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

STRATOSAUDIO, INC., *Plaintiff*, v. VOLKSWAGEN GROUP OF AMERICA, INC., *Defendant*.	Case No. 6:20-CV-1131

VOLKSWAGEN GROUP OF AMERICA, INC.'S REPLY BRIEF IN SUPPORT OF ITS MOTION TO DISMISS OR TRANSFER FOR IMPROPER VENUE

Plaintiff relies heavily on Judge Gilstrap's decision in the *Blitzsafe* case, *Blitzsafe Texas, LLC v. BMW of North America, LLC, et al.*, 2:17-CV-00418-JRG, 2018 WL 4849345 (E.D. Tex. Sept. 6, 2018). However, the persuasiveness of this decision is undermined by its procedural history—Judge Gilstrap initially found venue to be proper, but after that initial decision, BMW moved for reconsideration, Blitzsafe was given venue discovery, and the parties ultimately asked Judge Gilstrap to vacate the decision, which he did. The reconsideration motion was never decided.[1] *See United States v. Munsingwear, Inc.*, 340 U.S. 36, 40–41 (1950) (explaining that

[1] *See Blitzsafe*, 2:17-CV-00418-JRG (D.I. 95) (motion for reconsideration); *Blitzsafe Texas LLC v. Mitsubishi Elec. Corp.*, No. 2:17-CV-00418-JRG, 2019 WL 2210686 (E.D. Tex. May 22, 2019) (order granting Blitzsafe's venue discovery requests); *Blitzsafe Texas LLC v. Mitsubishi Elec. Corp.*, No. 2:17-CV-00418-JRG, 2019 WL 3494359 (E.D. Tex. Aug. 1, 2019) (order vacating venue decision). BMW had also applied for a writ of mandamus, but that application was denied because of the pendency of the reconsideration motion before Judge Gilstrap. *In re Bayerische Motoren Werke AG*, 744 F. App'x 703 (Fed. Cir. 2018).

vacatur "is commonly utilized … to prevent a judgment, unreviewable because of mootness, from spawning any legal consequences."); *see also Los Angeles Cnty. v. Davis*, 440 U.S. 625, 634 n.6 (1979) ("Of necessity our decision vacating the judgment of the Court of Appeals deprives that court's opinion of precedential effect.") (internal citations and quotations omitted).

And Judge Gilstrap's initial decision was fundamentally flawed as a matter of law. As argued in VWGoA's opening brief, the proper analysis is contained in two other district-court decisions that both concluded that an independent automotive dealership is the *dealer's* place of business, not the manufacturer's. *See Omega Patents, LLC v. BMW of North America et al.*, 1:20-CV-01907-SDG, 2020 WL 8184342 (N.D. Ga. Dec. 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. Feb. 5, 2018).

In an attempt to distinguish these cases, Plaintiff argues that *In re Cray*, 871 F.3d 1355 (Fed. Cir. 2017), sets forth two separate legal tests—"ratification" and "control"—and that neither *West View Research* nor *Omega Patents* "supports a finding that Volkswagen has not 'ratified' the activities of its dealerships." Opp. Br. at 3, 5. But all the *Cray* opinion says is, "[t]he defendant must establish or ratify the place of business," 871 F.3d at 1363, and both *West View Research* and *Omega Patents* considered this *Cray* holding. *See West View Research*, 2018 WL 4367378, at *5–9;[2] *Omega Patents*, 2020 WL 8184342, at *2–6.[3]

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[2] The *West View Research* opinion states: "The third element [of *Cray*] requires that the place of business must be the defendant's and not solely the place of the defendant's employee. '[T]he defendant must establish or ratify the place of business.'" *West View Research*, 2018 WL 4367378, at *5.

[3] The *Omega Patents* opinion states: "The Court finds it inappropriate to apply a ratification theory under the facts here.[24]" *Omega Patents*, 2020 WL 8184342, at *5.

Omega's footnote 24 reads: "To reiterate: (1) BMWNA does not own, operate, or rent the dealerships; (2) the dealerships' employees are not BMWNA's employees—the latter has

With respect to "ratification," Plaintiff never explains what its proposed test is, other than to argue that VWGoA's trademark licenses, and website references, to the dealerships, and the warranty relationships with those dealerships, amount to ratification. *Cray* does not support that argument; it was addressing the question of whether an employee's home office was the employer's place of business, not whether one company's place of business (a dealership) is actually another company's (the manufacturer's) place of business. *See generally* 871 F.3d 1355. Trademark licensors across the country would be shocked to learn that by licensing their distributors to use their name, by seeking a uniform look-and-feel of the facilities, and by referring business to the distributors, they have converted the distributors' places of business into their own places of business. *Cf., e.g., Board of Regents v. Medtronic PLC*, A-17-CV-942-LY, 2018 WL 4179080, at *1–*3 (W.D. Tex. July 19, 2018) (holding that the presence of a subsidiary in a San Antonio building that "bears the generic Medtronic company sign" does not make venue in this Court proper as to parent company Medtronic).[4]

With respect to "control," what *Cray* says is, "Relevant considerations include whether the defendant owns or leases the place, or exercises other attributes of possession or control over the place." 871 F.3d at 1363. Here, both sides agree that VWGoA does not own or lease the dealerships. Plaintiff instead argues that VWGoA exercises such tight control over the dealers as to make the dealerships into VWGoA places of business. *See* Opp. Br. at section B. But Plaintiff ignores that, by Texas statute, VWGoA is forbidden to "operate or control" the dealerships. Tex.

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no employees residing or working in this District; (3) Omega does not allege an agency or alter ego relationship between BMWNA and the dealerships; and (4) Omega does not allege BMWNA has failed to treat the dealerships as separate corporate entities." *Id.* at n.24.

[4] In this case, Plaintiff "is not alleging any parent-subsidiary relationship" between VWGoA and the dealers. Opp. Br. at 6 n.4.

Occ. Code § 2301.476(c); *see also Ford Motor Co. v. Texas Dep't of Transp.*, 264 F.3d 493, 507 (5th Cir. 2001) (the statute "provides that a manufacturer may not directly or indirectly, operate or control a dealer or act in the capacity of a dealer").

Plaintiff's argument, like the arguments in *West View Research* and *Omega Patents*, is that an operating agreement between an automaker and a dealer in which the dealer agrees to operate the dealership according to certain standards is enough to subject the automaker to the patent venue statute. That exact argument was rejected in both cases. *West View Research*, 2018 WL 4367378, at *7–*9; *Omega Patents*, 2020 WL 8184342, at *5–*6.

In *West View Research*, the "parties conducted limited venue-related discovery and produced an operating agreement between BMWNA and a dealership … which the parties stipulated is representative of similar agreements with BMW and MINI dealerships across the district." *West View Research*, 2018 WL 4367378, at *6. The *West View* court explained:

> Plaintiff zeroes in on the language in *Cray* that "[r]elevant considerations include whether the defendant owns or leases the place, *or exercises other attributes of possession or control over the place.*"
>
> Plaintiff then rigorously examines the operating agreement, which consists of the agreement itself, and the requirements addendum. Plaintiff lists at least thirty examples of BMWNA's control in the operating agreement. A non-exhaustive list of examples of BMWNA's control over the dealerships includes: [Redacted] In sum, Plaintiff argues that the thirty separate provisions from the operating agreement are illustrative of BMWNA's control over the dealerships.

Id. (citations omitted; emphasis in original). The court rejected this approach:

> The third *Cray* element requires the physical location to be the place of Defendants, not solely a place of Defendants' employees. Plaintiff would have the Court find Defendants' control over the dealerships, evidenced by the operating agreement, to meet the third requirement. The Court disagrees. Plaintiff's argument ignores the difference between separate and distinct corporate entities.

Id. at *7.

Similarly, in *Omega Patents*, the district court explained:

> To be sure, BMWNA's business and marketing efforts are intertwined with the dealerships. Common insignia and logos are displayed, website links are created, marketing strategies are dispatched, and agreements are executed all to ultimately facilitate the sale of BMW-branded vehicles to customers. But Omega's allegations are not enough to overcome the persuasive authority holding that "distributors and even subsidiaries, that are independently owned and operated, that are located in the forum and work with the accused infringer, [are] not sufficient to show that the accused infringer has a regular and established business under § 1400(b)." *Reflection, LLC v. Spire Collective LLC*, No. 17-cv-1603-GPC(BGS), 2018 WL 310184, at *2 (S.D. Cal. Jan. 5, 2018). … The Court finds it inappropriate to apply a ratification theory under the facts here.
>
> At best, Omega's allegations show BMWNA maintains a mutually beneficial, coordinated business relationship with the dealerships to sell its products to customers in this District. But facilitating business and services through an independent entity is not enough for ratification. *E.g.*, *Uni-Sys., LLC v. U.S. Tennis Ass'n Nat'l Tennis Ctr. Inc.*, No. 17-cv-147(KAM)(CLP), 2020 WL 1694490, at *15 (E.D.N.Y. Apr. 7, 2020) (holding that "contract[s] to do business ... are just that—agreements to *do* business, not to maintain a *place of business*. One can engage in business at a place that is not its own .... Ratifying a place of business as one's own requires more than simply agreeing to do business at the place") (emphasis in original); *Zaxcom, Inc. v. Lectrosonics, Inc.*, No. 17-cv-3408-NGG-SJB, 2019 WL 418860, at *9 (E.D.N.Y. Feb. 1, 2019) ("[T]he facts here demonstrate that Defendant has contracted with Jaycee over a period of years to provide non-exclusive repair and maintenance services on certain of Defendant's products, which have been purchased by customers through third-party dealers, and which may or may not be under warranty. This does not, without more, render Jaycee's location a place of business of Defendant."). Further, the Court does not find that common marketing strategies and some modicum of control over the dealerships' macro-level operations by BMWNA transforms them into its own places of business.
>
> A finding that venue is proper in this District as to BMWNA under the facts alleged would, in this Court's view, significantly expand the scope of § 1400(b)—a result it does not believe the Federal Circuit intended with its decision in *Cray*, 871 F.3d at 1361. *See*

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