No. 2020-144

In the

United States Court of Appeals for the Federal Circuit

In re Google LLC,

Petitioner.

On Petition for a Writ of Mandamus
from the United States District Court
for the Eastern District of Texas,
Judge J. Rodney Gilstrap, Case No. 2:19-cv-90

BRIEF OF THE COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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CERTIFICATE OF INTEREST

Pursuant to Rules 29(a) and 47.4 of the Federal Circuit Rules of Practice, counsel certifies as follows:

(1) The full name of every party or amicus represented by me is **the Computer & Communications Industry Association**.

(2) The above-identified parties are the real parties in interest.

(3) The corporate disclosure statement of Rule 26.1 of the Federal Rules of Appellate Procedure is as follows: There is no parent corporation to or any corporation that owns 10% or more of stock in the above-identified parties.

(4) The names of all law firms and the partners and associates that have appeared for the party in the lower tribunal or are expected to appear for the party in this court, not including those who have entered or are expected to enter an appearance before this court, are: **None**.

(5) The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal are: **None**.

(6) No information is required to be provided under Rule 26.1(b) or (c).

Dated: August 10, 2020

/s/ Joshua Landau

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INTEREST OF *AMICUS CURIAE*

The Computer & Communications Industry Association ("CCIA") is an international nonprofit association representing more than two dozen companies. CCIA members[1] form a broad cross-section of computer, communications, and Internet industry firms that collectively employ nearly a million workers and generate annual revenues in excess of $540 billion. CCIA regularly files *amicus* briefs in this and other courts to promote balanced patent policies that reward, rather than stifle, innovation.

CCIA's members operate in a wide variety of physical locations and thus have an interest in predictable determinations of venue. CCIA's members are concerned that holding the presence of a third-party contractor to be sufficient to create venue will upset this predictable determination. Many members, like the petitioner Google, have a principal place of business outside of Texas and offices and facilities located throughout the United States. While some members may have facilities located within the Eastern District of Texas, many others lack any corporate presence in the district.

Pursuant to Fed. R. App. P. 29(a)(4)(e), no counsel for a party to the case underlying the pending petition for writ of mandamus authored this brief in whole or in part, and no party or party's counsel made a monetary contribution intended to

[1]CCIA's members are listed at http://www.ccianet.org/members. Petitioner Google is a member, but took no part in the preparation or funding of this brief.

fund the preparation or submission of this brief. No person other than the *amicus* or its counsel made a monetary contribution to fund the preparation or submission of this brief.

INTRODUCTION

After the Supreme Court's 2017 decision in *TC Heartland, LLC v. Kraft Foods Group Brands LLC*, defendants believed that they would no longer be subject to venue in jurisdictions in which they did not operate business locations. However, judges in the Eastern District of Texas have repeatedly misread the venue statute to try to retain cases even when venue is inappropriate. First, Judge Gilstrap ruled that a remote employee in the district was sufficient to create venue. This Court disagreed. *See In re Cray, Inc.*, 871 F.3d 1355 (Fed. Cir. 2017). Next, he ruled that the presence of servers established venue. Again, this Court disagreed. *See In re Google, LLC*, 949 F.3d 1338 (Fed. Cir. 2020). Now, Judge Gilstrap has decided that the presence of a third party contractor within the district is sufficient to create venue. This Court should refute that decision and hold that the venue statute and its place in the overall statutory scheme require that the defendant itself have a location within the district, or have an agent within the district upon whom service of process would be permissible.

To do otherwise threatens serious uncertainty over venue determinations and would potentially lead to corporate determinations to avoid using external services, to the detriment of both the companies involved and small and medium-sized entities who benefit from these relationships. Reading the statute to permit venue based on third party contractor presence is fundamentally inconsistent with the venue statute's purpose as a restrictive guide to where a case may be heard. CCIA is also concerned that the underlying decision is fundamentally inconsistent with the service statue, which this Court has held should be read in tandem with the venue statute. *See id.* at 1344. Combining the logic of the underlying decision with this Court's precedent, a third party contractor would become a proper place to serve a complaint on a company that contracts with them. Such a situation is inconsistent with the purpose of the service statute and with good public policy.

ARGUMENT

I. Presence of an Independent Contractor Is Insufficient to Support Service of Process and Thus to Support Venue

This Court's most recent venue decision, *Google*, emphasized the relationship between the venue and service statutes. *See id.* In *Google*, the Court found that "[w]hat the service statute indicates about that phrase must inform the proper interpretation of the same phrase in the venue statute." *Id.* The same is true in the present case—what the service statute indicates about an agent must inform the interpretation of a "defendant's place of business" in the venue statute.

A. A regular and established place of business can only exist if an agent suitable for service of process is present at the place of business

The venue statute requires that the place of business must be "of the defendant" in order to create venue. *Cray*, 871 F.3d at 1360. The service statute makes clear that such a place of business is a location in which a defendant has an "agent or agents conducting such business." 28 U.S.C. § 1694. If a regular and established place of business were to exist without the presence of a suitable agent, then service would be impossible, leading the two statutes to have inconsistent and incoherent outcomes.

The only logical reading of the paired statutes thus requires that a regular and established place of business can only exist if an agent suitable for service of process is present at that location. And indeed, this is precisely what this Court has

previously suggested, stating that the "'regular and established' character of the business assumes the regular, physical presence of an agent at the place of business." *Google*, 949 F.3d at 1344; *cf. id.* at 1347 (noting that presence of a machine could constitute an agent if "service could be made on a machine.").

B. An independent contractor is not suitable for service of process

The statutes and rules surrounding service are fundamentally concerned with due process—in particular, providing a defendant with adequate notice of a suit. And in the Fifth Circuit, this requires that service be made on an authorized agent. *Lisson v. ING Groep N.V.*, 262 F. App'x 567 (5th Cir. 2007). Independent contractors are not generally suitable for such service. *See, e.g., Smith v. Piper Aircraft Corp.*, 425 F.2d 823, 826 (5th Cir. 1970). And the key distinctions between an agent, suitable for service, and an independent contractor, unsuitable for service, are that the agent is authorized to receive suit by the principal and is under the rightful control of the defendant. *See, e.g., O'Quinn v. World Indus. Constructors, Inc.*, 874 F. Supp. 143, 145 (E.D. Tex. 1995). The clearest interpretation of the venue statute thus requires that the "regular and established place of business" have a regular presence of an agent authorized to receive service and be subject to the control of the defendant.

C. A restrictive contract does not create an agency relationship

While the "status of an independent contractor and that of an agent are not always easy to distinguish," the essence of an agency relationship is the "retention by the alleged principal of the power to impose his will upon the alleged agent in accomplishing the purposes and objects of the contract." *Stanford v. Dairy Queen Prods. of Tex.*, 623 S.W.2d 797, 801 (Tex. App. 1981). In the *Stanford* case, the contract between the franchisor and franchisee "specified standards and methods of operation; assign[s] [franchisor] certain inspection rights; and contains other provisions that govern in great detail the 'licensees' manner of operation and conduct under the contract." *Id.* at 802. These included requirements relating to the keeping and furnishing of financial records, the construction of a suitable building to house the operation, and the ability for the franchisor to instruct the franchisee as to operational procedures via documents outside of the contract. *Id.* Despite this significant level of control, the trial court properly found that an agency relationship did not exist.

In the present case, as in many cases in which CCIA's members contract with third parties to provide specific services, a number of safeguards are provided in contract. For example, a separate space may be required to ensure that a member's valuable technology is separated from that of other customers of the facility. Repair and test procedures are provided because the complex nature of the technology re-

quires them in order to ensure that the service provider has sufficient information to actually perform the contracted service. Reporting on operations may be required in order to enhance the operations of the member. For example, by requiring the repair provider to inform the manufacturer of "trends in recurring failures", as in the present case, the manufacturer can thereby identify weak areas of design in its product and redesign for improved manufacturability and durability. These provisions safeguard the interests of the manufacturer, as is typical in contracts between independent parties.

What these provisions do not do is place the independent contractor under the control of the defendant. They establish the parameters of the work which the contractor is to do and the information which it is required to provide to the defendant during the duration of the work contract; the contractor retains the right to control its own operations. These provisions weigh against treating this instance—a typical contract for a complex service to be provided—as an instance of agency.

D. The profitability clause excludes the possibility of agency in the present case

The lack of an agency relationship in the present case is cemented by the provision that allows the alleged agent, CTDI, to refuse instructions from Google that would negatively affect CTDI's profitability. An agent has no ability to refuse to perform an instruction simply because it would negatively impact the agent's fi-

nances. In fact, agency is "a special relationship that gives rise to a fiduciary duty." *LegacyRG, Inc. v. Harter*, No. 16-20506, at 7 (5th Cir. Aug. 8, 2017). And a fiduciary must "put the interests of the beneficiary ahead of its own if the need arises." *ARA Auto. Grp. v. Cent. Garage, Inc.*, 124 F.3d 720, 723 (5th Cir. 1997). As a result, the type of relationship typified by this contract—one in which the scope of services to be performed is defined in detail and interim instructions are permitted, but can be rejected where they would negatively impact the finances of the contractor, cannot be considered an agency relationship.

II. Permitting Venue to Exist Based on the Use of Independent Contractors Will Have Significant Negative Impacts on a Wide Array of Businesses

CCIA's members regularly employ service providers under contracts similar to that at issue in this case to perform ancillary services such as shipping, warehousing, and repairs. Other businesses, such as auto manufacturers, consumer electronics manufacturers, and semiconductor designers, also utilize third party service providers under complex contracts.

However, much like the employee in *Cray*, CCIA's members leave the location in which the service may be performed to the discretion of the service provider. The situation more closely resembles that of *In re ZTE (USA) Inc.*, in which the location of the contractor's facility was set by the contractor and in which the contractor could terminate its contract if it chose to do so. *In re ZTE (USA) Inc.*, 890 F.3d 1008,

1015 (Fed. Cir. 2018). If completing a contract with a provider in a particular location represented ratification of that location as belonging to the manufacturer, then any contractual relationship would subject the manufacturer to venue, a situation completely at odds with the Supreme Court's narrow approach to venue.

A contractual relationship with a service provider should not subject a company to venue simply because of the complex nature of the contract required due to the complexity of modern products. In another case similar to this one, the court correctly decided that an authorized service center, including significant contractual constraints, did not create venue. *Zaxcom, Inc. v. Lectrosonics, Inc.*, No. 17-cv-3408 (E.D.N.Y. Feb. 1, 2019).

CCIA's members are concerned that if the underlying decision is ratified, it will force them to either bear unacceptable risks or to cease to use independent third parties for services, reducing economic efficiency and harming the companies, including small and medium-sized enterprises, who benefit from such contracts.

A. Establishing venue based on the presence of an independent contractor or service provider would lead to unacceptable risks

As outlined above, if venue is available based on the use of an independent service provider, then service on the contracting entity could presumptively be made on a service provider or contractor. Because the service provider does not actually share financial interests with the contracting entity, they may or may not

provide notice to the contracting entity in an appropriate timeline. They might also be confused by the service of a complaint against another company, assuming it was simply an error. Enabling this type of service would risk notice never actually being provided to the contracting entity, leading to the potential for default judgments in cases that would have been defended if service was made properly, and would also present significant due process concerns.

Further, even if service was restricted while venue was not, companies engage with a variety of service providers under a number of contractual arrangements. Exposure to suit based on an arm's length relationship with a party whose location the contracting entity neither sets nor controls represents an unsustainable risk. Contracting entities would most likely mitigate this risk by reducing their use of external service providers. In the extreme, companies may even choose to leave a district entirely, using no contractors with any presence in that district. *See, e.g.,* Chaim Gartenberg, *Apple Is Reportedly Closing Two Stores in a Texas District to Avoid Patent Trolls*, The Verge (Feb. 22, 2019), https://www.theverge.com/circuitbreaker/2019/2/22/18236424/apple-closing-stores-eastern-district-texas-avoid-patent-trolls.

B. Establishing venue based on the presence of an independent contractor or service provider would reduce the use of these relationships, reducing efficiency

By reducing their use of external services, companies could mitigate the risk of exposure to suit in unfamiliar and unplanned jurisdictions. However, that reduction has other negative impacts.

For example, a company that uses contract manufacturing, such as many electronics companies, is unlikely to have significant internal expertise in product repair. Rather than take advantage of the skills developed by third party repair centers, such as the one in this case, a company would need to develop its own internal processes. These internal repair processes are unlikely to benefit from the cross-pollination of experience that a dedicated repair facility may be able to bring to the table. Companies also may either over- or under-supply repair capacity, resulting in increased prices or consumer delays. Third party contractors have more flexibility in staffing and can smooth out fluctuations in demand for service of one product with opposite fluctuations in other products.

In another example, a company that designs chips that rely on the "fabless" model, contracting its manufacture out to a fab such as the GlobalFoundries fab in New York, would suddenly be available for suit in that district, even if the alleged infringement had nothing to do with the fabrication process and the company

itself does no work in those districts.[2] Rather than subject themselves to unfamiliar venue, companies might mitigate their risk by moving manufacture overseas instead.

Finally, auto manufacturers commonly authorize service centers around the country, providing them with service information and referring car owners to them to ensure they receive high quality service. However, if that authorization creates venue, manufacturers might cease to authorize mechanics in many locations in order to avoid being subject to suit in those locales, resulting in reduced access to high quality authorized service and to lower quality repairs for many consumers who can no longer access authorized servicers. Similarly, auto manufacturers have contractual relationships with dealerships. But a dealership located in Marshall, TX, selling cars that have nothing to do with a cause of infringement should not provide venue for a claim of infringement based on, e.g., a patent infringement claim directed at the manufacturer's website. Under the challenged ruling, venue

[2]The Federal Circuit has not yet weighed in on the question of whether the act of infringement and the place of business must be related. While the question does not appear to have been briefed in this case, resolution of this question would resolve many of the issues relating to this venue provision. The legislative history suggests that the intent was that the two should be related. *See* 29 Cong. Rec. 1902 (1897) ("The main purpose of the bill is to give original jurisdiction to the court where [] the **business is located, and that business is engaged in the infringement of the patent** rights of some one who has such rights anywhere in the United States. . . . Isolated cases of infringement would not confer this jurisdiction, but only where a permanent agency is established.") (emphasis added).

in such a circumstance would be permissible. To minimize this risk, manufacturers might reduce their relationships with auto dealers to limit their exposure, again reducing consumer access to high quality services and increasing the expenses incurred by numerous small and medium-sized businesses across the country.

These examples illustrate a general trend of reducing use of external services. That trend would tend to particularly harm smaller entities and startups, as explained *infra*.

C. Establishing venue based on the presence of an independent contractor or service provider would tend to harm small entities

Contracting with a small entity or startup is a risk. Indemnity arrangements are unlikely to be useful, as a small repair company cannot practically indemnify a multi-billion dollar corporation. If the existing risk of working with a small entity is exacerbated by the risk of suit in an unfamiliar jurisdiction, small companies who cannot afford indemnification or mitigation of risk are likely to be passed over in favor of larger entities who can.

Because smaller entities are less able to absorb these sorts of mitigations, the impact of basing venue on third party contractors is likely to be particularly felt by small entities. Given the significant negative impacts on businesses, combined with the Supreme Court's instruction to construe venue narrowly, reversal of the

challenged ruling would ensure an outcome that is both legally proper and good public policy.

III. Mandamus Is Appropriate in This Instance

The basic issue of venue via agency presented in this case is a broad, fundamental issue, and one likely to recur. And as this Court previously noted, this type of issue is not one which is well-preserved and presented via the normal appellate process. *Google*, 949 F.3d at 1342.

Further, issues similar to the issue presented here have arisen in other district courts with disparate results, signaling that the issue will continue to arise until the Federal Circuit weighs in. *See, e.g., Zaxcom*, No. 17-cv-3408 (no venue found based on presence of an authorized service center in district); *BASF Plant Sci., LP v. Commonwealth Sci. & Indus. Research Org.*, No. 2:17-cv-503 (E.D. Va. May 7, 2019) (venue found based on contractual cooperative arrangement); *Modern Font Applications v. Peak Rest. Partners*, No. 2:19-cv-221 (D. Utah Apr. 7, 2020) (no venue found based on wholly owned subsidiary's operations in district); *Tour Tech. Software, Inc. v. RTV, Inc.*, 377 F.Supp.3d 195 (E.D.N.Y. 2019) (no venue found based on independent contractors advertised by company). As was the case in *Google*, there are a significant number of district court cases adopting conflicting views on the basic legal issue.

Finally, the repeated trend of incorrect venue decisions from the Eastern District of Texas overturned by this Court via mandamus suggests that this case is also appropriate for mandamus. If this Court upholds Judge Gilstrap's determination, or even determines not to take the case for mandamus, as it previously did in *In re Google LLC* ("*SEVEN Networks*"),[3] that will be taken as a green light for venue based on service providers—despite this Court's adherence to the Supreme Court's admonition that venue requirements are to be given a narrow construction. *See, e.g., Cray*, 871 F.3d at 1361. After the denial of mandamus in *SEVEN Networks*, a flurry of lawsuits was filed against Google, based on the same theory of venue—including the case that ultimately led to the *Google* mandamus decision.[4]

A failure to grant mandamus in this case would delay determination of this important issue and allow new and inconsistent decisions to issue, multiplying the problems created by Judge Gilstrap's ruling.

[3] *In re Google LLC* ("*SEVEN Networks*"), No. 2018-152 (Fed. Cir. Oct. 29, 2018), *reh'g denied*, No. 2018-152 (Fed. Cir. Feb. 5, 2019).

[4] A search of filings in the Eastern District of Texas shows that 14 cases were filed against Google in the week after the *SEVEN Networks* denial of mandamus, with an additional 14 cases filed over the next three weeks.

CONCLUSION

This Court should grant mandamus to clarify that a relationship with a third-party contractor or service provider does not create venue for patent infringement cases. Absent such a reversal, a flood of patent infringement cases filed based on an incorrect understanding of patent venue will flow into the Eastern District of Texas, dragging in companies with no presence in the district other than a contract with a third party. Additionally, this Court should consider ordering briefing of the question of whether the venue statute requires the acts of infringement and the regular and established place of business to coincide. The statute requires this interpretation, and such an interpretation would significantly clarify the law of patent venue.

Accordingly, Google's petition for a writ of *mandamus* should be granted and Judge Gilstrap's ruling should be overturned.

Respectfully submitted,

Dated: August 10, 2020

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CERTIFICATE OF COMPLIANCE

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Dated: August 10, 2020

/s/ Joshua Landau

Joshua Landau
Counsel for amicus curiae

CERTIFICATE OF SERVICE

I hereby certify that on August 8, 2020, I caused the foregoing **Brief of the Computer & Communications Industry Association as *Amicus Curiae* in Support of Petitioner** to be electronically filed with the Clerk of the Court using CM/ECF, which will automatically send email notification of such filing to all counsel of record.

Dated: August 10, 2020

/s/ Joshua Landau

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