Nos. 15-1914, 15-1919

In the

United States Court of Appeals for the Federal Circuit

Altera Corporation and Xilinx, Inc.,

Plaintiffs-Appellants,

v.

Papst Licensing GmbH & Co. KG,

Defendant-Appellee.

Appeals from the United States District Court
for the Northern District of California, Judge Lucy H. Koh

BRIEF OF PUBLIC KNOWLEDGE AND THE ELECTRONIC FRONTIER FOUNDATION AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

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CERTIFICATE OF INTEREST

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

(1) The full name of every party or amicus represented by counsel to this brief is **Public Knowledge and the Electronic Frontier Foundation**.

(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 are: **Charles Duan, Public Knowledge; Vera Ranieri, Electronic Frontier Foundation**.

Dated: December 21, 2015

/s/ Charles Duan
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INTEREST OF *AMICI CURIAE*

Public Knowledge[1] is a non-profit organization that is dedicated to preserving the openness of the Internet and the public's access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new and emerging technologies.

The Electronic Frontier Foundation is a non-profit civil liberties organization that has worked for over 20 years to protect consumer interests, innovation, and free expression in the digital world. Founded in 1990, EFF represents over 22,000 contributing members. EFF and its members have a strong interest in promoting balanced intellectual property policy that serves both public and private interests.

Public Knowledge and EFF have previously served as *amici* in key patent cases. *E.g., Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014); *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014).

[1]Pursuant to Federal Rule of Appellate Procedure 29(a), all parties received appropriate notice of and consented to the filing of this brief. Pursuant to Rule 29(c)(5), no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc., 148 F.3d 1355 (Fed. Cir. 1998), was incorrectly decided and should now be overruled. That case, which held that patent licensing demand letters can never suffice to create personal jurisdiction over the asserter of that patent, is inconsistent with controlling Supreme Court precedent. But of perhaps greater importance, this bright-line rule is incompatible with modern-day patent practice. And to a certain extent, the rule has helped to create some of the worst aspects of the modern patent system, namely rampant forum shopping in patent cases.

1. Two prongs of current law, of which *Red Wing Shoe* is one, make choice of forum consistently unfair. On the one hand, a patent owner can bring suit against an accused infringer anywhere in the nation, so long as the accused infringer sells its product nationally. This is a substantial benefit that accrues to patent plaintiffs. But while declaratory judgments are intended to counterbalance this benefit and promote fairness, *Red Wing Shoe* sharply cuts off that counterbalance, by greatly limiting choice of jurisdiction for declaratory judgment actions.

When the patent owner is a patent licensing entity with no business other than sending demand letters, accused infringers are placed in a situation where their only declaratory judgment option is to sue in the patent owner's home fo-

rum. For many alleged infringers, this may be a forum with little to no relationship to the alleged infringer, the accused products, or any sales.

Such an arrangement has led to a remarkable situation of forum shopping in patent cases. Even more remarkably, evidence suggests that this arrangement may be drawing courts into competition to *attract* patent owners—the ones with unilateral choice over forum—by engaging in practices and procedures favorable to them. And evidence suggests that this forum shopping has tangible, substantive effects on outcomes, a result contrary to principles of law and contrary to the very existence of the Court of Appeals for the Federal Circuit, an institution designed to eliminate a perceived problem with forum shopping for favorable substantive patent law.[2]

2. To justify the regime that has created these extraordinary problems of forum shopping, *Red Wing Shoe* relies on the idea that promotion of settlements mandates a rule that insulates patent demand letters from creating personal jurisdiction. This rule is out of step with the times, both on the law and on the facts of patent assertion. With regard to the law, the Supreme Court has now repeatedly held that encouragement of settlements is not an all-overpowering justification for rules of law. Particularly in the highly flexible area of personal jurisdiction, the rule of *Red Wing Shoe* cannot be correct.

[2] *See* Charles W. Adams, *The Court of Appeals for the Federal Circuit: More than a National Patent Court*, 49 Mo. L. Rev. 43, 57 (1984).

Furthermore, *Red Wing Shoe* assumed that patent licensing demand letters are no more than *bona fide* attempts at negotiation toward settlement. But that is not the world of patent licensing today. Many who license patents treat their transactions far more like commercial exchanges and far less like dispute resolution. Such commercial transactions are well within the realm of those activities long understood to create personal jurisdiction.

Accordingly, *Red Wing Shoe* was incorrectly decided, and it is creating ongoing and increasing problems in view of the contemporary patent system. This Court should hear this case en banc, and hold *Red Wing Shoe* and its progeny overruled.

ARGUMENT

I. Prior Case Law on Personal Jurisdiction in Declaratory Judgment Patent Cases Creates Problematically Unfair Effects

The misguided holding in *Red Wing Shoe* is a substantial contributor to critical problems within the current patent litigation system. This is because it, in part, allows patent holding entities to fully control the forum in which their cases are heard, ceding virtually no choice to defendants. That asymmetry of control has contributed to problems such as "forum selling" and "patent privateering," harming small businesses most particularly.

A. Limitations on Personal Jurisdiction in Declaratory Judgment Cases Have Greatly Aided Forum Shopping by Patent Holders

As this Court is aware, "[a]n industry has developed in which firms use patents . . . primarily for obtaining licensing fees." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (quoting *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 388 (2006) (Kennedy, J., concurring)). These so-called "patent assertion entities" enjoy an unusual benefit under Federal Circuit law: they have essentially total control over the forum in which their lawsuits are heard.

A patent owner may sue an accused infringer wherever personal jurisdiction and venue lie. For a nationally-selling company, those generally will be proper in every district of the nation under current law of this circuit. *See VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994). This allows patent assertion entities to select the most desirable forum for their purposes; as then-Professor Kimberly Moore wrote, "Anything Goes." Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 894 (2001).

To balance the scales, the Declaratory Judgment Act allows accused infringers, in appropriate situations, to preempt the patent owner and initiate legal proceedings first. *See* 28 U.S.C. § 2201; Lisa A. Dolak, *Declaratory Judgment Juris-*

diction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer, 38 B.C. L. Rev. 903, 911 (1997). An obvious and important consequence is that "the defendant can preempt the venue choice of the plaintiff by filing a declaratory judgment action," thus balancing out the possibility of rampant forum shopping. *See* J. Jonas Anderson, *Court Competition for Patent Cases*, 163 U. Pa. L. Rev. 631, 644 (2015).

Red Wing Shoe, however, turns this principle on its head when it comes to patent assertion entities. According to that case, the *only activity in which those entities engage*, namely the making of patent demands, is insulated from creating personal jurisdiction. 148 F.3d at 1360; *see also Avocent Huntsville Corp. v. Aten Int'l Co.*, 552 F.3d 1324, 1333 (Fed. Cir. 2008); *Autogenomics, Inc. v. Oxford Gene Tech. Ltd.*, 566 F. 3d 1012, 1020 (Fed. Cir. 2009). This prevents an accused infringer from seeking a declaratory judgment against any such patent assertion entity in any location other than the entity's chosen place of business. *See* Megan M. La Belle, *Patent Litigation, Personal Jurisdiction, and the Public Good*, 18 Geo. Mason L. Rev. 43, 71 (2010).

The evidence makes clear that, if accused infringers had their druthers, they would bring declaratory judgment actions in diverse locations.[3] But the evidence

[3]One review of declaratory judgment actions between 2000 and 2015 found that the Northern and Central Districts of California, the District of Delaware, and the Northern District of Illinois received the most declaratory judgment ac-

also makes clear that patent assertion entities will take extraordinary measures to force jurisdiction down to a forum of choice, to the point of opening sham headquarters in "empty offices with telephone lines that no one answers." Edgar Walters, *Tech Companies Fight Back Against Patent Lawsuits*, N.Y. Times, Jan. 23, 2014, A23A, *available at* URL *supra* p. ix; *see also Network Prot. Scis., LLC v. Fortinet, Inc.*, No. 12-cv-1106, 2013 WL 4479336, at *7 (N.D. Cal. Aug. 20, 2013) (patent owner "manufactured venue in Texas via a sham" when it "rented a windowless file-cabinet room with no employees in Texas and held it out as an ongoing business concern to the Texas judge").

Red Wing Shoe has thus greatly contributed to the ability of entities to engage in forced selection of judicial forum. That ability has substantially contributed to negative and concerning practices in the patent system, as described below.

B. The Resultant and Notorious Forum Shopping Situation Has Created Fundamental Unfairness in Patent Litigation

The Federal Circuit's per se rule against demand letters creating personal jurisdiction, along with effectively nationwide jurisdiction over accused infringers, has given rise to the phenomenon of district court forum shopping, and equally and perhaps more important, district court forum *selling*.

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tions, at 11.4%, 6.5%, 6.1%, and 4.4% respectively. By contrast, the forum most preferred by patent holders, the Eastern District of Texas, received a mere 2.5% of declaratory actions. *See* Daniel Klerman & Greg Reilly, *Forum Selling*, 2015 S. Cal. L. Rev. (forthcoming) (manuscript at app. 5, at 62), URL *supra* p. viii.

Perhaps in no other area of law is forum shopping more prominent than in patent litigation. A single district—the Eastern District of Texas—received 44% of all new patent cases filed in the first half of this year. *See* Brian C. Howard, *2015 First Half Patent Case Filing Trends*, Lex Machina (July 14, 2015), URL *supra* p. vii (noting that 3,122 cases have been filed from Jan.–June 2015, 1,387 of which were filed in E.D. Tex.). In November alone, a record 467 patent lawsuits were filed there, nearly 55% of all cases filed nationally that month. *See* Jeff Bounds, *Patent Suits Flood East Texas Court*, Dallas Morning News, Dec. 13, 2015, URL *supra* p. vii. Two judges within that district currently hear almost one out of every four patent cases *in the entire country*. Brian C. Howard, *Lex Machina 2014 Year in Review* 1, 15 (2014) [hereinafter *Year in Review*], *available at* URL *supra* p. viii. This is despite the fact that the district has a small population and no major corporate or technology industry.

The practice of forum shopping is "troubling" in itself because it "forces the acknowledgment that the promise of equal, consistent, and uniform application of justice . . . is unattainable." Moore, *supra*, at 893. But it should be even more troubling for at least two reasons: it opens up the possibility that courts will seek to attract patent owners by implementing friendly procedures; and it has demonstrable and substantive effect on outcomes of cases.

1. Patent Owners' Unattenuated Power to Select Their Forum Opens the Door to Courts Actively Seeking to Attract Patent Cases Through Preferential Treatment

If patent owners have their complete pick of the lot for forum, then courts seeking to expand their patent dockets may, consciously or not, implement procedures and practices favorable to patent owners. Indeed, several academic commentators contend that this very well may be happening today.

"Forum selling," described in Daniel Klerman and Greg Reilly's paper of the same name, refers to the phenomenon of judges creating procedural and substantive laws that favor patent owners, in order to attract cases to their district. Daniel Klerman & Greg Reilly, *Forum Selling*, 2015 S. Cal. L. Rev. (forthcoming), URL *supra* p. viii.[4] Klerman and Reilly find significant evidence that the Eastern District has engaged in forum selling. *Id.* at 7–31; *see also id.* at 31–33 (rebutting alternative explanations); Anderson, *supra*, at 659–66 (similarly discussing judicial incentives to attract patent cases).

The Eastern District has adopted certain procedural rules that benefit patent owners—particularly those with weak patents and no products—to the detriment

[4]Several scholars hypothesize as to court motivations for engaging in forum selling, and identify evidence supporting these motivations. *See id.* at 3, 26–30; Anderson, *supra*, at 661–65. Regardless of actual motivations, the mere opportunity or possibility that courts engage in forum selling is so detrimental to public confidence in our judicial system that courts should take measures to avoid even the appearance of forum selling.

of small innovators and those accused of infringement. These rules drive up costs to defendants and work to increase settlement pressure untethered to the merits of a particular claim for patent infringement.

For example, Judge Gilstrap and Judge Schroeder—who collectively in 2014 heard almost a quarter of all district court patent cases in the country[5]—forbid parties from moving for summary judgment absent permission from the court. *See Sample Docket Control Order for Patent Cases Assigned to Judge Rodney Gilstrap* 4 (Nov. 2015), URL *supra* p. ix.[6] These judges also require the production of all relevant documents *without* regard to the needs of the case in light of such things as resources or amounts in controversy, and *without* request from the other side. *See Sample Discovery Order for Patent Cases Assigned to Judge Rodney Gilstrap* 2 (October 2012), URL *supra* p. ix. The judges furthermore limit the ability of a party to move for a stay pending the disposition of a summary judgment motion or a motion to dismiss. *Sample Docket Control Order for Patent Cases Assigned to Judge Rodney Gilstrap*, *supra*, at 5.[7]

[5] *See Year in Review*, *supra*, at 1, 15.

[6] Judge Schroeder's standing orders are similar to Judge Gilstrap's standing orders in the relevant respects. Judge Schroeder's orders may be found at *Docket Control Order* (July 6, 2015), URL *supra* p. vii.

[7] It is likely that many, if not all, of these requirements are inconsistent with the Federal Rules of Civil Procedure. *See* Fed. R. Civ. P. 12, 26, 56 & 83. With respect to the judges' rules regarding moving for summary judgment, the Eleventh Circuit has specifically held that an "advance screening" requirement violates both substantive and procedural rights. *See Brown v. Crawford County*, 960 F.2d

These rules, although facially neutral, give significant advantages to patent owners with minimal assets, dubious patents or infringement claims, or a goal of extracting undeserved settlements.[8] Non-practicing entities whose sole business is asserting patents—those specifically insulated by the rule of *Red Wing Shoe*—often have little by way of documents to produce, making the burden of automatic, virtually unlimited discovery fall primarily on the accused infringer. Similarly, the roadblocks to summary judgment favor those with weak patents or claims of infringement, who often seek to delay merits decisions while simultaneously increasing litigation costs on defendants, in order to extract settlements that, although significant, still fall below the cost of trial.

Declaratory judgment actions were intended to allow defendants a degree of choice over forum, thus reducing forum shopping and its ill effects. *Red Wing Shoe* undercuts this fundamental purpose of declaratory judgments, suggesting the error in that case.

1002, 1006–10 (11th Cir. 1992). Also, the rigid and remarkably broad discovery rules contradict the requirement that "the court must limit the frequency or extent of discovery" in appropriate situations, Fed. R. Civ. P. 26(b)(2)(C), and the requirement that discovery "be proportional to the needs of the case," *id.* at 26(b)(1). It can be hypothesized that one reason the judges' rules have gone unchallenged is that denials of summary judgment and general discovery orders are generally not appealable, and mandamus is a rare remedy. *See* Klerman & Reilly, *supra*, at 33.

[8]The dearth of declaratory judgment filings in the Eastern District of Texas suggests that accused infringers also believe that the jurisdiction's rules are unfavorable. *See* Klerman & Reilly, *supra*, at 32.

2. Forum Shopping Has Actual Substantive Effects on Patent Case Outcomes, Exacerbating the Unfairness of Giving Patent Owners the Sole Opportunity to Forum Shop

The Federal Circuit's strict *per se* rule that deems it "unfair" to find jurisdiction based on sending letters has thus helped foster a patent litigation system with significant forum selling and concomitant forum shopping. The reality of today's patent litigation shows exactly how important venue has become.

A review of one patent owner's litigation history—Eclipse IP—provides strong anecdotal evidence that patent owners take advantage of nationwide venue and specifically seek out districts such as the Eastern District of Texas in order to avoid quick merits decisions.

Eclipse IP is a high-volume repeat patent assertor. Between 2010 and 2014, Eclipse IP reportedly filed over a hundred lawsuits in the Central District of California. Scheduling Conference Proceedings at 1, *Eclipse IP LLC v. PayByPhone Techs., Inc.* ("*PayByPhone*"), No. 2:14-cv-154 (C.D. Cal. May 29, 2014). Judge Wu found that Eclipse IP "appears to generally seek modest lump-sum licensing payments," perhaps suggesting that "Eclipse is leveraging the cost of litigation, rather than the strength of its patents." *Id.* Judge Wu subsequently stated that he was "concerned that at least some of the Eclipse Cases have the potential for resolution to be driven primarily by the costs of defense." Order Coordinating and Staying Cases at 2, *PayByPhone*, No. 2:14-cv-154 (June 10, 2014). Consequently,

he stayed all but a small portion of the case, and ordered Eclipse IP to file a notice of related cases for any further cases filed related to the same patents. *Id.* at 2–3.

In only three months from issuing that order, Judge Wu invalidated claims from three different Eclipse IP patents on a motion to dismiss, holding that they claimed ineligible subject matter and failed to meet the requirements of 35 U.S.C. § 101. *See* Ruling on Motion to Dismiss for Lack of Patentable Subject Matter, *PayByPhone*, No. 2:14-cv-154 (Sept. 4, 2014) (captioned *Eclipse IP LLC v. McKinley Equip. Corp.*).

Rather than appealing the merits of that now-final order, Eclipse IP apparently attempted to jurisdictionally end-run around it. Using familially-related patents, Eclipse IP filed another round of 53 lawsuits. None were filed in the Central District of California; 40 were filed in the Eastern District of Texas.[9]

One Texas defendant moved to dismiss Eclipse IP's suit, arguing that the claims at issue in Texas were "materially indistinguishable" from those invalidated by Judge Wu and similarly failed to meet the requirements of 35 U.S.C. § 101. *See* Pro-Source's Motion to Dismiss for Failure to State a Claim at 1, *Eclipse IP, LLC v. Pro-Source Performance Prods., Inc.* ("*Pro-Source*"), No. 2:15-cv-363 (E.D. Tex. June 11, 2015).

[9] *Amici* determined this by searching PACER for cases filed with "Eclipse IP" as plaintiff and "patent" as nature of suit.

Eclipse IP moved to strike the motion, arguing it was not allowed by Judge Gilstrap's rules. *See id.*; Emergency Motion of Plaintiff Eclipse IP LLC to Strike Defendant Pro-Source Performance Products, Inc.'s Motion to Dismiss at 2, *Pro-Source*, No. 2:15-cv-363 (June 24, 2015). Though the motion to strike was denied, *see* Order Denying Motion to Strike, *Pro-Source*, No. 2:15-cv-363 (July 6, 2015), the principal motion has languished for months. In the interim, the parties have served infringement and invalidity contentions, and are due to substantially complete fact discovery and begin claim construction briefing by the end of next month. *See* Docket Control Order, *Eclipse IP LLC v. Alfa Vitamin Labs, Inc.*, No. 2:15-cv-353 (E.D. Tex. Aug. 24, 2015) (consolidated case with *Pro-Source*; setting case deadlines). Perhaps unsurprisingly given the significant costs imposed by litigation, 11 of 12 defendants have settled while the motion to dismiss has sat pending, including most recently Pro-Source.[10]

Eclipse IP's litigation activities are evidence of a desire to take advantage of the forum-specific procedural and substantive rules offered by the Eastern District of Texas. By filing in that district, Eclipse IP likely has been able to execute on its goal of "leveraging the cost of litigation" to obtain "modest lump sum payments," something it failed to do in the Central District of California.

[10]This was determined from the docket as of December 21, 2015.

C. Patent Privateering Strategies Can Take Advantage of These Undue Personal Jurisdiction Limitations

The Federal Circuit's personal jurisdiction rules have led to patent privateering, that is, product-producing companies selling or divesting their patents to non-practicing entities in order to enforce patents without risk of reprisal. By making personal jurisdiction basically follow only the place of business of the patent owner, there is a strong incentive for companies to transfer the patent to a privateer to better control the location the case will be heard.

For example, patents previously owned by the Canadian firm Nortel were sold to a consortium made up of Apple, Microsoft, Research in Motion, Sony, and Ericsson, *see Google Inc. v. Rockstar Consortium US LP*, No. 13-cv-5933, 2014 WL 1571807, at *1 (N.D. Cal. Apr. 17, 2014), all of whom have main offices in the Central District of California. The consortium then created new entities Rockstar Consortium US LP and MobileStar Technologies, LLC that were allegedly based in Plano, Texas, who brought patent lawsuits in the Eastern District of Texas against numerous companies. The suits alleged infringement based on products developed by Google, a company headquartered in the Northern District of California. *See id.* at *2.[11]

[11]The companies moved to stay or transfer the case to the Northern District of California, but were denied by the district court. *See Rockstar Consortium US LP v. Samsung Elecs. Co.*, No. 2:13-cv-894, 2014 WL 2965880 (E.D. Tex. July 1, 2014). The case was stayed only after this Court granted a mandamus petition. *See In re Google Inc.*, 588 F. App'x 988 (Fed. Cir. 2014).

Upon seeing its customers being sued, Google filed a declaratory judgment in the Northern District of California. *See id.* Rockstar moved to dismiss Google's claim, arguing that the Northern District did not have personal jurisdiction over Rockstar. *See id.* at *1.

The district court made specific note of Rockstar's attempts to evade jurisdiction. Rockstar's principal place of business was Plano, Texas, but the officers and board members were "almost all based in Canada, except one in Colorado." *Id.* at *1 n.1. Furthermore, the court found a "direct link" between Rockstar and majority shareholder Apple, a Northern District of California resident. *Id.* at *7. Most tellingly, the court described the subsidiary MobileStar as "a sham entity for the sole purpose of avoiding jurisdiction in all other fora except MobileStar's state of incorporation (Delaware) and claimed principal place of business (Texas)." *Id.* at *4.

Nevertheless, Rockstar relied on *Red Wing Shoe* to contend that the Northern District of California lacked personal jurisdiction—and nearly succeeded in that argument. According to Rockstar, *Red Wing Shoe* held that an enforcement campaign like its own was "per se insufficient" to establish jurisdiction. Rockstar Motion to Dismiss for Lack of Personal Jurisdiction at *2, *Rockstar Consortium*, 2014 WL 1571807 (Jan. 23, 2014). And the district court found jurisdiction primarily based on Rockstar's regular communications with Apple—an activity it could

have avoided, and an activity that other patent privateers now know to avoid. *See Rockstar Consortium*, 2014 WL 1571807, at *7–8.

Thus, the effect of *Red Wing Shoe* has been to encourage the creation of "sham entit[ies] for the sole purpose of avoiding jurisdiction." This is not a result that this Court should continue to support.

D. This Jurisdictional Gamesmanship Particularly Harms Small Companies, Innovators, and End Users, with No Corresponding Benefit to Innovation

The effect of this jurisdictional free-for-all for patent owners especially harms small companies and American consumers. They are the ones least able to secure distant counsel, travel to a distant forum, and learn the procedures of a new jurisdiction. They are also the ones most likely to succumb to undue settlement pressure made only greater by patent owners' ability to exploit district court differences in procedural and substantive rules.[12]

It is clear that the Eastern District of Texas is not an appropriate forum for many of those that are sued for patent infringement. Since 2008, this Court has

[12]To be clear, the alleged infringer's home forum may place a significant burden on the patent owner, to the extent it would not comport with fair play and substantial justice to find jurisdiction. But such a determination should be made based on the facts each case presents. *Cf. Int'l Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945) (holding that the criteria for finding jurisdiction "cannot be simply mechanical or quantitative"). The current *per se* rule against finding jurisdiction is problematic as it places an insurmountable thumb on the scale in favor of one party, and does not allow equity to control.

granted a mandamus petition related to venue arising from that district at least 19 times.[13] Motions to transfer, and often mandamus, have become the recourse of those sued in the Eastern District of Texas that have no ability to file a declaratory judgment in a more appropriate forum at the outset. This strongly suggests that it is frequently improper—and as discussed above, harmful—for cases to be venued in the Eastern District of Texas.

Unfortunately, for many even mandamus is out of reach. Countless cases have surely settled in light of high costs imposed by distant venues.

[13] *See In re Google Inc.*, No. 15-138, 2015 WL 5294800 (Fed. Cir. July 16, 2015); *In re Apple, Inc.*, 581 F. App'x 886 (Fed. Cir. 2014) (per curiam); *In re Nintendo of Am., Inc.*, 756 F.3d 1363 (Fed. Cir. 2014); *In re Toyota Motor Corp.*, 747 F.3d 1338 (Fed. Cir. 2014); *In re Toa Techs, Inc.*, 543 F. App'x 1006 (Fed. Cir. 2013); *In re Nintendo Co.*, 544 F. App'x 934 (Fed. Cir. 2013); *In re Google Inc.*, 588 F. App'x 988 (Fed. Cir. 2014); *In re Oracle Corp.*, 399 F. App'x 587 (Fed. Cir. 2010); *In re EMC Corp.*, 677 F.3d 1351 (Fed. Cir. 2012); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008); *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Acer Am. Corp.*, 626 F.3d 1252 (Fed. Cir. 2010); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010); *In re Biosearch Techs., Inc.*, 452 F. App'x 986 (Fed. Cir. 2011); *In re Morgan Stanley*, 417 F. App'x 947 (Fed. Cir. 2011) (per curiam); *In re Verizon Bus. Network Servs. Inc.*, 635 F.3d 559 (Fed. Cir. 2011); *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011). These orders either directed the Eastern District of Texas to consider a motion to transfer, to properly consider certain facts on a motion to transfer, or to outright order the transfer the case contrary to the district court's refusal.

II. The Justifications for This Narrow View of Personal Jurisdiction Are Irreconcilable with Modern Patent Assertion Practice

In justifying its strict rule that patent demand letters can never give rise to personal jurisdiction over their senders, *Red Wing Shoe* relied exclusively on the sentiment that permitting such jurisdiction would "be contrary to fair play and substantial justice by providing disincentives for the initiation of settlement negotiations." 148 F.3d at 1361 (quoting *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 476 (1985)); *see also Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1206 (Fed. Cir. 2003) (noting rationale of *Red Wing Shoe*).

Putting aside the oddity of this mechanical rule deriving from a fair-play principle that "cannot be simply mechanical or quantitative," *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945), it simply is not the case that mere reference to promoting settlements in the abstract can defeat all such claims of personal jurisdiction. First, recent Supreme Court decisions undermine the reliance on settlement promotion to justify general rules of patent law, instead calling for situation-based inquiries of the specific facts. Second, contemporary patent licensing practice shows that patent licensors view patent demand letters more akin to commodity transactions and less as traditional dispute settlements, precisely contrary to a stated assumption of *Red Wing Shoe*. These indicia strongly call into question the soundness of this Court's decisions on personal jurisdiction.

A. Recent Decisions Show that Interest in Promoting Settlements Cannot Justify Denial of Personal Jurisdiction

Red Wing Shoe's appeal to the interest in promoting settlements of patent cases is unreliable because recent Supreme Court decisions have done just the opposite, rejecting the interest in promoting settlements as justification for particular legal results.

In *Federal Trade Commission v. Actavis, Inc.*, the Supreme Court considered whether the Federal Trade Commission could prosecute for antitrust violations a "reverse payment settlement" of patent litigation between a drug patent holder and a generic manufacturer. *See* 133 S. Ct. 2223, 2227 (2013).[14] The Eleventh Circuit had held that the reverse settlement was permissible, in part based on "a general legal policy favoring the settlement of disputes." *Id.* at 2234.

Though the Supreme Court was willing to "recognize the value of settlements," it nevertheless held that fact non-determinative, permitting the FTC to proceed with its antitrust claim. *Id.* The Supreme Court conducted a highly fact-specific inquiry into "five sets of considerations" relating to the anticompetitiveness of the reverse settlement arrangement, which, "taken together, outweigh the single strong consideration—the desirability of settlements." *Id.* at 2234, 2238.

[14]Such a settlement agreement involves the patentee paying the generic manufacturer to settle a Hatch-Waxman patent infringement lawsuit, thus allowing the patentee to maintain its monopoly position with the drug. *See id.* at 2229.

Kimble v. Marvel Entertainment, LLC, 135 S. Ct. 2401 (2015), lends further support to the view that encouragement of patent licensing cannot be determinative of rules of patent law. There, the Supreme Court considered whether to overturn its older decision *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held as invalid *per se* any patent license providing for royalties extending beyond the term of the underlying patent. *Kimble*, 135 S. Ct. at 2407–08. To support invalidation, the patent owners championed greater flexibility in licensing, stating that rejecting the *Brulotte* restriction on patent licenses would "more often increase than inhibit competition" and potentially "lead to lower consumer prices." *Kimble*, 135 S. Ct. at 2412.

The Supreme Court agreed that greater licensing flexibility could be economically beneficial, but nevertheless refused to overrule *Brulotte*. Instead, the Court noted numerous principles of patent policy weighing in favor of *Brulotte*, which counseled in favor of leaving the existing rule intact. *See Kimble*, 135 S. Ct. at 2413–14. Thus, the interest in encouraging patent licensing was not sufficient, in the Supreme Court's view, to overcome *Brulotte*.

These cases reveal a general principle, that the interest in promoting patent settlements or licenses cannot, in itself, wholly justify a rule of law. *Red Wing Shoe* thus did precisely what it should not have done: it constructed a rule that no declaratory judgment personal jurisdiction would obtain from a patent demand

letter, on the sole grounds that such a rule was necessary to promote settlements. That reasoning is highly questionable and ought to be revisited.

B. Growing Commoditization of Patent Licenses Undercuts *Red Wing Shoe*'s Assumption that Licenses Are Settlements

Besides *Red Wing Shoe*'s *per se* rule against personal jurisdiction being unsupportable on the law, its rule is irreconcilable with the facts. *Red Wing Shoe* assumed that a patent licensing demand is "more akin to an offer for settlement of a disputed claim" and thus insulated from the possibility of giving rise to personal jurisdiction. But many patent demand letters, at least today, are far more akin to offers of product sales than to dispute settlements. Offers to sell regularly confer personal jurisdiction, even offers to sell intangible products. An offer to sell a patent license should be no different and should confer personal jurisdiction in appropriate circumstances, contrary to *Red Wing Shoe*.

1. There is little question that business contacts relating to marketing or solicitation within a state can, in appropriate circumstances, give rise to personal jurisdiction. As the Supreme Court has repeatedly said, personal jurisdiction is appropriate "if the defendant has 'purposefully directed' his activities at residents of the forum" with appropriate relation to the cause of action. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 (1985) (citing *Keeton v. Hustler Magazine, Inc.*, 465 U. S. 770, 774 (1984)).

Offers to sell products can give rise to personal jurisdiction, as this Court has noted. In *3D Systems, Inc. v. Aarotech Laboratories, Inc.*, this Court considered whether personal jurisdiction in a state lay against an accused infringer who had "sent promotional letters, solicited orders for models, sent videos and sample parts, and issued price quotations to residents." 160 F.3d 1373, 1378 (Fed. Cir. 1998). Because those activities constituted offers for sale under 35 U.S.C. § 271(a), this Court found personal jurisdiction appropriate. *See id.* at 1379.

Other courts of appeal are in accord that solicitation can create personal jurisdiction. For example, an Oklahoma medical center was subject to jurisdiction in Ohio, based on a television advertisement aired in Ohio for purposes of soliciting Ohio patients. *Creech v. Roberts*, 908 F.2d 75, 79–80 (6th Cir. 1990). Specifically, said the court: "Advertising is among the activities that constitute 'reaching out' to forum state residents." *Id.* at 79. Similarly, personal jurisdiction in Washington was appropriate over a Florida cruise ship company, where that company had "advertised in the local media, promoted its cruises through brochures sent to travel agents in that state, and paid a commission on sales of cruises in that state," among other things. *Shute v. Carnival Cruise Lines*, 897 F.2d 377, 382 (9th Cir. 1990), *rev'd on other grounds sub nom. Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991). These "efforts to solicit business in Washington" were sufficient to confer personal jurisdiction. *Id.*

2. Accordingly, if a patent demand letter acts as an offer to sell, the propensity of the law indicates that it *could* (though may not necessarily) create personal jurisdiction over the party making the demands. And the modern trend toward commoditization of patent rights and particularly patent licenses demonstrates that many demands for patent licenses are very much akin to offers for sale.

Patent licensing is big business today. As the Supreme Court recently wrote, "an industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *Commil*, 135 S. Ct. at 1930 (internal quotations omitted) (quoting *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006)). Numerous companies, including multi-million-dollar public ones like Acacia Research Corporation, specialize in "the generation of licensing revenue from users of their patented technologies." Acacia Research Corp., Annual Report (Form 10-K), at 3 (Feb. 27, 2015); *see also* J.P. Mello, *Technology Licensing and Patent Trolls*, 12 B.U. J. Sci. & Tech. L. 388, 389 (2006) ("[P]atent trolls have generated tremendous revenue through both licensing and litigation."). Indeed, there has been at least one recent attempt to create a commodity exchange for patent licenses, one that "treats intellectual property rights like bushels of corn." Ameet Sachdev, *New Exchange Is Formed for Trading Patent Rights*, Chi. Trib. (July 7, 2013), URL *supra* p. ix.[15] That patent licenses

[15]IPXI's intended business was to sell "Unit License Rights," namely bundles of patent licenses granting the right to manufacture a specified quantity of prod-

are seen as market-exchangeable goods strongly suggests that they are products being offered for sale.

Most important, the practice of sending mass quantities of patent demand letters is a strong case for treating those letters as product solicitations that can give rise to personal jurisdiction. It is well known that several patent assertion entities engage in this mass demand letter practice, with one, MPHJ Technology Investments, reportedly "sending letters to over 16,000 businesses throughout the United States." Paul R. Gugliuzza, *Patent Trolls and Preemption*, 101 Va. L. Rev. 1579, 1580 (2015). The Federal Trade Commission launched an investigation contending that MPHJ made false or misleading statements "[i]n connection with the promotion, offering for sale, and sale of licenses" of their patents. *E.g., In re MPHJ Tech. Invs., LLC*, 159 F.T.C. 1004, 1012 (Mar. 13, 2015).

It is difficult to maintain that practices like MPHJ's are "more closely akin to an offer for settlement" as *Red Wing Shoe* did. 148 F.3d at 1361. This sort of widespread campaign resembles far more closely a mass solicitation or advertisement of a product. Indeed, the fact that MPHJ was "not prepared to initiate legal action and did not intend to initiate legal action," *see MPHJ Tech. Invs.*, 159 F.T.C. at 1012, makes it impossible to believe that MPHJ intended to engage in settlement

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ucts under those patents. *See* Jorge L. Contreras, *FRAND Market Failure*, Proc. Ninth Int'l Conf. on Standardization & Innovation Info. Tech. 2–3 (Oct. 6, 2015), *available at* URL *supra* p. vii.

negotiations as *Red Wing Shoe* assumes. Yet MPHJ appears to have specifically taken advantage of *Red Wing Shoe* to prevent almost all courts from determining the merits of its claims. *See Eng'g & Inspection Servs. v. IntPar, LLC*, No. 13-cv-801, 2013 WL 5589737, at *5 (E.D. La. Oct. 10, 2013) (holding the court did not have personal jurisdiction over IntPar or its parent MPHJ, due to the holding of *Red Wing Shoe*). And that the Federal *Trade* Commission investigated MPHJ's demand letters under its consumer protection authority leaves little doubt that such demand letters were acts of commerce, not mere offers for settlement. *See MPHJ Tech. Invs.*, 159 F.T.C. at 1013 (citing Federal Trade Commission Act § 5(a), 15 U.S.C. § 45(a) (2012)).

This activity of sending patent demand letters *en masse* undercuts the settlement promotion rationale of *Red Wing Shoe* in another way. The rule against personal jurisdiction in that case was supposedly crafted to avoid "providing disincentives for the initiation of settlement negotiations." *See Red Wing Shoe*, 148 F.3d at 1361. But in the context of large demand letter campaigns, there is clearly little need to *avoid disincentives* of such activity. Instead, it seems apparent that the senders of such bulk mail see *Red Wing Shoe* as insulation from legal liability, leading to the demand letter practices that many see as socially undesirable. *See* Megan La Belle, *Demand Letters, DJ Actions, and Personal Jurisdiction*, Patently-O (Apr. 2, 2014), URL *supra* p. viii.

Accordingly, the justifications for the *Red Wing Shoe* bright-line rule that patent licensing communications can never give rise to personal jurisdiction are unsupportable on the facts. Patent licenses often are more akin to offers to sell, and the need to encourage patent settlements is controlling in neither law nor fact. *Red Wing Shoe* is outdated and mistaken, and it should not be considered good law.

III. Complete and Proper Resolution of the Present Case Requires En Banc Overruling of *Red Wing Shoe*

The Federal Circuit should hear this case en banc to overrule *Red Wing Shoe*, pursuant to Federal Circuit Rule 35(a)(1). As shown above, that decision has in substantial part led to a notorious and ongoing problem of forum shopping with detrimental impact on the patent system and the public good. Furthermore, the reasoning underlying *Red Wing Shoe* is unsupportable as a matter of law and wrong as a matter of policy, particularly given the contemporary environment of patent licensing.

Appellants ask this Court to distinguish *Red Wing Shoe* and its progeny. That may be an appropriate way to deal with this case alone, but it would not resolve the ongoing harms that *Red Wing Shoe* has created. As discussed above, the effect of *Red Wing Shoe* has been to encourage incredible jurisdictional gamesmanship, in the form of sham offices, shell companies, and corporate misdirection.

These activities are wasteful attempts to evade the merits of proper judicial decisionmaking, and they ought to be strongly discouraged. And yet *Red Wing Shoe* not only permits them, but actually gives that gamesmanship legal effect in some cases.

Distinguishing *Red Wing Shoe* on the facts would only encourage patent plaintiffs to seek out further tactics to make their jurisdictional status fall within *Red Wing Shoe*'s categorical rule. The only way to properly avoid this activity is to fully remove that categorical rule, replacing it with a flexible inquiry into the totality of the circumstances—the exact flexible inquiry that the Supreme Court's "fair play and substantial justice" standard prescribes.

Accordingly, *Red Wing Shoe* is in condition to be overruled, and strong legal and policy considerations militate in that direction. This Court should hear this appeal en banc and overrule that decision.

CONCLUSION

For the foregoing reasons, this Court should hear the present case en banc pursuant to Federal Circuit Rule 35(a)(1) and overrule its prior holding in *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355 (Fed. Cir. 1998).

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Federal Rules of Appellate Procedure 32(a)(7)(B), 28.1(e)(2), and 29(d). The brief contains **6,875** words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) or Federal Rule of Appellate Procedure 28.1(e) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using the *xelatex* typesetting system, in the font Linux Libertine.

Dated: December 21, 2015

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CERTIFICATE OF SERVICE

I hereby certify that on December 21, 2015, I caused the foregoing **Brief of Public Knowledge and the Electronic Frontier Foundation as *Amici Curiae* in Support of Neither Party** 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: December 21, 2015 */s/ Charles Duan*
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