required by the Federal Circuit's definition.<sup>209</sup> One might argue that the defendant's presence in the district each season was a steady, uniform, orderly, and methodical presence because the defendants came back each season. However, this argument would likely fail because the defendants could have been in the district only once on any given day in any given season, which indicates that the defendant's presence in the district was sporadic, temporary, unsteady, disorderly, and unmethodical.<sup>210</sup> However, if the defendant was in the district each season for days, weeks, or months at a time, perhaps the defendant's presence was more than sporadic or temporary and thus orderly, uniform, and methodical.

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<sup>203</sup> *Id.*

<sup>204</sup> *Id.*

<sup>205</sup> *Id.*

<sup>206</sup> *Phillips*, 121 F.2d at 756 (explaining that the place of business was where the business was carried on regularly, not merely temporarily, or for some special work or particular transaction).

<sup>207</sup> *Id.*

<sup>208</sup> *See In re Cray*, 871 F.3d at 1362.

<sup>209</sup> *See id.*

<sup>210</sup> In fact, this argument failed in *Phillips*. *Phillips*, 121 F.2d at 756. The “[a]ppellants complain[ed] that from an equitable standpoint[,] judgment in [the] case should be in their favor because the appellees ‘jump[ed] about the country like fleas, and nowhere in the record of [the] case or elsewhere [was] there a statement which would [have bound] them in a substitute action as to where, if anywhere, a suit against them [could have been] maintained.’” *Id.*

Therefore, courts should consider the amount of time that a defendant spends in the district over a period of years.<sup>211</sup>

In *Precision Fabrics Group, Inc. v. Tietex International, Ltd.*,<sup>212</sup> the defendant manufactured and sold a broad range of fabrics nationwide, including some using plaintiff's patented flame-retardant fabric.<sup>213</sup> The plaintiff argued that the defendant had a regular place of business because the defendant's regional sales manager "lived and worked out of the same home office located within the district for a period of over twenty years, using part of his home as a sales office."<sup>214</sup> Although the court opined that it was highly doubtful that the defendant had a physical, regular or established place of business in the district, the court focused the entirety of its analysis on the third requirement of the venue test, which asks whether the place of business is that of the defendant's and not the defendant's employee.<sup>215</sup> However, in contrast to this court's analysis, courts have considered a twenty-year presence in a district to constitute a regular place of business for venue purposes.<sup>216</sup> The employee's presence in the district in *Precision* seems to be regular because it was steady, orderly, uniform, and methodical as required by the Federal Circuit.<sup>217</sup> Therefore, the court in *Precision* should have found that the employee's presence in the district was at least regular.

The court in *Regents* did not focus any of its analysis on the regular place of business requirement.<sup>218</sup> The court merely noted that the defendant employed a sales force of approximately a dozen people over at least a two-year period, but did not analyze this fact regarding the regular place of business requirement.<sup>219</sup> The court found that the defendant did not have a regular and established place of business because the physical location of the sales force was not permanently fixed.<sup>220</sup> Similar to the court in *Precision*, this court focused its

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<sup>211</sup> Courts should determine whether a defendant's presence in a district is temporary on a case-by-case basis because a bright-line test might not be fair and equitable in all cases.

<sup>212</sup> No. 1:13-cv-645, 2017 WL 5176355 (M.D.N.C. Nov. 7, 2017).

<sup>213</sup> *Id.* at \*2.

<sup>214</sup> *Id.* at \*11.

<sup>215</sup> *Id.*

<sup>216</sup> See *Stiegele v. Jacques Kreisler Mfg. Corp.*, 213 F. Supp. 494, 495 (S.D.N.Y. 1962) (holding that venue was proper in the district for a defendant that maintained an office in the district for twenty years).

<sup>217</sup> See *In re Cray*, 871 F.3d at 1362.

<sup>218</sup> *Regents*, 2017 WL 4773150, at \*5-6.

<sup>219</sup> *Id.*

<sup>220</sup> *Id.* at \*6.

analysis on the established place of business requirement instead of the regular place of business requirement.<sup>221</sup> However, the court acknowledged that the period of the defendant's alleged presence in the district is dispositive for a regular place of business analysis.<sup>222</sup> Therefore, courts should consider the amount of time that a defendant spends in a district to determine if its presence is regular.

By analyzing the defendant's time spent in the judicial district, defendants that operate for a short period of time in a judicial district, perhaps to perform a precooling service,<sup>223</sup> need not surrender to the dreaded patent trolls' intimidation tactics. By avoiding the troll's tactics, defendants can spend money on research and development as opposed to litigation strategies, which supports Congress's intent when it enacted the patent venue statute.<sup>224</sup> The time that a defendant has spent in a district can be a fact-sensitive inquiry,<sup>225</sup> and each case should be dealt with on a case-by-case basis. By analyzing the defendant's time spent in the district, courts can more uniformly define the extent to which a defendant has a regular place of business in a district, thereby limiting a patent troll's ability to forum shop for favorable forums. Such a limitation on forum shopping allows companies to allocate resources to fostering innovation as opposed to defending against the litigious patent trolls.<sup>226</sup>

### B. Frequency of Defendant's Presence

In *Lites Out*, the defendant sold surveillance computers to billboard owners, such as plaintiff, to track billboard structural integrity and detect defects as they arose.<sup>227</sup> The plaintiff argued that the residences of the defendant's employees and independent contractors constituted regular and established places of business.<sup>228</sup> The court rejected the argument because none of the defendant's employees or independent contractors resided in the district.<sup>229</sup> In fact,

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<sup>221</sup> *Id.* at \*5-6.

<sup>222</sup> *Id.*

<sup>223</sup> *See Phillips*, 121 F.2d at 756.

<sup>224</sup> *See In re Cray*, 871 F.3d at 1355.

<sup>225</sup> *See generally Phillips*, 121 F.2d at 752; *Precision*, 2017 WL 5176355, at \*1.

<sup>226</sup> *See Heinecke*, *supra* note 2.

<sup>227</sup> *Lites Out*, 2017 WL 5068348, at \*2. *See* discussion of the facts of the case *supra* Section V(A).

<sup>228</sup> *Lites Out*, 2017 WL 5068348, at \*4.

<sup>229</sup> *Id.*

the court found that one independent contractor spent most of the year outside of the district at issue.<sup>230</sup> The court concluded that the defendant did not have a regular place of business under § 1400(b) because the independent contractor was not frequently in the district.<sup>231</sup>

Similarly, in *Phillips*, the defendants travelled from one agricultural district to another each season to secure business at the shippers' premises and perform precooling operations for the shippers.<sup>232</sup> The court reasoned that the defendants merely conducted the precooling services on a boxcar temporarily standing at a railroad siding.<sup>233</sup> The court found that the shippers' premises constituted a temporary place of business and was just a location for a particular transaction because the defendant was within the district for only a few weeks per year.<sup>234</sup>

Courts should consider the frequency with which a defendant operates a place of business in a district because it shows whether the place of business is steady, uniform, orderly, and methodical, which comports with the Federal Circuit's definition of regular.<sup>235</sup> For example, some businesses might not operate every single day within a district. These businesses might not necessarily be sporadically or temporarily in the district because they might operate for a week each month. Operating twelve times each year may make their conduct in the district regular because it is steady, uniform, orderly, and methodical in nature.<sup>236</sup> If courts determine that these businesses do not have a regular place of business in a district, then this determination might entice other businesses to operate in a similar manner to avoid being subject to litigation in the district. However, venue policy should not enable businesses to change their business practices to avoid being subject to litigation in a particular district. Therefore, courts should consider the frequency with which a defendant operates

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<sup>230</sup> *Id.*

<sup>231</sup> *Id.* The court relied mostly on the fact that the surveillance computers constituted virtual spaces. *Id.* at \*4. See also *CAO Lighting, Inc. v. Light Efficient Design*, No. 4:16-cv-00482-DCN, 2017 WL 4556717, at \*3 (D. Idaho October 11, 2017) (reasoning that the defendant's sales representatives were not based in the district and visited it only occasionally).

<sup>232</sup> *Phillips*, 121 F.2d at 754. See discussion of the facts of the case *supra* Section VI(A).

<sup>233</sup> *Phillips*, 121 F.2d at 756 (explaining that the place of business was where the business was carried on regularly, not merely temporarily, or for some special work or particular transaction). The court also explained that the box was there one day and gone the next. *Id.*

<sup>234</sup> *Id.*

<sup>235</sup> See *In re Cray*, 871 F.3d at 1362.

<sup>236</sup> See *id.*

a place of business in a district to determine whether the defendant's place of business is regular.<sup>237</sup>

## VII. DEFINING AN “ESTABLISHED PLACE OF BUSINESS”

In *In re Cray*, the Federal Circuit explained that a business is “established” if it is “not transient,” “settle[d] certainly, or fix[ed] permanently.”<sup>238</sup> However, the court did not discuss factors to determine whether a defendant has an established place of business in the district.<sup>239</sup> In making this determination, courts should consider the defendant's revenue generated in the district, the time that the defendant has spent in the district, and the number of employees that the defendant has employed in the district.<sup>240</sup> On the other hand, courts should not consider whether the defendant's employees service customers at the customer's location<sup>241</sup> or whether a defendant's place of business is permanently fixed to a physical location as being determinative.<sup>242</sup> This section will discuss and analyze facts that courts should consider when determining whether a defendant has an established place of business in a district.

### A. Fixed Permanence

In *Regents*, the court explained that the defendant's place of business was not established because the defendant's sales force of approximately a dozen people over at least a two-year period was not permanently fixed to a physical location.<sup>243</sup> However, by requiring a defendant's place of business to be physical, the court conflated the two separate requirements that the place of business be “physical” as opposed to “established.” Although a physical location is likely a good indication that the business has an established place of business in a district, courts should not rely on this fact to be determinative. For example, a business's employees could live in one district and work in

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<sup>237</sup> See *Phillips*, 121 F.2d at 756.

<sup>238</sup> *In re Cray*, 871 F.3d at 1363.

<sup>239</sup> See discussion of the shortcomings of this case *supra* Section IV(B)(2).

<sup>240</sup> See discussion of these factors *infra* Section VII(B), VII(E).

<sup>241</sup> See discussion of this factor *infra* Section VII(C).

<sup>242</sup> See discussion of this factor *infra* Section VII(A).

<sup>243</sup> *Regents*, 2017 WL 4773150, at \*6.



a different district.<sup>244</sup> If courts adopted the reasoning in *Regents*, then the business would only have an established place of business in the district where the employees live because the employees are permanently fixed to a physical location there, the physical location being their homes.<sup>245</sup> However, venue should be determined based on a defendant's place of business in the district where its employees work. In this example, the defendant might not necessarily have a physical place of business in the district where the employees work, but the physical place of business requirement should be evaluated using the law set forth in *In re Cray* and the factors set forth in Section V.<sup>246</sup> Therefore, although courts require that a defendant have a physical place of business in a district for venue purposes, courts should not rely solely on a physical place of business to determine whether a defendant has an established place of business in a district.<sup>247</sup>

### B. Revenue Generated in District

Several courts have determined that revenue generated from a district should not be part of the venue analysis.<sup>248</sup> In *Regents* and *CAO Lighting*, rather than rejecting the plaintiffs' arguments that the defendant had an established place of business from the revenue that it generated in the district, the courts found that this revenue did not create established places of business in each case.<sup>249</sup> In *Regents*, the court explained that "the Federal Circuit was apparently unpersuaded that even higher sales figures than the amounts noted here, indicated a regular and established place of business."<sup>250</sup> In *CAO Lighting*, instead of rejecting outright the plaintiff's argument regarding the defendant's

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<sup>244</sup> For venue purposes, the employee's residence is important because courts often consider whether the employee's home constitutes the defendant's place of business. See *In re Cray*, 871 F.3d at 1363. See also discussion of the Federal Circuit's third requirement in *In re Cray* *supra* Section IV(B)(2).

<sup>245</sup> This reasoning does not comport with the venue statute itself because the pertinent "place" for venue purposes is the place of business and not the place of the employees. See *In re Cray*, 871 F.3d at 1364.

<sup>246</sup> See discussion of the physical place of business requirement *supra* Section V.

<sup>247</sup> See *Regents*, 2017 WL 4773150, at \*6.

<sup>248</sup> See *Patent Holder*, 2017 WL 5032989, at \*6 (explaining that revenue derived from the forum has no bearing on whether § 1400(b)'s physical place requirements are met). See also *Symbology*, 2017 WL 4324841, at \*9.

<sup>249</sup> *Regents*, 2017 WL 4773150, at \*2; *CAO Lighting*, 2017 WL 4556717, at \*3.

<sup>250</sup> *Regents*, 2017 WL 4773150, at \*6. The court did not discuss what the sales figures generated from the district were. *Id.*

revenue generated in the district, the court acknowledged that this revenue did not change the analysis and was of little significance.<sup>251</sup>

Courts should analyze the defendant's sales figures generated from the district because some businesses' entire sales force consists of sales representatives working from home offices. Although a sales representative's home might not amount to a place of business of the defendant,<sup>252</sup> the sales representative could potentially generate a large portion of the business's revenue from that district. As long as a sales representative continues to generate significant revenue from a district, courts should consider the sales representative settled certainly and fixed permanently there.<sup>253</sup> If venue policy does not allow courts to analyze the revenue that a defendant generates in a district, then a defendant could hide behind its sales force in the district to avoid being subject to litigation there. Venue policy should not enable a business to conduct business vicariously through its sales force. Therefore, courts should consider the defendant's revenue generated from the district.

Although some courts do not analyze a defendant's revenue generated in a district,<sup>254</sup> companies should still be aware that, whether or not courts agree, such generation falls within the Federal Circuit's definition of "established" in *In re Cray*.<sup>255</sup> Although these defendants might not necessarily have a physical place of business in the district, a defendant's revenue generation in a district can be construed as the defendant's intent to be settled certainly or fixed permanently there.<sup>256</sup> In such circumstances, companies should be particularly careful in setting up physical places of business so that they do not unintentionally expose themselves to patent infringement litigation, especially litigation against a dreaded patent troll.

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<sup>251</sup> *CAO Lighting*, 2017 WL 4556717, at \*3.

<sup>252</sup> See discussion of the employee's home constituting the defendant's place of business *supra* Section IV(B)(2) and *infra* Section VIII.

<sup>253</sup> See *In re Cray*, 871 F.3d at 1363.

<sup>254</sup> See *Patent Holder*, 2017 WL 5032989, at \*6. See also *Symbology*, 2017 WL 4324841, at \*9.

<sup>255</sup> See *In re Cray*, 871 F.3d at 1363 (defining established as settled certainly or fixed permanently).

<sup>256</sup> See *id.*

### C. Service at Customer's Location

In *Regents*, the court found that the defendant did not have an established place of business because the defendant's employees serviced customers at the customer's location.<sup>257</sup> Although the defendant's employees serviced customers in the district through visits to healthcare facilities or clinical trial facilities, the court reasoned that the "servicing occur[red] at the customer's physical place, not [defendant's]."<sup>258</sup> Therefore, the court found that the defendant did not have an established place of business in the district.<sup>259</sup> However, the court's analysis of this fact under the established requirement seems flawed.

Even though a defendant's employees might service customers at the customer's locations, the defendant might have a non-transient, certainly settled, and permanently fixed presence in a district directly through its employees' conduct.<sup>260</sup> For example, in *Regents*, the defendant's employees visited healthcare facilities and clinical trial facilities to work with customers.<sup>261</sup> The fact that the defendant's employees go to the customer's place instead of the customers going to the defendant's employees' place should have no bearing on the established requirement. Rather, courts should consider whether the services performed in the district are non-transient, certainly settled, and permanently fixed in the district consistent with the Federal Circuit's definition in *In re Cray*.<sup>262</sup> For example, if for one year the defendant serviced all customers in the district from the customer's physical place and the next year serviced no customers in the district, then a court should find that the defendant's business was not established in the district because the defendant left the district and, therefore, its presence is certainly not fixed permanently. Therefore, courts should focus on the transitory nature of the defendant's place of business and not focus on the defendant's employees servicing customers from the customer's physical place.<sup>263</sup> By focusing on the transitory nature of the defendant's place of business, courts can more

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<sup>257</sup> *Regents*, 2017 WL 4773150, at \*6.

<sup>258</sup> *Id.*

<sup>259</sup> *Id.*

<sup>260</sup> *See In re Cray*, 871 F.3d at 1363.

<sup>261</sup> *Regents*, 2017 WL 4773150, at \*2.

<sup>262</sup> *See In re Cray*, 871 F.3d at 1363.

<sup>263</sup> *See id.*

uniformly apply patent venue law, which limits a patent troll's ability to forum shop for a favorable forum. By limiting their ability to utilize forum shopping as a litigation weapon, instead of focusing on defensive litigation strategies, companies can spend money on creating patented inventions, thereby fostering innovation in accordance with Congress's intent when it established the patent system.<sup>264</sup>

#### **D. Employee or Independent Contractor**

In *Talsk*, the defendant operated a program in which residents of the district, called Community Members, could sell the defendant's product as independent contractors.<sup>265</sup> Although the Community Members did not receive a salary, the defendant provided financial incentives in the form of bonuses to Community Members who recommended products in the course of conducting their own business.<sup>266</sup> The court reasoned that the Community Members' activities on behalf of the defendant were not "sufficiently stable or established to be seen as the operation of Defendant's business in this District."<sup>267</sup> The court found that the defendant's presence was not established in the district because the Community Members were independent contractors.<sup>268</sup> Even if one of the Community Members was very successful and the defendant gave substantial bonuses to that Community Member, the analysis would not change because the defendant lacked the "necessary control over its Community Members."<sup>269</sup> If the defendant had paid the Community Members a salary, rather than a bonus, then the analysis would change because the Community Members could be deemed employees of the defendant.<sup>270</sup>

It would be fundamentally unfair to allow patent trolls to bring patent infringement suits against defendants in districts where the defendant's only connection is through an independent contractor. If such conduct were permitted, patent trolls could file patent infringement suits in any district where a defendant uses any independent contractor, which could subject the defendant to patent

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<sup>264</sup> See Heinecke, *supra* note 2.

<sup>265</sup> *Talsk*, 2017 WL 4269004, at \*3.

<sup>266</sup> *Id.*

<sup>267</sup> *Id.* at \*5.

<sup>268</sup> *Id.*

<sup>269</sup> *Id.*

<sup>270</sup> *Talsk*, 2017 WL 4269004, at \*3.

litigation is an overwhelming number of judicial districts. This exacerbates the problem with patent trolls exploiting the weaknesses in the patent system and certainly goes against Congress's intent of limiting patent infringement suits being "brought in any district in which the defendant could be served."<sup>271</sup> Moreover, companies would be required to allocate an overwhelming amount of resources to defensive litigation strategies because of the patent troll's ability to file suit anywhere that the defendant has conducted business with any independent contractor.<sup>272</sup> Such an allocation of resources can be quite expensive, harms innovation<sup>273</sup> and directly conflicts with Congress's intent for implementing the patent system.<sup>274</sup> Therefore, by determining whether a defendant has an employee or an independent contractor in a district, courts can more uniformly apply patent venue law and restrict a patent troll's ability to utilize forum shopping as a litigation weapon.

### E. Time Spent and Workforce Present in the District

In *Regents*, the defendant employed a sales force of approximately a dozen people over at least a two-year period within the district.<sup>275</sup> The court reasoned that the defendant did not require that its employees live in the district and found that the physical location of the sales force was not permanently fixed.<sup>276</sup> Consequently, the court found that the physical location of the sales force did not constitute an established place of business.<sup>277</sup> The court's reliance on the combination of the defendant's time spent in the district and number of employees within the district comports with the Federal Circuit's definition of established.<sup>278</sup> Accordingly, the defendant's time spent in the district indicates whether the defendant's presence in the district is settled certainly and fixed permanently.<sup>279</sup> In addition, a greater number of employees present within the district suggests that

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<sup>271</sup> *In re Cray*, 871 F.3d at 1361 (quoting *Schnell*, 365 U.S. at 262).

<sup>272</sup> See Heinecke, *supra* note 2.

<sup>273</sup> See Heinecke, *supra* note 2.

<sup>274</sup> See U.S. CONST. art. 1 § 8, cl. 8.

<sup>275</sup> *Regents*, 2017 WL 4773150, at \*6.

<sup>276</sup> *Id.*

<sup>277</sup> *Id.*

<sup>278</sup> See *In re Cray*, 871 F.3d at 1363.

<sup>279</sup> See *id.*

the defendant likely intends to establish its business in the district and therefore intends to be fixed permanently there.<sup>280</sup>

### VIII. DEFINING DEFENDANT’S “PLACE OF BUSINESS”

In *In re Cray*, the Federal Circuit articulated that the place of business must be of the defendant and not solely a place of the defendant’s employee.<sup>281</sup> The court indicated that relevant considerations include whether the defendant owns or leases the place or whether the defendant exercises other attributes of possession or control over the place.<sup>282</sup> The court also discussed that other considerations may satisfy the place of business requirement, such as whether the defendant conditioned employment on an employee’s continued residence in the district or the employee stores materials at the place so that they can be distributed or sold from that location.<sup>283</sup> In *In re Cray*, the court acknowledged that potential relevant inquiries include whether the defendant lists the alleged place of business on a website, in a telephone or other directory, or places its name on a sign on or associated with the building itself.<sup>284</sup> The court indicated that a further consideration might be the nature and activity of the alleged place of business in the district in comparison with that of defendant’s other places of business in other venues.<sup>285</sup> This section will discuss and analyze other facts that courts should consider when determining whether a place of business in a district is the defendant’s.

These factors from *In re Cray*, in addition to the several factors discussed in this Section, allow courts to more uniformly determine whether a place of business is that of the defendant. By utilizing these factors, courts prevent patent trolls from utilizing forum shopping as a litigation weapon, thereby discouraging them to continue exploiting the weaknesses of the patent system. Accordingly, companies can allocate resources on research and development instead of costly litigation practices designed to fend off patent trolls. By allocating resources to research and development, companies can foster

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<sup>280</sup> *See id.*

<sup>281</sup> *Id.*

<sup>282</sup> *Id.*

<sup>283</sup> *In re Cray*, 871 F.3d at 1363.

<sup>284</sup> *Id.* at 1364-65.

<sup>285</sup> *Id.* at 1365.

innovation, which supports Congress's intent for creating the patent system in the first place.<sup>286</sup>

### A. Storing Products in Employee's Home

In *In re Cray*, Cray's sales executive did not store petitioner's samples or products in his home.<sup>287</sup> The court reasoned that storage was not possible because Cray's supercomputer systems could take up entire rooms and weighed several thousand pounds.<sup>288</sup> Although a defendant's storing its inventory in its employee's home favors the employee's home constituting the defendant's place of business,<sup>289</sup> courts should not treat this fact as being determinative. If the defendant stores its inventory in the employee's home, then the employee's home likely constitutes the defendant's place of business.<sup>290</sup> However, if the defendant cannot store the inventory in its employee's home because of the product's size or weight, courts should analyze other attributes that contribute to the employee's home constituting the defendant's place of business.<sup>291</sup>

### B. Separate Corporate Entities

In cases where the defendant's subsidiary conducts business in a district, courts should consider whether the subsidiary owns and operates its business as a separate corporate entity from the defendant.<sup>292</sup> For a plaintiff to impute venue onto a defendant through a defendant's subsidiary, courts should inquire whether the defendant and its subsidiary lack formal separateness.<sup>293</sup> For example, in *Symbology*, because the defendant and its subsidiary in the district kept separate general ledgers, prepared their own distinct financial reports,

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<sup>286</sup> See U.S. CONST. art. 1 § 8, cl. 8.

<sup>287</sup> *In re Cray*, 871 F.3d at 1365.

<sup>288</sup> *Id.*

<sup>289</sup> See *id.*

<sup>290</sup> See *In re Cordis*, 769 F.2d at 737.

<sup>291</sup> See, *Regents*, 2017 WL 4773150, at \*5.

<sup>292</sup> *Symbology*, 2017 WL 4324841, at \*10.

<sup>293</sup> *Id.* (explaining "when separate, but closely related, corporations are involved . . . the rule is similar to that applied for purposes of service of process. So long as a formal separation of the entities is preserved, the courts ordinarily will not treat the place of business of one corporation as the place of business of the other. On the other hand, if the corporations disregard their separateness and act as a single enterprise, they may be treated as one for purposes of venue.").

and had separate assets, the court found the defendant and its subsidiary were separate corporate entities.<sup>294</sup> The court found that the subsidiary's retail stores in the district were not imputable to the defendant, and the court held that the place of business in the district was not the defendant's place of business.<sup>295</sup> Therefore, in the case of a plaintiff's establishing venue through a defendant's subsidiary, courts should consider whether the subsidiary owns and operates its business as a separate corporate entity from the defendant.<sup>296</sup>

### C. Worker's Compensation Insurance Policies

In *BillingNetwork*, the plaintiff argued that the even if the defendant did not establish its employees' homes as its own places of business, it ratified them as such by designating the homes for purposes of worker's compensation.<sup>297</sup> The court reasoned that the argument was not persuasive because the listing of the employee's home address on the worker's compensation insurance policy showed neither that the defendant possessed the home, controlled the home, nor held out the home as its place of business to the public.<sup>298</sup> The court found that the listing of the employee's home for the worker's compensation insurance policy merely recognized that the employee did work for the employer at its home.<sup>299</sup>

## IX. CONCLUSION

Courts should continue to disarm patent trolls by uniformly applying patent venue law to prevent them from using forum shopping as a litigation weapon. Companies continue to increase spending on defensive litigation strategies, which leads to decreased spending on research and development.<sup>300</sup> This shift in resources harms innovation, which frustrates Congress's goal for implementing the United States patent system.<sup>301</sup> Although the Federal Circuit's guidance on venue disputes helped district courts apply patent venue law uniformly, the

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<sup>294</sup> *Id.* at \*11.

<sup>295</sup> *Id.*

<sup>296</sup> *See id.* at \*10.

<sup>297</sup> *BillingNetwork*, 2017 WL 5146008, at \*3.

<sup>298</sup> *Id.*

<sup>299</sup> *Id.*

<sup>300</sup> Heinecke, *supra* note 2, at 1179-80.

<sup>301</sup> Heinecke, *supra* note 2, at 1179-80.



Federal Circuit left large gaps in its analysis of the requirements.<sup>302</sup> These gaps in the patent venue law have given wide discretion to the district courts, and, as a result, the district courts have ruled differently on several of the requirements.<sup>303</sup> Such varying views and opinions enable patent trolls to continue to exploit the weaknesses in the patent system and use forum shopping as a litigation advantage.

By utilizing the factors analyzed in this Note, courts can begin to apply patent venue law uniformly to prevent patent trolls from forum shopping. Chef from the Disney movie *Trolls* said, “He who controls the trolls controls the kingdom . . . !”<sup>304</sup> It is time for our courts to control patent trolls by controlling the kingdom, the kingdom being patent venue jurisprudence. It is time for our courts to put an end to the forum shopping and extinguish the dreaded troll. It is time to control the kingdom!

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<sup>302</sup> See discussion of the shortcomings of this case *supra* Section IV(B)(2).

<sup>303</sup> See discussion of the analysis of each requirement *supra* Sections V-VIII.

<sup>304</sup> KingdomHeartsFan3211, You’re a dude??? – Trolls, YouTube, (June 2, 2017), <https://www.youtube.com/watch?v=vcXQG9IGcP0>