coalition for patent fairness

CURBING RAMPANT FORUM SHOPPING IS ESSENTIAL TO ACHIEVE MEANINGFUL PATENT REFORM

The patent litigation system's adverse effects on innovation and job creation stem in significant part from plaintiffs' ability to forum shop with impunity by filing lawsuits in courts with a history of favorable results in order to pressure defendants to settle rather than fight opportunistic claims. When combined with the vague standard for calculating reasonable royalty damages, plaintiffs' forum shopping increases the threat of huge verdicts in these cases. As a result, forum shopping diverts resources away from innovation and into litigation and licensing, which imposes substantially greater business risks for companies that seek to bring new products and services to market. Requiring that lawsuits be filed in a court with a reasonable connection to the underlying lawsuit is fair and will eliminate the burden on innovation that is imposed by rampant forum shopping.

There can be no dispute that forum shopping is the norm in patent litigation today:

- The number of cases filed annually in the federal court in Marshall, Texas, grew from 24 in 2000 to 369 in 2007—a ***fifteen-fold increase*** even though the total number of patent cases grew only marginally during the same period. More patent lawsuits were filed in Marshall in 2007 than in New York City, San Francisco and Boston combined. More patent lawsuits were filed in Marshall than were filed in Los Angeles and more than one in every eight patent cases filed in the entire country is filed in Marshall.

- Although no other jurisdiction experienced growth even close to Marshall's, the number of cases filed in New Jersey more than tripled, from 69 in 2000 to 200 in 2007.

- Indeed, other jurisdictions are seeking to emulate Marshall's success, competing to make themselves attractive to plaintiffs in order to draw a disproportionate share of patent filings.

- Current law provides that a case may be filed in any district in which the defendant has committed an act of infringement. Therefore, companies whose products are distributed nationwide may be sued in any judicial district in the country. This loose standard leaves plaintiffs with an essentially unlimited choice of forum.

Plaintiffs appear to focus their forum shopping on jurisdictions that are perceived to be "plaintiff-friendly." Indeed, data indicates that plaintiffs do in fact prevail more frequently in some jurisdictions than in others—and those are the jurisdictions that are attracting. For example,

- The median damages award in cases decided in Marshall between 1995 and 2008 was $20.4 million, the second-highest of any federal district court in the country.

- Plaintiffs' win-rate in cases decided between 1995 and 2007 in Marshall was the second-highest of any district in the country. The trial success rate for plaintiffs was 72%.

- The *New York Times* documented Marshall's status as the capital of patent litigation in a lengthy article published in September 2006. It pointed out that plaintiffs' win-rate at trial was "daunting

> enough to encourage many corporate defendants to settle before setting foot in Marshall. Add to that the fact that jurors here have a history of handing out Texas-sized verdicts to winners." The *Times* concluded, "The success rate for patent holders in Marshall is a great incentive for defendants to settle matters quickly and privately. Since 1991, the Federal District Court in Marshall has held less than half the number of full patent trials as courts in Los Angeles, New York, Chicago and San Francisco."

Given this record, it is not surprising that plaintiffs take advantage of the lack of any real venue restrictions in current law and choose to file their claims in friendly jurisdictions.

Moreover, the unfairness of forum shopping is not limited to the plaintiff's ability to pick a friendly forum. It also imposes substantial additional costs on defendants, who must transport lawyers, documents, and numerous witnesses to the site of the trial – an expense that is multiplied when the trial is located far from the defendant's place of business. Plaintiffs' ability to impose this cost on multiple defendants sued in most cases increases their leverage to demand settlements as well as the amount of money diverted from innovation and other productive uses.

Reform is plainly needed to ensure that our litigation system lives up to its promise of fairness. Venue standards should be drawn to preclude "gaming the system" through forum shopping. Lawsuits should be resolved in a forum that has a reasonable connection to the underlying claim. Plaintiffs should not be permitted to funnel cases into plaintiff-friendly courts, just as defendants should not be able to target courts predisposed in the opposite direction.

The Patent Reform Act of 2009—S.515 and H.R. 1260—addresses this problem by limiting plaintiffs' choice of forum to jurisdictions with a relationship to the underlying controversy: the federal judicial district where the defendant has its principal place of business, is incorporated or has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant. Educational institutions (and their patent-holding affiliates) as well as individual inventors may bring claims in the jurisdiction in which they reside. Importantly, the bill includes a provision barring a party from "manufactur[ing] venue by assignment, incorporation or otherwise to invoke the venue of a specific district court." These provisions will eliminate forum shopping and restore fairness to our judicial system.

Some opponents of venue reform argue that the Federal Circuit's recent decision in *In re TS Tech USA Corp.*, shows that the courts are addressing the problem of forum shopping and legislative action is no longer needed. Although *TS Tech USA* is a step forward, the courts' ability to address this problem is limited by current law. **Non-practicing entities ("NPEs"), companies that do not develop products or services but instead seek to monetize the value of patents by obtaining license fees from others who do develop new products and services, are responsible for much of the country's opportunistic patent litigation. NPEs are already taking steps to circumvent the Federal Circuit's ruling.**

The Federal Circuit held in *TS Tech USA* that the district court had erred in denying a motion to transfer the case from the federal district court in the Eastern District of Texas to the federal district court in the Southern District of Ohio. The holding pointed to several factors requiring transfer:

- "[T]he witnesses would need to travel approximately 900 more miles to attend trial in Texas than in Ohio;"

- "[T]he vast majority of physical and documentary evidence relevant to this case will be found in Ohio, Michigan, and Canada, and none of the evidence is located in Texas;" and

- There was a lack of any "relevant connection between the actions giving rise to this case and the Eastern District of Texas" except that some products containing the allegedly infringing component were sold there and none of the companies were incorporated in Texas and none had an office there. "Instead, the vast majority of identified witnesses, evidence, and events leading to this case involve Ohio or its neighboring state of Michigan."

Although the *TS Tech USA* decision indicates that there is a judicially-enforceable outer limit on forum shopping, the facts of that case were extreme. In particular, the Federal Circuit emphasized at the very outset of its opinion that the defendant "argued that because none of the parties were incorporated in Texas or had offices located in the Eastern District of Texas, there was no meaningful connection between the venue and this case."

It is an easy matter for a NPE to create a factual scenario very different from the one addressed in *TS Tech USA,* such as by making minor changes to the parties named in a NPE's lawsuit, and to argue that the *TS Tech USA* decision therefore does not apply. For example, the NPE can form a new corporation in the State in which it wishes to file the patent infringement suit, supply the new corporation with a "mail drop" office in the relevant judicial district within that State, transfer the relevant patent or patents to that corporation, and then have that corporation file the infringement action in the selected district. The plaintiff corporation will argue that the Federal Circuit's *Tech USA* decision is entirely inapplicable; rather than "no meaningful connection" between the venue and the case, it will point out that the plaintiff corporation is a resident of the State with its principal place of business in the judicial district.

In addition, when the infringement claim relates to a component of a consumer product or other category of good sold throughout the country, which frequently will be the case, such as where the claim involves a part included in a "smart" phone such as an iPhone or Blackberry or in a personal computer, the NPE can join as a defendant any retailer (a local business or Sears or Wal-Mart) that sells the product in question and is located within the judicial district in which the NPE wishes to file the claim. The NPE will argue that the presence as a defendant of an entity that is located within the State and judicial district sharply distinguishes the case from *TS Tech USA*, even though the retailer possesses no information relevant to the litigation.

Unfortunately, these means of circumventing *TS Tech USA* are not mere speculation. **NPEs already have *both* created Texas corporations to serve as plaintiffs *and* added local retailers as defendants in order to avoid any limitations that *TS Tech USA* might otherwise impose on the filing of lawsuits in Marshall.**

Nothing in the existing patent venue statute permits the courts to "look through" corporations created for the sole purpose of circumventing venue restrictions or to disregard parties named as defendants solely to establish venue. Moreover, the Federal Circuit in *TS Tech USA* stated that its power to affect venue rulings is limited and only applies to situations in which the district court's decision to retain a case is "a patently erroneous result." And under Federal Circuit rules, the *TS Tech USA* decision only applies within the Fifth Circuit (because it is based on the latter court's *Volkswagen* decision);. Therefore, there is no reason to believe that the Federal Circuit would apply the same rule in the other eleven judicial circuits covering the vast majority of the country.

The combination of NPEs' ability to vary the facts from those addressed in *TS Tech USA*, the courts' inability to "look through" the facts regarding parties created or added solely to establish venue, the court of appeals' limited power of review, and the limited applicability of *TS Tech USA* undercut any claim that *TS Tech USA* has "solved" the forum shopping problem.

Only Congress's adoption of the Patent Reform Act of 2009 will stop these venue shell games, just as Congress has acted to prevent them in other contexts. Compare 28 U.S.C. § 1359 (depriving district courts of jurisdiction of actions "in which any party, by assignment or otherwise, has been improperly or collusively made or joined to invoke the jurisdiction of such court"). Action by Congress is urgently needed to stop the forum shopping that both undermines the fairness of our judicial system and curbs the innovation that we need to help repair our weakened economy.