

**Testimony of John Thorne
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**The U.S. House of Representatives
Committee on the Judiciary
Subcommittee on Courts, Intellectual Property and the Internet**

Examining the Supreme Court's *TC Heartland* Decision

June 13, 2017

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am a partner in the litigation firm Kellogg, Hansen, Todd, Figel & Frederick, PLLC. We are proud and delighted that our former colleague Neil Gorsuch has joined the United States Supreme Court, and also proud of our former colleague Courtney Elwood, who just became the general counsel of the Central Intelligence Agency last week. My practice focuses in part on intellectual property litigation, and before entering private practice I was a Senior Vice President at Verizon Communications Inc., where among other things I led the intellectual property group. Global Counsel Awards named my Verizon IP group one of the top five in the world in 2008 and 2010, and the best in the world in 2011. Over my thirty-plus-year legal career, I have represented parties in more than 100 patent disputes, both on the side of the patent-holder and on the side of the accused infringer. I have been a plaintiff, for example, in the Eastern District of Texas, and have defended cases there as well. The views I express today are my own, and I am not testifying on behalf of my firm or any client, past or present.

The Supreme Court's recent decision in *TC Heartland v. Kraft Foods*, No. 16-341 (U.S. May 22, 2017), is certain to have a positive effect on U.S. patent litigation and therefore a positive effect on real innovation. My brief remarks will address three topics. First, I will describe the forum shopping that occurred prior to *TC Heartland*, and explain why it was bad for innovation and economic growth. Second, I will summarize the legal reasons why the Supreme Court was correct to put an end to forum shopping. Third and finally, I will suggest a few principles that should guide courts as they consider critically important venue questions in the wake of the *TC Heartland* opinion.

I. Forum Shopping Prior to *TC Heartland*

Prior to *TC Heartland*, plaintiffs could sue alleged patent infringers almost anywhere that accused products were sold. For most companies, especially those who sell products on the Internet, that rule effectively meant they could be sued for patent infringement in any federal court in the country. *TC Heartland* itself offers a good example. The plaintiff sued TC Heartland—an Indiana-based company—in Delaware and venue was held proper because *two percent* of the allegedly infringing products had been *shipped* into the state, even though they had been *ordered* by a customer in Arkansas.¹

Plaintiffs sue where they think they have the best chance of winning. Patent plaintiffs, especially ones that have no operating business and whose only business is patent enforcement, discovered that the most plaintiff-friendly forum in the country is the Eastern District of Texas. The 2010 census shows that about 1 percent of the U.S. population lives in the Eastern District of Texas. According to data from RPX Corp. (collected in an appendix to this testimony), in 2015 and 2016, 40 percent of all patent litigation was brought in the Eastern District of Texas. The concentration of litigation has grown four-fold since 2005, when 11 percent of all U.S. patent litigation was brought in the district.

These statistics understate the pre-*TC Heartland* concentration of power to decide patent cases in two ways. First, last year more than 25 percent of all patent cases filed nationwide were assigned to a *single judge* who sits in Marshall, Texas. According to the 2010 census, the Marshall Division of the Eastern District of Texas is home to one twentieth of one percent of the U.S. population. Second, the concentration of cases is even higher for non-practicing entities—companies that exist solely to sue for patent infringement. In 2016, 57 percent of all patent cases

¹ Brief for Petitioner at 18, *TC Heartland LLC v. Kraft Foods Grp. Brands*, No. 16-341 (filed Jan. 30, 2017), <http://www.scotusblog.com/wp-content/uploads/2017/02/16-341-petitioner-merits-brief.pdf>.

filed in the U.S. by non-practicing entities were filed in the Eastern District of Texas, and a single judge in Marshall was assigned to 37 percent of all patent cases filed in the U.S. by non-practicing entities.

To avoid transfer out of the Eastern District of Texas, non-practicing entities have set up fake business fronts that consist of little more than signs on empty offices.² Frequently sued defendants have attempted to curry favor among the small pool of available jurors by sponsoring Marshall's high school football team, the Fire Ant Festival, and the local ice skating rink.³

Reasons that patent plaintiffs—and especially non-practicing entities—have come to favor the Eastern District of Texas over all other courts include the fact that the judges use summary judgment much less frequently than other courts to get rid of unmeritorious cases.⁴ Sending unmeritorious cases to juries is not fair to defendants, imposes high, unwarranted costs, and often allows plaintiffs to extract large settlements unrelated to the value of the patented technology or even whether the patent is infringed. The Eastern District of Texas is also much more reluctant than other courts to grant stays when the Patent Office, using the new procedures Congress established in the 2011 America Invents Act, is conducting a review of whether the patent should have issued in the first place.⁵ The efficiency and cost savings of using Congress's procedures are lost when the district court litigation continues to grind on in parallel. The fact

² Inventor Austin Meyer recorded his quest to talk to real-life employees of prominent non-practicing entities registered in Marshall, Texas, but their reported addresses were mostly in deserted office buildings or law firm suites. See *The Patent Scam*, <http://www.thepatentscam.com> (last visited June 9, 2017).

³ Brief for the States of Texas, et al. as Amici Curiae Supporting Petitioner, *TC Heartland LLC v. Kraft Food Brands Grp.*, No. 16-341 (2017), http://www.scotusblog.com/wp-content/uploads/2017/02/16-341_amicus_pet_texas_et_al.pdf; *Samsung Donates Hall Monitor Screens to MHS*, *Marshall News Messenger*, Oct. 20, 2012, <https://www.marshallnewsmessenger.com/news/2012/oct/20/samsung-donates-hall-monitor-screens-to-mhs/>.

⁴ See Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. Cal. L. Rev. 241, 251-54 (2016).

⁵ See Brian J. Love & James Yoon, *Predictably Expensive*, 20 *Stan. Tech. L. Rev.* 1, 26-27 (2017).

that so many operating companies are sued in this one forum has amounted to a substantial patent tax on the U.S. economy.⁶

II. The *TC Heartland* Decision

We have had a special patent venue statute for 120 years. The first patent-specific venue statute was passed in 1897, and it is now codified at 28 U.S.C. § 1400(b). The current statute reads as follows: “Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” The Supreme Court has long interpreted the term “resides” in this statute to refer to a company’s state of incorporation. Nonetheless, in 1990 the Court of Appeals for the Federal Circuit held that amendments Congress made to a different, general venue statute had implicitly overruled the patent-specific venue test in § 1400(b) and replaced it with a new and broader one: The Federal Circuit held that a corporation may “reside” in any judicial district where it is subject to personal jurisdiction.⁷ Personal jurisdiction requires only “minimum contacts” with a state,⁸ and most companies that sell goods or services nationwide have sufficient contacts with every state to be subject to personal jurisdiction therein—and thus be subject to venue in any federal court, no matter where.

Justice Thomas’s unanimous opinion for the Supreme Court in *TC Heartland* reversed the Federal Circuit and restored the traditional meaning of “resides.” The Supreme Court held that Congress had not changed the meaning of § 1400(b) when it amended the general venue

⁶ Other important differences between the Eastern District of Texas and other courts include the deadlines for and scope of discovery; the likelihood of granting transfer to more convenient forums; and the likelihood that cases involving invalid business-methods patents will be dismissed on the pleadings. *See id.* at 21-33; *see generally* Klerman, *supra* note 4; J. Jonas Anderson, *Court Competition for Patent Cases*, 163 U. Pa. L. Rev. 631 (2015). One local chamber of commerce advertises the district’s “plaintiff-friendly local rules” as a reason to move businesses to Tyler, Texas. *See* <http://www.tyler4tech.com/> (last visited June 9, 2017). Post-*TC Heartland*, these plaintiff-friendly rules will be a deterrent to operating companies locating in the Eastern District of Texas.

⁷ *See VE Holding Corp. v. Johnson Gas*, 917 F.2d 1574, 1576 (Fed. Cir. 1999); 28 U.S.C. § 1391(c).

⁸ *See International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

statute, citing its own precedent and Justice Scalia’s book on interpreting statutes.⁹ Going forward, therefore, companies can be found to “reside” only in their state of incorporation. “Minimum contacts” with the Eastern District of Texas are no longer sufficient to satisfy the residency test—and thus establish venue—in a patent case.

III. Looking Beyond *TC Heartland*

By virtue of settling the meaning of “resides” in § 1400(b), *TC Heartland* draws attention to the second part of § 1400(b): In addition to the district in which the defendant resides, venue may exist “where the defendant has [1] committed acts of infringement and [2] has a regular and established place of business.” This part of the venue test has not been interpreted by any court since the Federal Circuit’s 1990 opinion interpreting residency—and thus has not been interpreted during the modern Internet-driven economy.

I would like to suggest three principles that courts, and potentially Congress, should consider as we think about the second half of § 1400(b).

First, § 1400(b) should be interpreted according to its plain text and ordinary meaning. This means that if venue is not based on residency, then the defendant must *both* have committed acts of infringement *and* maintain a regular and established place of business in the same district. Both of these clauses must be given effect.¹⁰ Furthermore, the modifiers “regular and established” must not be rendered superfluous—those words must be interpreted in such a way that there are at least some places of business that are either not sufficiently regular or

⁹ *TC Heartland*, slip op. at 8: “When Congress intends to effect a change of that kind, it ordinarily provides a relatively clear indication of its intent in the text of the amended provision. See *United States v. Madigan*, 300 U. S. 500, 506 (1937) (“[T]he modification by implication of the settled construction of an earlier and different section is not favored”); A. Scalia & B. Garner, *Reading Law* 331 (2012) (“A clear, authoritative judicial holding on the meaning of a particular provision should not be cast in doubt and subjected to challenge whenever a related though not utterly inconsistent provision is adopted in the same statute or even in an affiliated statute”).”

¹⁰ See *Phillips v. Baker*, 121 F.2d 752, 755 (9th Cir. 1941) (“As the statute expressly provides, infringement alone will not establish proper venue nor will a regular place of business alone do so, but both must concur.”) (interpreting the statutory predecessor to § 1400(b)).

established to satisfy § 1400(b).¹¹ Nor should courts ignore the term “*place of business*”—a place of business is a physical place, not cyberspace.

Second, § 1400(b) should be interpreted in light of the history and purpose of venue doctrine. Venue should not be confused with personal jurisdiction, which defines the outer limits of a court’s power. Venue instead is about how that power should be exercised—namely, to promote efficiency, convenience, and fairness. In most patent cases, most of the evidence is in the hands of the defendant, and the location of the evidence will drive efficiency and convenience, such as by hearing cases in courts close to potential witnesses and evidence. The text of § 1400(b) both prevents the unfairness of hailing defendants before courts to which they have no connection (as reflected in the residency and regular-and-established-place-of-business provisions) and encourages efficiency and convenience in litigating the claims (as reflected in the provision requiring infringement to have occurred in the same district as the court). For example, selling a product to a customer in another state and having the product shipped there would not allow for venue; that is the exact conduct found insufficient by *TC Heartland*.

Third, an interpretation that is faithful both to § 1400(b)’s text and the spirit of venue doctrine would also avoid creating perverse incentives for the nation’s businesses. Having employees or facilities unrelated to the accused patent infringement should not be counted as creating “a regular and established place of business.” Companies seeking to create new jobs and spur economic growth should not be forced to make business decisions for the primary purpose of avoiding the risk of unintentionally creating venue in a given district. For example,

¹¹ *Id.* (“Passing for the moment to consider the proper construction of the phrase ‘established place of business,’ the words themselves necessarily indicate that an ‘established’ place of business is more than, or at the very least different from, merely a ‘place of business.’ Otherwise Congress used a meaningless word It is, however, entirely clear that the word was selected deliberately, to signify that the particular place of business contemplated was not any place where business might be transacted, however temporarily, but must be a permanent place of business.”) (quoting *Winterbottom v. Casey*, 283 F. 518, 521 (E.D. Mich. 1922)).

companies should not fear that hiring an employee who works remotely would suddenly mean that the company has a “regular and established place of business” in the new employee’s district. Likewise, owning a building that is unrelated to the infringement should not create venue. The clearer the venue rules are on these subjects, the better able businesses will be to plan their growth and spur genuine innovation.

In the three weeks since *TC Heartland* was decided, some non-practicing entity plaintiffs appear to have recognized these principles, in particular that the defendant’s “regular and established place of business” must substantially relate to the accused patent infringement—that is, where the infringement evidence is located. Several “prolific Texas plaintiffs[] have simply conceded the issue of venue,” stipulating to transfer of their cases to the Northern District of California where the defendants are headquartered.¹² Other non-practicing entities have dismissed existing cases and re-filed in districts outside Texas. “For example, prolific litigant IP Edge LLC (the top filer in 2017 thus far),” filed five new cases in the Northern District of Illinois, including “two cases against Delaware entities Allstate Insurance and Hyatt Hotels, which are alleged to have principal offices in Illinois.”¹³ Another non-practicing entity controlled by the hedge fund Fortress Investment Group recast its complaint to argue that venue was satisfied by a combination of (1) the presence of retail stores, (2) advertised job openings, and (3) the defendant’s currently employing, “within this District, a number of executives, technical managers, sales representatives, field engineers, and other employees *who are directly*

¹² RPX, *As Expected, TC Heartland Decision Triggers Flurry of Venue Filings* (June 8, 2017), <http://www.rpxcorp.com/2017/06/08/as-expected-tc-heartland-decision-triggers-flurry-of-venue-filings/#>.

¹³ *Id.*

involved in Defendant's direct infringement, including through the testing, demonstration, use, and sale of the accused products and services.”¹⁴

That said, other non-practicing entity plaintiffs are trying to maintain the status quo and render the *TC Heartland* decision meaningless by pushing an interpretation of the patent venue statute that would create venue based on a website and minor activity in the district completely unrelated to the infringement allegations. The courts, and Congress if necessary, should resist this outcome.¹⁵

TC Heartland raises numerous other questions as well, such as how to determine venue for foreign corporations (including those with U.S. subsidiaries), whether Congress should standardize local court rules related to patents, and what to do if plaintiffs strategically name parties at different points in the distribution chain as defendants to get a desired venue. I suggest that Congress should monitor venue developments closely to ensure that they reflect a sound and pro-growth public policy that is fair to all litigants.

I thank you for the opportunity to testify, and I look forward to your questions.

¹⁴ Complaint at 5-6, *INVT SPE LLC v. Apple, Inc.*, 2:17-cv-03738 (D.N.J. May 25, 2017) (emphasis added), ECF No. 1; see RPX, *supra* note 12.

¹⁵ The Marshall district court has issued orders *sua sponte* in multiple cases calling for additional briefing to “address the effect, if any, of *TC Heartland* on” previously filed venue motions. See, e.g., Order at 1, *Fundamental Innovation Systems Int’l LLC v. ZTE Corp.*, 2:17-CV-00124-JRG, ECF No. 30 (E.D. Tex. May 26, 2017).

Defendants Sued by District

Top 10 Districts of Origin for Patent Cases by Number of Defendants Sued

2016 Only

Rank	All Defendants	% of total	Defendants in NPE Cases	% of total	Defendants in Operating Company Cases	% of total
1	ED Tex	36.7%	ED Tex	56.8%	ND Cal	10.5%
2	D Del	8.6%	D Del	7.6%	D Del	10.0%
3	CD Cal	7.2%	ND Ill	6.2%	CD Cal	9.2%
4	ND Cal	5.6%	CD Cal	5.8%	ED Tex	8.4%
5	ND Ill	5.3%	SD Fla	3.7%	DNJ	5.8%
6	SD Fla	3.0%	ND Cal	2.1%	ND Ill	4.0%
7	DNJ	2.8%	SDNY	1.9%	SDNY	3.3%
8	SDNY	2.4%	SD Cal	1.6%	SD Cal	3.1%
9	SD Cal	2.2%	MD Fla	1.1%	MD Fla	2.9%
10	MD Fla	1.8%	D Mass	0.9%	ED Mich	2.4%
	<i>All Others</i>	24%		12%		41%

2005-2016

Rank	All Defendants	% of total	Defendants in NPE Cases	% of total	Defendants in Operating Company Cases	% of total
1	ED Tex	28.2%	ED Tex	44.6%	CD Cal	9.6%
2	D Del	10.5%	D Del	12.2%	D Del	8.1%
3	CD Cal	7.2%	CD Cal	5.5%	DNJ	6.2%
4	ND Ill	4.6%	ND Ill	4.4%	ED Tex	5.8%
5	ND Cal	3.9%	ND Cal	2.6%	ND Cal	5.6%
6	DNJ	3.7%	SD Fla	2.5%	ND Ill	4.9%
7	SDNY	2.7%	SD Cal	2.2%	SDNY	4.1%
8	SD Cal	2.5%	DNJ	1.8%	SD Cal	2.9%
9	SD Fla	2.4%	SDNY	1.7%	ND Ga	2.7%
10	ND Ga	1.8%	MD Fla	1.5%	D Minn	2.4%
	<i>All Others</i>	33%		21%		48%

Cases Filed by District

Top 10 Districts of Origin for Patent Cases by Number of Cases Filed

2016 Only

Rank	All Cases	% of total	NPE Cases	% of total	Operating Company Cases	% of total
1	ED Tex	39.6%	ED Tex	56.8%	D Del	13.4%
2	D Del	10.1%	D Del	8.2%	DNJ	9.9%
3	CD Cal	5.9%	ND Ill	6.5%	ED Tex	9.3%
4	ND Ill	5.6%	CD Cal	4.5%	CD Cal	8.5%
5	DNJ	4.0%	SD Fla	3.6%	ND Ill	4.1%
6	ND Cal	3.4%	ND Cal	3.3%	ND Cal	3.6%
7	SD Fla	3.1%	SDNY	1.8%	SDNY	3.0%
8	SDNY	2.2%	SD Cal	1.7%	MD Fla	2.7%
9	SD Cal	2.0%	MD Fla	1.1%	SD Cal	2.6%
10	MD Fla	1.7%	D Mass	0.9%	ED Mich	2.3%
	<i>All Others</i>	22%		12%		41%

2012-2016

Rank	All Cases	% of total	NPE Cases	% of total	Operating Company Cases	% of total
1	ED Tex	33.1%	ED Tex	46.4%	D Del	14.4%
2	D Del	16.5%	D Del	17.5%	CD Cal	9.3%
3	CD Cal	6.4%	CD Cal	5.1%	DNJ	9.3%
4	ND Cal	3.9%	ND Cal	3.7%	ED Tex	4.9%
5	DNJ	3.9%	ND Ill	3.3%	ND Ill	4.5%
6	ND Ill	3.7%	SD Fla	2.9%	ND Cal	4.2%
7	SD Fla	2.5%	SD Cal	2.0%	SDNY	4.1%
8	SD Cal	2.3%	SDNY	1.4%	SD Cal	2.9%
9	SDNY	2.3%	DNJ	1.3%	D Mass	2.4%
10	MD Fla	1.4%	ND Tex	1.3%	D Minn	2.2%
	<i>All Others</i>	24%		15%		42%

Cases Assigned to Judges

Top 10 Judges for Patent Cases by Number of Cases Originally Assigned

2016 Only

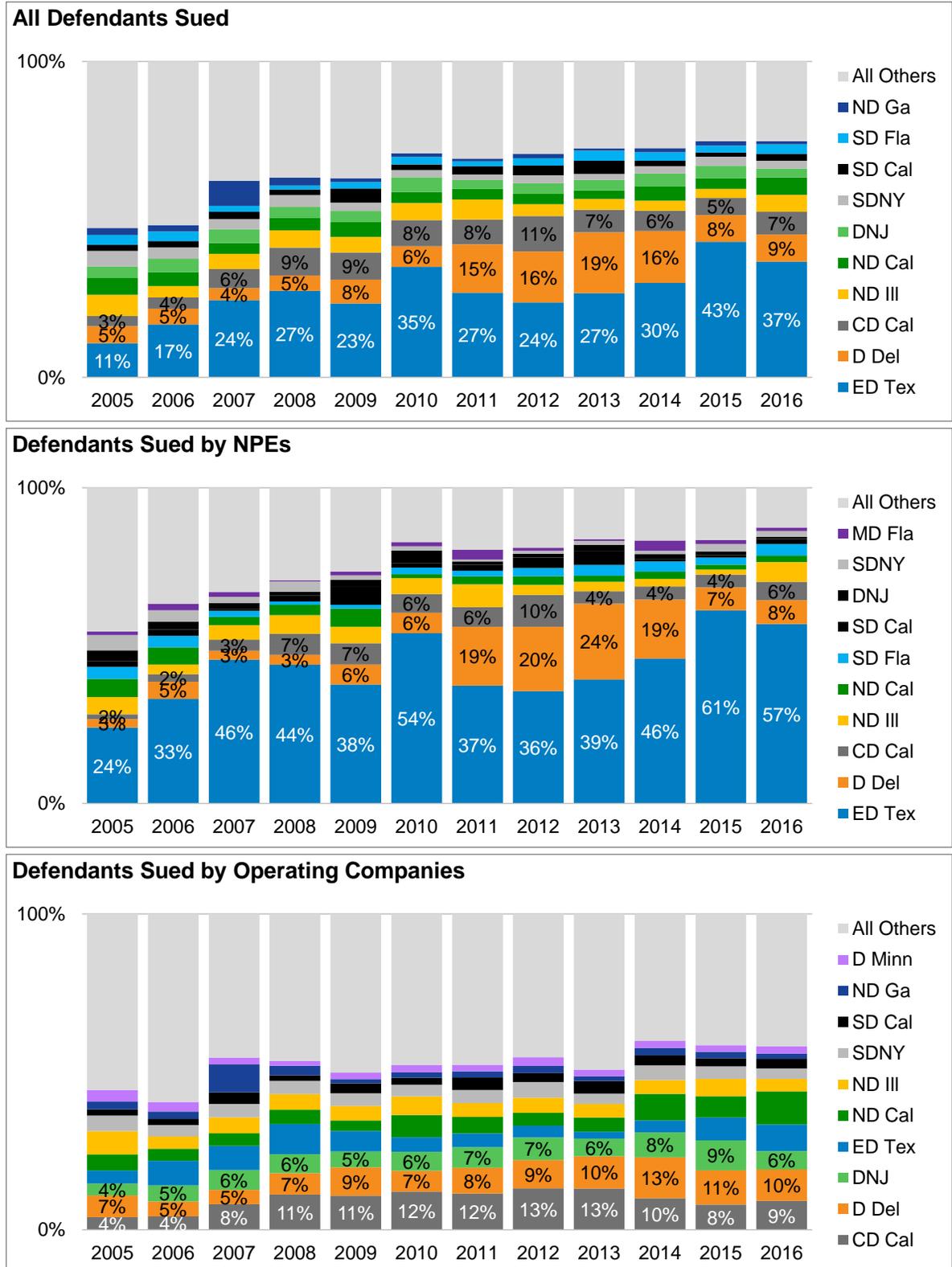
Rank	All Cases	district	% of US total	% of district	NPE Cases	district	% of US total	% of district	Operating Company Cases	district	% of US total	% of district
1	Rodney Gilstrap	ED Tex	25.8%	65.1%	Rodney Gilstrap	ED Tex	36.7%	64.6%	Rodney Gilstrap	ED Tex	6.6%	70.9%
2	Robert W. Schroeder, III	ED Tex	11.7%	29.4%	Robert W. Schroeder, III	ED Tex	17.5%	30.7%	Gregory M. Sleet	D Del	4.3%	32.0%
3	Leonard P. Stark	D Del	3.3%	32.9%	Leonard P. Stark	D Del	3.3%	40.1%	Leonard P. Stark	D Del	3.4%	25.1%
4	Gregory M. Sleet	D Del	2.7%	26.7%	Richard G. Andrews	D Del	2.5%	30.9%	Sue L. Robinson	D Del	2.9%	21.7%
5	Richard G. Andrews	D Del	2.6%	26.0%	Gregory M. Sleet	D Del	1.8%	21.7%	Richard G. Andrews	D Del	2.8%	20.7%
6	Sue L. Robinson	D Del	1.4%	14.3%	Amos L. Mazzant, III	ED Tex	1.6%	2.8%	Robert W. Schroeder, III	ED Tex	1.5%	15.6%
7	Amos L. Mazzant, III	ED Tex	1.2%	3.0%	Kenneth A. Marra	SD Fla	0.7%	19.6%	Jerome B. Simandle	DNJ	1.5%	14.7%
8	James V. Selna	CD Cal	0.7%	11.3%	James V. Selna	CD Cal	0.7%	15.1%	Roy B. Dalton, Jr.	MD Fla	1.2%	43.9%
9	George H. Wu	CD Cal	0.6%	10.9%	Roger T. Benitez	SD Cal	0.6%	37.8%	Mary L. Cooper	DNJ	1.1%	10.7%
10	Beverly Reid O'Connell	CD Cal	0.6%	10.9%	Sue L. Robinson	D Del	0.6%	7.4%	Peter G. Sheridan	DNJ	1.1%	10.7%
	All Others		49%				34%				74%	

2012-2016

Rank	All Cases	district	% of US total	% of district	NPE Cases	district	% of US total	% of district	Operating Company Cases	district	% of US total	% of district
1	Rodney Gilstrap	ED Tex	18.9%	57.1%	Rodney Gilstrap	ED Tex	26.4%	56.9%	Gregory M. Sleet	D Del	3.9%	27.3%
2	Robert W. Schroeder, III	ED Tex	6.5%	19.7%	Robert W. Schroeder, III	ED Tex	9.3%	20.1%	Leonard P. Stark	D Del	3.7%	25.8%
3	Leonard P. Stark	D Del	4.6%	28.2%	Leonard P. Stark	D Del	5.1%	29.1%	Sue L. Robinson	D Del	3.4%	23.7%
4	Richard G. Andrews	D Del	4.4%	26.9%	Richard G. Andrews	D Del	5.0%	28.5%	Richard G. Andrews	D Del	3.3%	22.8%
5	Gregory M. Sleet	D Del	4.1%	24.8%	Gregory M. Sleet	D Del	4.2%	23.9%	Rodney Gilstrap	ED Tex	3.0%	61.3%
6	Sue L. Robinson	D Del	3.3%	19.8%	Sue L. Robinson	D Del	3.2%	18.2%	Mary L. Cooper	DNJ	1.2%	12.9%
7	Leonard Davis	ED Tex	1.9%	5.7%	Leonard Davis	ED Tex	2.7%	5.8%	Jerome B. Simandle	DNJ	1.1%	11.6%
8	Michael H. Schneider	ED Tex	1.8%	5.3%	Michael H. Schneider	ED Tex	2.5%	5.4%	James V. Selna	CD Cal	1.0%	10.6%
9	S. James Otero	CD Cal	0.8%	12.5%	K. Nicole Mitchell	ED Tex	1.1%	2.5%	George H. Wu	CD Cal	1.0%	10.5%
10	K. Nicole Mitchell	ED Tex	0.8%	2.4%	John D. Love	ED Tex	1.1%	2.4%	Noel L. Hillman	DNJ	0.8%	8.1%
	All Others		53%				39%				78%	

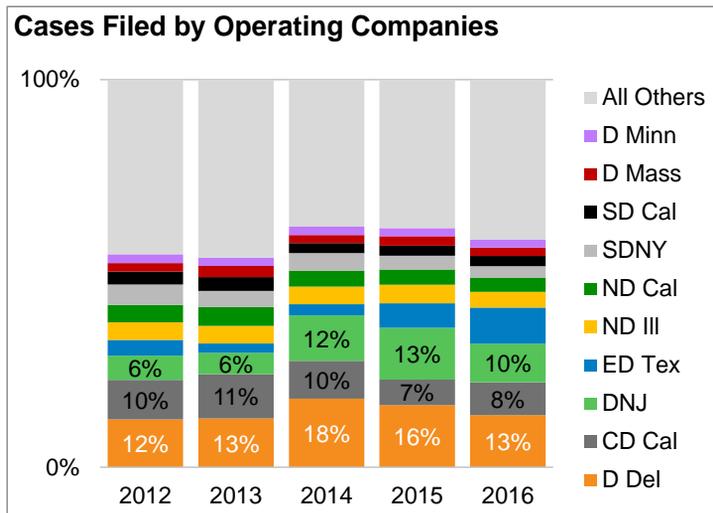
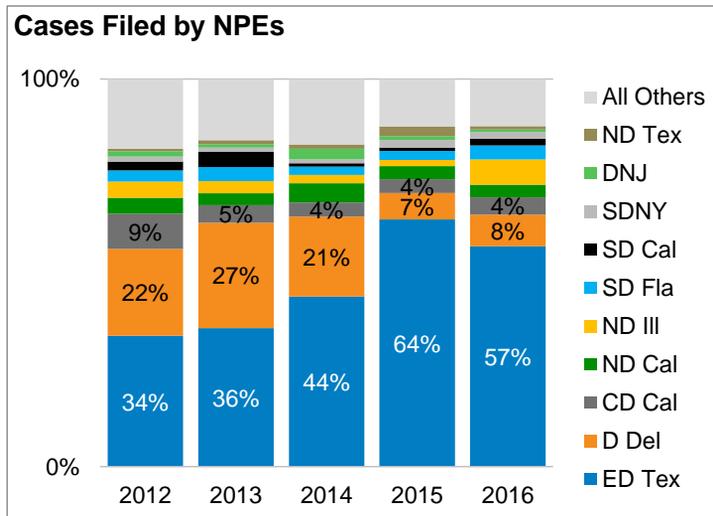
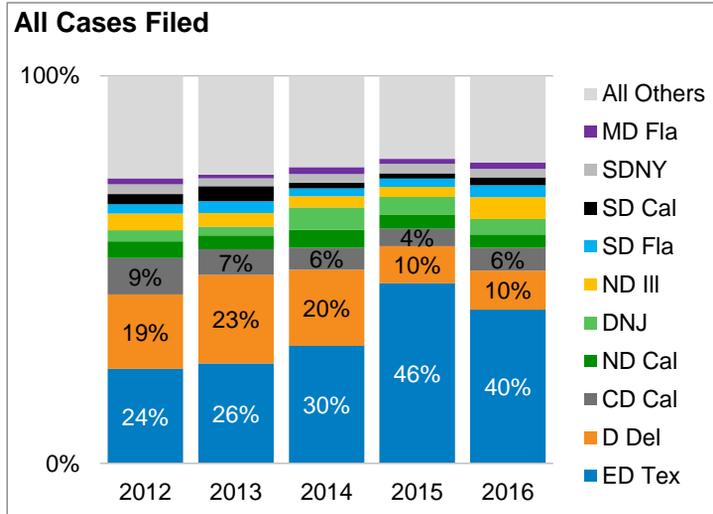
Distribution of U.S. Patent Litigation Volume by District Court (%)

Top 10 Districts of Origin for Patent Cases by Number of Defendants Sued, 2005-2016



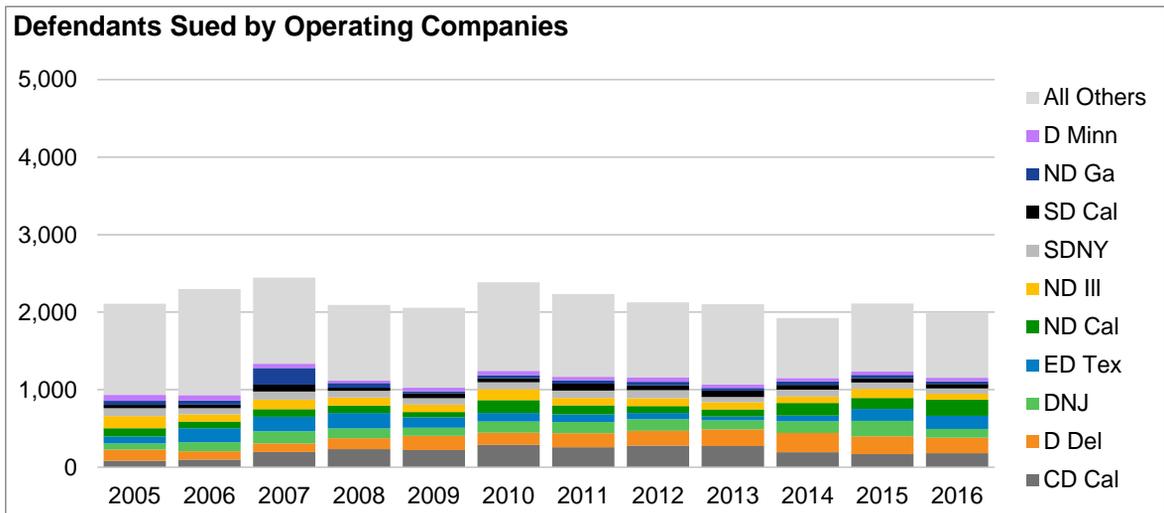
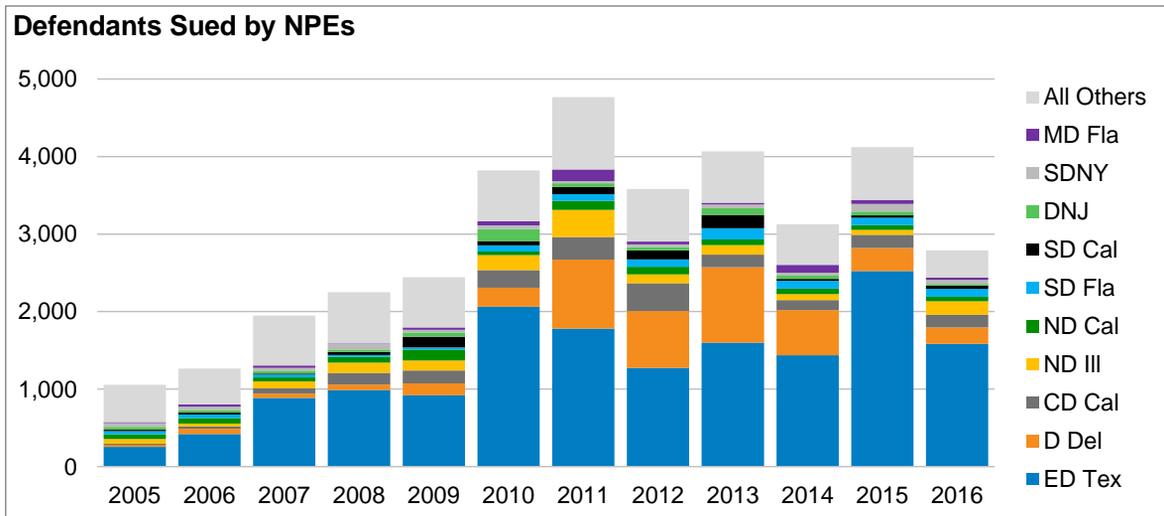
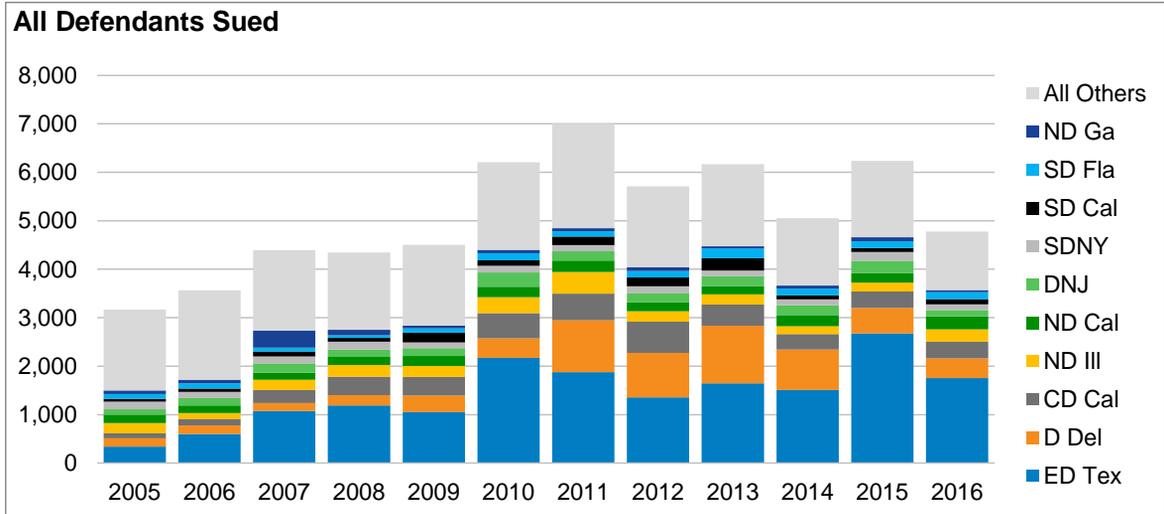
Distribution of U.S. Patent Litigation Volume by District Court (%)

Top 10 Districts of Origin for Patent Cases by Number of Cases Filed, 2012-2016



Distribution of U.S. Patent Litigation Volume by District Court (Total)

Top 10 Districts of Origin for Patent Cases by Number of Defendants Sued, 2005-2016



Distribution of U.S. Patent Litigation Volume by District Court (Total)

Top 10 Districts of Origin for Patent Cases by Number of Cases Filed, 2012-2016

