IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

STRATOSAUDIO, INC., *Plaintiff* -vs- VOLKSWAGEN GROUP OF AMERICA, INC., *Defendant*	§ § § § § § § §	6:20-CV-01131-ADA

MEMORANDUM OPINION AND ORDER

Before the Court is Defendant Volkswagen Group of America, Inc.'s ("Volkswagen") Rule 12(b)(3) Motion to dismiss or transfer for improper venue pursuant to 28 U.S.C. §§ 1400(b) and 1406(a). Dkt. 16. After careful consideration of the relevant facts, applicable law, and the parties' briefs and oral arguments, the Court **DENIES** Volkwagen's Motion.

I. BACKGROUND

Plaintiff StratosAudio, Inc. ("StratosAudio") filed this action against Volkswagen on December 11, 2020, asserting infringement of seven patents by Volkswagen's vehicles with certain infotainment systems. Dkt. 1. On February 19, 2021, Volkswagen moved to dismiss or transfer the action for improper venue under Rule 12(b)(3). Dkt. 16.

StratosAudio is a Delaware corporation headquartered in Kirkland, Washington. Dkt. 1 at 1, ¶ 2. Volkswagen is a New Jersey corporation with its principal place of business in Herndon, Virginia. *Id*. at 2, ¶ 7. Volkswagen may be served through its registered agent for service in Austin, Texas, within this District, and has been registered to do business in the State of Texas since at least June 7, 1973. *Id.*

For propriety of venue, Plaintiff alleges that Volkswagen conducts its business of the exclusive distribution of new Volkswagen and Audi automobiles to consumers in this District

through its authorized dealers in Austin and Waco and exercises control over those dealerships. *Id*. at 3–5, ¶¶ 10–14.

II. LEGAL STANDRD

Federal Rule of Civil Procedure 12(b)(3) allows a party to move to dismiss an action for "improper venue." FED. R. CIV. P. 12(b)(3). 12 U.S.C. § 1440(b) is the "sole and exclusive provision controlling venue in patent infringement actions." *TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514, 1519 (2017). "Whether venue is proper under § 1400(b) is an issue unique to patent law and is governed by Federal Circuit law," rather than regional circuit law. *In re ZTE (USA) Inc*., 890 F.3d 1008, 1012 (Fed. Cir. 2018). "[U]pon motion by the Defendant challenging venue in a patent case, the Plaintiff bears the burden of establishing proper venue." *Id*. at 1013–14. Plaintiff may carry this burden by establishing facts that, if taken to be true, establish proper venue. *Castaneda v. Bradzoil, Inc*., No. 1:20-CV-1039-RP, 2021 WL 1390423, at *1 (W.D. Tex. Apr. 13, 2021). "On a Rule 12(b)(3) motion to dismiss for improper venue, the court must accept as true all allegations in the complaint and resolve all conflicts in favor of the plaintiff." *Id*. (citing *Braspetro Oil Servs. Co. v. Modec (USA), Inc*., 240 F.App'x 612, 615 (5th Cir. 2007) (per curiam)). In determining whether venue is proper, "the Court may look beyond the complaint to evidence submitted by the parties." *Ambraco, Inc. v. Bossclib, B.V*., 570 F.3d 233, 237–38 (5th Cir. 2009).

Section 1400(b) provides that venue in patent cases is proper "[1] where the defendant resides, or [2] where the defendant [a] has committed acts of infringement and [b] has a regular and established place of business." 28 U.S.C. § 1400(b). Under the first prong, the Supreme Court has held that "a domestic corporation 'resides' only in its State of incorporation for purposes of the patent venue statute." *TC Heartland*, 137 S. Ct. at 1517. Under the second prong, the Federal

Circuit interpreted, in *In re Cray Inc.*, 871 F.3d 1355 (Fed. Cir. 2017), "regular and established place of business" to impose three general requirements: "(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." *Id.* at 1360. Regarding the first requirement, a "place" refers to a "'building or a part of a building set apart for any purpose' or 'quarters of any kind' from which business is conducted." *Id.* at 1362 (citations omitted). Regarding the second requirement, "regular" means that the business must operate in a "'steady, uniform, orderly, and methodical' manner," and "sporadic activity cannot create venue." *Id*. (citations omitted). And the third requirement means that the place cannot be solely a place of the defendant's employee – "the defendant must establish or ratify the place of business." *Id.* at 1363.

Subsequently, in *In re Google LLC*, 949 F.3d 1338 (Fed. Cir. 2020), the Federal Circuit added a fourth requirement: "a 'regular and established place of business' requires the regular, physical presence of an employee or other agent of the defendant conducting the defendant's business at the alleged 'place of business.'"[1] *Id.* at 1345.

III. DISCUSSIION

The main dispute before the Court is whether Volkswagen has "a regular and established place of business" in this District. The parties do not dispute that Volkswagen does not "reside" in this District and therefore the first prong of Section 1400(b) does not apply. Under the second prong, the parties do not dispute that Plaintiff has plausibly pled that "defendant has committed acts of infringement" and the parties also do not dispute that the dealerships are "physical places"

[1] In *Google*, Federal Circuit considered this requirement as part of the second *Cray* factor. *In re Google LLC*, 949 F.3d 1338, 1344 (Fed. Cir. 2020) ("We agree . . . that under the second *Cray* factor, a 'place of business' generally requires an employee or agent of the defendant to be conducting business at that place."). However, this *Google* requirement is essentially a different requirement than the original second *Cray* requirement, which places more focus on the phrase "regular and established." Therefore, this Court treats the *Google* requirement as a fourth requirement in addition to the three *Cray* requirements.

in this District and are "regular and established" under the first and second *Cray* requirements. Therefore, the Court discusses below whether the third and fourth requirements are met in this case to establish proper venue in this District.

A. Ratification

Under the third *Cray* requirement, a plaintiff must show that the place of business at issue is "the place of the defendant." *In re Cray*, 871 F.3d at 1360. To meet this requirement, "the defendant must establish or ratify the place of business." *Id.* at 1363. There is no bright-line rule for this inquiry. *Id*. at 1362 ("In deciding whether a defendant has a regular and established place of business in a district, no precise rule has been laid down and each case depends on its own facts."). The Federal Circuit set forth a number of considerations to determine whether the defendant has ratified the place of business, including: (1) "whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place"; (2) "whether the defendant conditioned employment on an employee's continued residence in the district or the storing of materials at a place in the district so that they can be distributed or sold from that place"; (3) whether the defendant has made "representations that it has a place of business in the district"; and (4) "the nature and activity of the alleged place of business of the defendant in the district in comparison with that of other places of business of the defendant in other venues." *Id*. at 1363-64. These considerations are not exhaustive but are more illustrative in nature. *Blitzsafe Texas, LLC v. Bayerische Motoren Werke AG*, No. 2:17-CV-00418-JRG, 2018 WL 4849345, at *6 (E.D. Tex. Sept. 6, 2018).

More recently, the Federal Circuit found additional factors relevant to this analysis, including: "the nature of [the defendant's] relationship with [its] representatives [in the District], or whether it has any other form of control over any of them"; "whether [the defendant] possesses,

owns, leases, or rents the [facility] . . . or owns any of the equipment located there"; "whether any signage on, about, or relating to the [facility] associates the space as belonging to [the defendant]"; and "whether the location of the [facility] was specified by the defendant or whether [a third party] would need permission from the defendant to move [the facility] outside of the . . . District or to stop working for [the defendant]." *In re ZTE (USA) Inc*., 890 F.3d 1008, 1015–16 (Fed. Cir. 2018).

1. Defendant exercises control over the dealerships' places in this District.

For this factor, Volkswagen's main argument is a one-sentence statement in its Reply, stating that it is "forbidden to 'operate or control' the dealerships" under Texas law. Dkt. 16 at 3–4; Tex. Occ. Code § 2301.476(c) ("[A] manufacturer or distributor may not directly or indirectly . . . operate or control . . . a franchised dealer or dealership."). However, this does not mean that Volkswagen does not exercise *de facto* control over the dealerships to some degree, nor does it mean that the dealerships are not places of Volkswagen as a matter of law. *See, e.g.*, *Blitzsafe*, 2018 WL 4849345, at *7.

As Plaintiff points out, Volkswagen controls numerous aspects of its dealerships' operations through a number of agreements with its dealerships. Dkt. 22 at 8-15. Volkswagen's alleged control over its dealers include: (1) the dealers' premises and facilities and their use and maintenance; (2) the dealers' use of Volkswagen trademarks and trade names in advertising and marketing; (3) the price and terms upon which its dealers purchase its vehicles; (4) the dealers' inventory of vehicles and parts; (5) the terms and scope of warranties to be included in its vehicle sales, the manner in which its dealers provide notice and advertise such warranties, and the rate or price at which a Volkswagen or Audi dealer will be reimbursed for services; (6) monthly reporting from the dealers of their finances and operations; (7) the IT equipment such as computers that its dealers must use and maintain; (8) the number of personnel that its dealers must have on site and

their certifications and training; (9) performance reviews on the dealers' sales, service, and parts, customer satisfaction, and even the dealer's maintenance of its premises and facilities; and (10) restricting whether and to whom a dealer may sell or transfer its business. *Id*. As the list goes on, it is not hard to find that Volkswagen boasts a broad scope of *de facto* control over its dealerships. Therefore, the Court is not persuaded by Volkswagen's argument that Texas law deters it from exercising control over its dealerships.

2. Defendant's relationship with the dealerships is conditioned on the dealerships' continued presence in this District.

Under Texas law, Volkswagen is not permitted to directly sell vehicles to consumers in this District. Tex. Occ. Code § 2301.476(c) ("[A] manufacturer or distributor may not directly or indirectly . . . act in the capacity of a franchised or nonfranchised dealer."). Therefore, the only way that Volkswagen can sell its vehicles to consumers in this District is through authorized dealerships that it currently has in the District. As Plaintiff alleges, new Volkswagen vehicles are available for purchase exclusively through these authorized dealers. Dkt. 22 at 3. Thus, it is not surprising that Volkswagen imposed stringent restrictions on the locations and ownership transfer of its authorized dealership in this District: "If Dealer chooses to transfer its principal assets or change owners, VWoA has the right to approve the proposed transferees . . . and . . . their premises. . . . VWoA will notify Dealer in writing of the approval or disapproval of a proposal by Dealer for transfer of principal assets or change of owners." *Id*. at 15.

3. Defendant represents to the public that it has a place of business in this District.

Under this factor, "[p]otentially relevant inquiries include whether the defendant lists the alleged place of business on a website, or in a telephone or other directory; or places its name on a sign associated with or on the building itself." *In re Cray*, 871 F.3d at 1363–64. "But the mere

fact that a defendant has advertised that it has a place of business or has even set up an office is not sufficient; the defendant must actually engage in business from that location." *Id*. at 1364. "Marketing or advertisements also may be relevant, but only to the extent they indicate that the defendant itself holds out a place for its business." *Id*. at 1363.

Volkswagen represents to the public that it has a place of business in the Western District of Texas. When a user searches for Volkwagen dealerships in the District, Volkswagen's website displays a list of its authorized dealerships, allows the user to search for these dealerships' inventory, and gives the user an opportunity to schedule a test drive. Dkt. 22 at 3–4. Volkswagen also allows all its dealerships in this District to display the "Volkswagen" or "Audi" logo and use Volkswagen's and Audi's trademarks and tradenames. *Id*. at 3.

In fact, Volkswagen actually engages in business from the locations of its dealerships in this District. First, Volkswagen conducts business in this District by distributing Volkswagen vehicles to its authorized dealers. Second, and more importantly, Volkswagen provides new purchase warranties to consumers at the dealerships in this District. Dkt. 1 at 5, ¶ 13; Dkt. 22 at 12-13. Particularly, Plaintiff alleges, and Volkswagen does not deny, that Volkswagen "establishes the procedures for processing warranty claims and returning and disposing of defective parts" and "determines the rate or price at which a Volkswagen or Audi dealer will be reimbursed for services." Dkt. 22 at 12–13. Under Texas law, that means Volkswagen engages business in the state. Tex. Occ. Code § 2301.251(c) ("A manufacturer or distributor that directly or indirectly reimburses another person to perform warranty repair services on a vehicle is engaged in business in this state regardless of whether the manufacturer sells or offers for sale new motor vehicles in this state.").

In its five-page Motion, Volkswagen does not present any persuasive argument on why it does not ratify its dealerships in this District, other than its conclusory statements that two other district courts' rulings are right (because they are in its favor) and a third court's ruling is wrong (because it is not in its favor). Dkt. 16 (discussing *Blitzsafe*; *Omega Patents, LLC v. BMW of North America et al*., 1:20-cv-01907-SDG, 2020 WL 8184342 (N.D. Ga. December 21, 2020); *West View Research, LLC v. BMW of North America, LLC et al*, 16-cv-2590 JLS (AGS), 2018 WL 4367378 (S.D. Cal. February 5, 2018)). Similarly, in its seven pages of rambling in the Reply, cobbled together with block citations from the *West View* and *Omega* cases, Volkswagen does not effectively refute that Plaintiff's allegations are insufficient to establish that Volkswagen ratifies its dealerships in this District.

In view of the above, the Court finds that Volkswagen ratifies the places of business of its authorized dealerships in this District and those dealerships are therefore "place[s] of the defendant" under the third *Cray* requirements.

B. Agents Conducting Defendant's Business in this District

In *In re Google*, the Federal Circuit also ruled that "a 'regular and established place of business' requires the regular, physical presence of an employee or other agent of the defendant conducting the defendant's business at the alleged 'place of business.'" *In re Google*, 949 F.3d at 1345.

1. The authorized dealers are Volkswagen's agents.

"An agency relationship is a 'fiduciary relationship that arises when one person (a 'principal') manifests assent to another person (an 'agent') that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents to act.'" *Id*. at 1345 (citing Restatement (Third) of Agency § 1.01). "The essential elements of

agency are (1) the principal's right to direct or control the agent's actions, (2) the manifestation of consent by the principal to the agent that the agent shall act on his behalf, and (3) the consent by the agent to act." *Id*. (citing *Meyer v. Holley*, 537 U.S. 280, 286 (2003)) (internal quotation marks omitted). Agency is a fact-dependent relationship. *In re MyFord Touch Consumer Litig*., 46 F. Supp. 3d 936, 956 (N.D. Cal. 2014). "While cases generally find that dealership agreements do not create general principal-agent relationships, it is not—as a matter of law—impossible to find a specific agency relationship as to matters subject to manufacturer control." *Stevens v. Ford Motor Co*., 2020 U.S. Dist. LEXIS 256298, *17 (S.D. Tex. Nov. 2, 2020).

Volkswagen argues that the dealerships are not Volkswagen's agents because "[t]hey don't act 'on the alleged principal's behalf.'" Dkt. 41 at 2. However, as discussed above, Volkswagen exercises a broad scope of control over its authorized dealerships in this District through their agreements. Among others, Volkswagen requires monthly reports from the dealerships, restricts the locations and ownership transfers of the dealerships, and provides warranty services to consumers through the dealers. Indeed, Volkswagen does not deny that it exercises control over its dealerships; instead, it argues that "control is only one aspects of the test" and the remaining two elements are not met. *Id*. at 2. However, the agreements between Volkswagen and its dealerships clearly show that there is manifestation of consent by Volkswagen to the dealerships that the dealerships shall act on Volkswagen's behalf, and the consent by the dealerships to act. Therefore, the Court finds that Volkswagen's authorized dealerships in this District are agents of Volkswagen at least for venue purposes.

In fact, it is not uncommon for a district court to find a principal-agency relationship between an auto manufacturer and its dealers. For example, the District of New Jersey found that "the dealer acted as BMWNA's agent, or at least that the two acted together." *Morano v. BMW of*

N. Am., LLC, 928 F. Supp. 2d 826, 837-38 (D.N.J. 2013); *see also Kent v. Celozzi-Ettleson Chevrolet, Inc*., No. 99 C 2868, 1999 WL 1021044, at *4 (N.D. Ill. Nov. 3, 1999) ("While it is certainly true that the mere fact that Celozzi–Ettleson is an authorized General Motors dealer does not make it General Motors' agent, it is equally true that an automobile dealership may under certain circumstances be an agent of the manufacturer."). Particularly, the *Morano* court found that "BMWNA and the dealer function as an integrated, two-part seller" because BMWNA makes all of its consumer sales or leases through its authorized dealers and services the vehicles through BMWNA's Warranty or Maintenance Program, while the dealers handle the mechanics of the sale or lease and the warranty services. *Morano*, 928 F. Supp. 2d at 837-38.

2. The authorized dealers conduct Volkswagen's business.

The authorized dealerships are also conducting Volkswagen's business in this District. Volkswagen is in the business of manufacturing and distributing vehicles to consumers. As explained above, the only way that Volkswagen can distribute its vehicles to consumers in this District is through its authorized dealerships in this District. Further, Volkswagen provides new purchase warranties and services to the consumers through its dealerships. It establishes the procedures for processing warranty claims and returning and disposing of defective parts and requires its dealers to comply with such procedures. Dkt. 22 at 12. It also determines the rate or price at which a Volkswagen or Audi dealer will be reimbursed for services. *Id*. at 13. These are sufficient to establish that Volkswagen conducts business at the dealerships under Texas law. Tex. Occ. Code § 2301.251(c).

Therefore, the Court finds that the authorized Volkwagen dealerships in this District are agents of Volkswagen conducting Volkswagen's business in this District.

IV. CONCLUSION

For the reasons above, the Court finds that Defendant has a "regular and established place of business" in the Western District of Texas and venue is proper in this District under Section 1400(b). The Court therefore **DENIES** Defendant's Motion to Dismiss or Transfer.

SIGNED this 20th day of September, 2021.

ALAN D ALBRIGHT
UNITED STATES DISTRICT JUDGE