

# Locke Lord QuickStudy: The Federal Circuit Clarifies the Law of Proper Venue in Patent Cases Involving the Presence of a Purported Agent in a Given Fora

## WRITTEN BY

Charles E. Phipps | Steven F. Meyer

## RELATED OFFICES

Dallas

The Court of Appeals for the Federal Circuit has recently clarified the law concerning whether patent venue is proper under agency law, specifically in the context of whether the presence of a franchisee in a given fora is sufficient to support venue. Typically, automobile manufacturers sell their new cars to distributors which, in turn, sell those new cars to independent, franchised dealers which, in turn, sell those cars to general public consumers and service the sold cars under warranty. Prior to this recent decision, district courts were split on whether the dealership operations could be imputed to the distributors for finding patent venue under 28 U.S.C. § 1400(b) based on an agency theory. In *In re Volkswagen*, Appeal Nos. 2022-108, 2022-109, 2022 WL 697526 (Fed. Cir. Mar. 9, 2022), the Court held that under distributor-dealer franchise agreement, the dealers were not agents of the distributor for purposes of establishing patent venue under § 1400(b), based on the terms of the franchise agreement. As a result of this recent decision, patent venue for distributors will be proper only in those districts where the distributor is incorporated or has itself a place of business.

On December 11, 2020, StratosAudio, Inc. (“Stratos”) filed patent infringement complaints in the Western District of Texas against five new car distributors including Volkswagen Group of America, Inc. (“VWGoA”) and Hyundai Motor America (“HMA”). Neither VWGoA nor HMA are incorporated in Texas or own/lease a physical place of business in the Western District of Texas. In its complaints, Stratos pled that venue is proper in the Western District of Texas because: VWGoA and HMA “conducts its business of the exclusive distribution of new automobiles to the consuming public in this judicial district through its authorized dealers in this judicial district;” the Volkswagen and Hyundai “dealerships in this judicial district are held out to the consuming public as places of [Volkswagen or Hyundai] where [VWGoA or HMA] through its dealers, sells [VWGoA or HMA] cars;” and VWGoA and HMA “conducts business through its authorized dealers in this judicial district by providing new purchase warranties and service pursuant to those warranties to the consuming public.” See *Stratos v. VWGoA* Complaint, 6:20-cv-1131 (W.D. Texas) at ¶¶ 10-14; *Stratos v. HMA* Complaint, 6:20-cv-1125 (W.D. Texas) at ¶¶ 10-14.

VWGoA and HMA moved to dismiss or transfer the cases under 28 U.S.C. § 1406(a) and Fed. R. Civ. P. 12(b)(3). Judge Albright denied both motions, holding that in each case, venue is proper in the Western District of Texas. An essential component of the district court’s holding was its conclusion that independently owned and operated new car dealerships that sell Volkswagen-branded and Hyundai vehicles are, in fact, agents of VWGoA and HMA which regularly conduct VWGoA and HMA business in the Western District of Texas. *StratosAudio, Inc.*

*v. Volkswagen Grp. Of Am.*, 2021 WL 7367229 (W.D. Tex. Sept. 20, 2021); *StratosAudio, Inc. v. Hyundai Motor Am.*, 2021 WL 7367228 (W.D. Tex. Sept. 17, 2021). VWGoA and HMA then filed petitions for writ of mandamus, seeking an order vacating the district court's denial of the motions and instructing the district court to either dismiss the action or to transfer it to the Eastern District of Michigan in the case of VWGoA and to the Central District of California in the case of HMA. The Federal Circuit initially determined that the disagreement among district courts on the recurring issue of whether independent car dealerships are sufficient to establish venue over car distributors, constitutes exceptional circumstances warranting immediate review. *In re Volkswagen Grp. Of Am., Inc.*, 2022 WL 697526, \*2 (Fed. Cir. Mar. 9, 2022) (citing conflicting district court decisions).

Under the patent-specific venue statute, 28 U.S.C. § 1400(b), “[a]ny civil action for patent 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.” Under the first prong of § 1400(b) “a domestic corporation ‘resides’ only in its State of incorporation for purposes of the patent venue statute.” *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S.Ct. 1514, 1517 (2017). Because VWGoA and HMA are incorporated in New Jersey and California, respectively, neither VWGoA nor HMA “resides” in Texas for the purpose of patent venue, and the first prong of § 1400(b) is, therefore, inapplicable.

Under the second prong of § 1400(b), there are three general requirements to establishing that the defendant has a “regular and established place of business” under the patent-specific venue statute: “(1) there must be a physical place in the district; (2) it must be a regular and established place of business; and (3) it must be the place of the defendant.” *In re Cray*, 871 F.3d 1355, 1360 (Fed. Cir. 2017). The second *Cray* factor requires “the regular, physical presence of an employee or other agent of the defendant conducting the defendants’ business at the alleged ‘place of business’”. *In re Google*, 949 F.3d 1338, 1345 (Fed. Cir. 2020) (emphasis added). “If any [of these] statutory requirement[s] [are] not satisfied, venue is improper under § 1400(b).” *Cray*, 871 F.3d at 1360. In *Volkswagen*, the Federal Circuit held that a patent venue was improper in the Western District of Texas under the second *Cray* factor for both VWGoA and HMA.

Before the Federal Circuit, Stratos argued that the dealerships are VWGoA’s and HMA’s agents for conducting their business of (i) selling cars to consumers and (ii) providing warranty services to consumers. The Federal Circuit observed that Stratos “must show that [VWGoA and HMA] have the requisite control over the dealerships with respect to those activities, including the right to provide ‘interim instructions.’” *Volkswagen*, 2022 WL 697526, \* 5 (citing *Google*, 949 F.3d at 1345-46). In *Google*, the Federal Circuit emphasized that the control required in an agency relationship is one of “interim control.” *Google*, 949 F.3d at 1345-46. (“The power to give interim instructions distinguishes principals in agency relationships from those who contract to receive services provided by persons who are not agents”, citing Restatement (Third) of Agency § 1.01 cmt. f(1)).

The Federal Circuit held that the provisions of the VWGoA and HMA franchise agreements with their dealers fail to give VWGoA and HMA “interim control over either the dealerships’ car sales or warranty work.” *Volkswagen*, 2022 WL 697526, \* 6. “At best, Stratos cites various constraints placed on the dealerships that are arguably related to sales (minimum inventory, sales staff, displaying the parent company’s logo, providing sales reports, etc.), but none of these provisions evidence any control over the sales process itself.” *Id.* There are no “step-by-step” instructions from VWGoA and HMA that their dealerships must follow when selling a car to a consumer. *Id.* at \*7. “Thus, the terms and conditions set forth in the franchise agreements fail to give rise to an agency relationship between the [car distributors] and dealerships when it comes to selling cars to consumers.” *Id.*

The Federal Circuit held that “[t]he same is true as to the dealerships’ performance of warranty services.” *Volkswagen*, 2022 WL 697526, \*7. The VWGoA and HMA franchise agreements with their dealers “require the dealerships to perform warranty services, which are reimbursed by [VWGoA and HMA], or require the dealership to keep certain parts on hand and use certain tools when performing repairs. But Stratos fails to cite any language giving [VWGoA and HMA] control over how the dealerships perform warranty services once those parameters are set. [VWGoA’s and HMA’s] lack of ‘interim control’ over how the dealerships perform warranty work again precludes a finding that the dealerships are [the distributors’] agents for warranty services.” *Id.*

The Federal Circuit therefore vacated the district court’s orders denying the motions to dismiss or transfer, and remanded the case for further proceedings consistent with the Federal Circuit’s Order. *Volkswagen*, 2022 WL 697526, \*8. On remand, Judge Albright transferred the suit against VWGoA to the Eastern District of Michigan where VWGoA has a place of business and transferred the suit against HMA to the Central District of California where HMA is incorporated and headquartered. *StratosAudio, Inc. v. Volkswagen Grp. Of Am. Inc.* 2022 WL 764976 (W.D. Tex. Mar. 10, 2022); *StratosAudio, Inc. v. Hyundai Motor Am.*, 2022 WL 770119 (W.D. Tex. Mar. 10, 2022).

When answering a patent infringement complaint alleging proper venue under 28 U.S.C. § 1400(b), based solely on the presence and operations of its independent dealerships within the district, a distributor should not reflexively concede that venue is proper. Instead, the defendant distributor should first analyze the terms of its franchise agreement with its dealers to assess whether its dealers within the district are, in fact, its agents under *Cray* and *Volkswagen*. We have a great deal of experience in district court patent litigation and would welcome any questions regarding this new case law guidance.

## RELATED INDUSTRIES + PRACTICES

- [Intellectual Property](#)
- [Patent Litigation](#)