

# ANY GIVEN FORUM: A PROPOSED SOLUTION TO THE INEQUITABLE ECONOMIC ADVANTAGE THAT ARISES WHEN NON-PRACTICING PATENT HOLDING ORGANIZATIONS PREDETERMINE FORUM

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## I. INTRODUCTION

File a patent infringement suit in Marshall, Texas, and your chances of winning at trial average eighty-eight percent;<sup>1</sup> file in New York, and your chances are cut to less than half.<sup>2</sup> The spoils of victory are greater in Marshall, as well, where juries are known for handing out “Texas-sized” awards.<sup>3</sup> This kind of statistical variance among fora has long motivated sophisticated plaintiffs’ attorneys to carefully plan the selection of forum before filing a case,<sup>4</sup> but

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<sup>1</sup> Sam Williams, *A Haven for Patent Pirates*, MIT TECH. REV., Feb. 03, 2006, para. 11, <http://www.technologyreview.com/article/16546/>; see also Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, Sept. 24, 2006, para. 9, available at <http://www.nytimes.com/2006/09/24/business/24ward.html> (citing a plaintiff success rate at trial of 78%).

<sup>2</sup> Creswell, *supra* note 1, para. 42. The national average success rate at trial for plaintiffs in a patent infringement suit is 59%. *Id.* para. 9; see also Williams, *supra* note 1, para. 11 (citing the national average success rate at trial for plaintiffs in a patent infringement case at 68%).

<sup>3</sup> Creswell, *supra* note 1, para. 10.

<sup>4</sup> This practice, known as “forum-selection,” or more pejoratively as “forum shopping,” is considered something of an unwanted but unavoidable byproduct of our jurisprudential system. Gita F. Rothschild, *The Big Picture: Forum Shopping*, 24 NO. 3 LITIG. 40, 40 (1998). Forum shopping is a broad term describing a number of different means of determining the

a new breed of litigation-minded patent holding organizations<sup>5</sup> appears to be taking the concept of forum shopping a step further, upsetting an already unsteady patent system.<sup>6</sup>

## II. OVERVIEW

This paper will discuss the problem of forum isolation that is created when sophisticated patent holding organizations seek to gain a litigation and bargaining advantage by predetermining the forum for future patent litigation.<sup>7</sup> The first section will explain how a patent holding organization can control the forum in patent-related litigation, including declaratory judgment actions filed against them. This section will detail the fundamentals of patent law, including licensing and enforcement of patents, and the inter-working of personal jurisdiction and venue law in patent-related litigation. The second section will explain the benefits that patent holding organizations can accrue if they structure their business with forum in mind. This section will include a discussion of the social, economic, and legal impact of complete forum isolation. The final section will offer a solution to this problem, explain how the solution will function un-

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court in which a controversy will be adjudicated. Debra Lyn Bassett, *The Forum Game*, 84 N.C. L. REV. 333, 343 (2006). The forum shopping discussed in this article is the type Professor Bassett called “Type Two”—involving choice between a federal court in one state and a federal court in another state. *Id.* In theory, a case should be resolved the same way in any given court because the substantive law is the same. Rothschild, *supra*, at 41. In practice this is rarely true. *Id.*

<sup>5</sup> Brenda Sandburg, *Trolling for Dollars*, RECORDER, July 30, 2001, at 1.

<sup>6</sup> Creswell, *supra* note 1, paras. 7, 26.

On the surface, there is little to recommend Marshall as a locus for global corporations looking to duke it out over who owns the rights to important technology patents. Some 150 miles east of Dallas, and just minutes from the Louisiana border, Marshall and its 25,000 residents are fairly typical of most small cities in Texas. Marshall is a place where friendships last a lifetime and rivalries even longer, where residents still talk about the Civil War, debate on street corners about decades-old high school football games, and conduct midday business meetings over plates of meatloaf, mashed potatoes and banana pudding.

*Id.* para. 7. “In Marshall, an oft-told joke is that the passage of tort reform was when many local lawyers made the trip from P.I. to I.P. – that is, they moved out of personal injury and into intellectual property.” *Id.* para. 26.

<sup>7</sup> See *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1218 (D. Utah 2005) (answering in the negative “[t]he question . . . as to whether patent trolls should be subject to more general jurisdiction, perhaps as a way of deterring coercive baseless litigation”).

der the applicable statutory framework, and discuss the advantages of the solution.

### III. BACKGROUND

#### A. Patents

Fundamentally, a patent is the right to exclude others from making, using, offering to sell, selling, or importing an invention.<sup>8</sup> Congress codified this right as 35 U.S.C. § 154(a), which provides that:

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.<sup>9</sup>

This right may be enforced pursuant to 35 U.S.C. § 281, which states, “[a] patentee shall have remedy by civil action for infringement of his patent.”<sup>10</sup> Furthermore, 35 U.S.C. § 283 instructs that the courts “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent.”<sup>11</sup> In addition, a patent infringer may be liable for monetary damages.<sup>12</sup> Therefore, through the combination of injunctive relief and pecuniary damages, a patentee’s exclusive right to his invention is secured.<sup>13</sup>

Patent rights are a matter of federal subject-matter jurisdiction; this jurisdiction arises under federal law and is adjudicated in the federal district courts.<sup>14</sup> The authority to legislate patents is derived from Article I, Section VIII of the U.S. Constitution, which declares, “The Congress shall have Power . . .

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<sup>8</sup> Though the practice of granting patents dates back to mid-fifteenth century Venice, the first patent statute in our direct legal tradition was the 1624 English Statute of Monopolies. PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 394 (5th ed., Foundation Press 2004).

<sup>9</sup> 35 U.S.C. § 154(a)(1) (2006).

<sup>10</sup> 35 U.S.C. § 281 (2006).

<sup>11</sup> 35 U.S.C. § 283 (2006).

<sup>12</sup> 35 U.S.C. § 284 (2006).

<sup>13</sup> See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (discussing remedies available to patentees, particularly the propriety of injunctive relief).

<sup>14</sup> 28 U.S.C. § 1338(a) (2006); see *Breed v. Hughes Aircraft Co.*, 253 F.3d 1173, 1178 (9th Cir. 2001) (discussing the basis for federal jurisdiction in patent cases).

[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>15</sup> This explicit grant of federal power effectively removes patent law from the scope of the state legislatures.<sup>16</sup> In addition, 28 U.S.C. § 1331 declares, “[t]he [federal] district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.”<sup>17</sup> As a result, state courts lack the power to hear cases arising under the patent laws, and putative plaintiffs interested in exercising their patent rights must file suit in federal district court.<sup>18</sup>

The Constitutional basis for patent law suggests that a patent represents a bargain between the United States and the inventor.<sup>19</sup> Progress in the useful arts is advanced by requiring the inventor to publicly disclose the innovation.<sup>20</sup> The sum of public knowledge is thereby increased, and valuable innovations are

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<sup>15</sup> U.S. CONST. art. I, § 8, cl. 8. This grant of authority was apparently uncontroversial. James Madison, THE FEDERALIST No. 43. “The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged, in Great Britain, to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors.” *Id.* (discussing miscellaneous federal legislative rights).

<sup>16</sup> The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority; to all Cases affecting Ambassadors, other public Ministers and Consuls; to all Cases of admiralty and maritime Jurisdiction; to Controversies to which the United States shall be a Party; to Controversies between two or more States; between a State and Citizens of another State; between Citizens of different States; between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

U.S. CONST. art. III, § 2, cl. 1.

<sup>17</sup> 28 U.S.C. § 1331 (2006).

<sup>18</sup> See *Cont'l Store Serv. Co. v. Clark*, 55 Sickels 365, 371 (N.Y. 1885) (holding that state courts lack the authority to adjudicate patent rights even though the case arose out of a contract dispute that otherwise fell under state authority). *But see Buechel v. Bain*, 97 N.Y.2d 295, 307 (N.Y. 2001) (holding that federal law did not preempt a state court action seeking to invalidate a fee agreement between the patentees and their attorneys, on the grounds that the claim did not involve a substantial question of federal law).

<sup>19</sup> *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) (“The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.”).

<sup>20</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–81 (1974) (discussing the constitutional purpose of patent law and the disclosure requirement in particular).

not lost to secrecy.<sup>21</sup> In exchange, the inventor is granted exclusive patent rights.<sup>22</sup> Without these rights, the inventor would be at a competitive disadvantage, forced to compete with those that have the benefit of the innovation without the expense of invention.<sup>23</sup> For the bargain to be effective it must not end with the inventor. It must also include commercial incentives, because, in addition to the cost of research associated with innovation, many inventions also require significant capital investment to produce.<sup>24</sup> Without the guarantee of market exclusivity and the implied potential of profitability, many of these useful products would not be marketable.<sup>25</sup>

Generally, patents serve two basic economic functions: protection of market exclusivity and generation of revenue through licensing.<sup>26</sup> The former, more traditional model arises when a patent owner performs one or more of the acts enumerated in 35 U.S.C. § 271(a),<sup>27</sup> e.g., marketing a product.<sup>28</sup> Typically the patent owner has invested heavily in researching the innovation and in developing that innovation into a commercially viable product or service.<sup>29</sup> Patent rights protect this investment by allowing the patent owner to market a product or service without being undercut by competitors who have not made similar investments.<sup>30</sup> Competitors are free to attempt to design around the patent<sup>31</sup>—to

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<sup>21</sup> *Id.* at 481. Inventors may choose to keep their innovations secret and to rely on trade secret law for protection; however, they will not be protected from independent invention or reverse engineering efforts. *Id.* at 476.

<sup>22</sup> *Bonito Boats*, 489 U.S. at 151.

<sup>23</sup> F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 710 (2001).

<sup>24</sup> *Id.* at 707–09.

<sup>25</sup> *Id.* at 710.

<sup>26</sup> See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421–22, 434–42 (1984) (reviewing patent law through analogy in a copyright case).

<sup>27</sup> “Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a) (2006).

<sup>28</sup> See FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY ch. 2 at 1 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (discussing primarily the typical activities of patent practicing organizations). *But see id.* ch. 2(III)(C)(2)(b)(ii)(B) (discussing the impact of non-practicing entities).

<sup>29</sup> *Id.* ch. 2(I)(A)(1).

<sup>30</sup> *Id.*

<sup>31</sup> *State Indus., Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985) (“One of the benefits of a patent system is its so-called ‘negative incentive’ to ‘design around’ a competi-

develop their own solutions—but they risk subjecting themselves to liability if their products infringe.<sup>32</sup>

Rather than relying on the commercial success of its own products or services alone, a patent owner may choose to license its patent.<sup>33</sup> Under a patent licensing agreement, a patent owner agrees to forgo the right to sue the licensee for infringement.<sup>34</sup> In exchange, the licensee usually pays the patent owner a royalty.<sup>35</sup> Sometimes, particularly when large manufacturers are involved, patent owners may enter into a cross-licensing agreement whereby two organizations holding patents on similar technology exchange licenses rather than suing each other out of the market.<sup>36</sup> The use of patent licensing agreements as an independent means of revenue generation has significantly increased over the

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tor's products, even when they are patented, thus bringing a steady flow of innovations to the marketplace.”).

<sup>32</sup> Even if the parties are able to design around the literal terms of the patent, they may still be held liable for infringement under the doctrine of equivalents. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 21 (1997) (evaluating the intersection of the doctrine of equivalents and prosecution history estoppel). The doctrine of equivalents allows a patentee to enforce a patent against a device that does not literally infringe every element of the claimed invention if the accused device infringes every element with at least an equivalent element. *Id.* Prosecution history estoppel is the equitable doctrine by which the courts limit the scope of a patent based on subject matter that has been “surrendered” during the process of patent application. *Id.* at 18–19.

<sup>33</sup> *Victor Talking Mach. Co. v. Fair*, 123 F. 424, 426 (7th Cir. 1903). “Within his domain, the patentee is czar. The people must take the invention on the terms he dictates or let it alone for 17 years. This is a necessity from the nature of the grant.” *Id.* Note that the patent term is now twenty years. 35 U.S.C. § 154(a)(2) (2006). For the purposes of this article, all licensing discussions refer to non-exclusive licensing agreements, except as otherwise noted. Exclusive agreements carry with them a different set of legal rights not relevant herein, except as otherwise noted. See *Akro Corp. v. Luker*, 45 F.3d 1541, 1548–49 (Fed. Cir. 1995) (finding minimum contacts arising out of an exclusive licensing agreement). But see *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1362 (Fed. Cir. 1998) (distinguishing *Akro Corp.* and finding insufficient contacts stemming from a non-exclusive licensing agreement).

<sup>34</sup> KIMBERLY A. MOORE ET AL., *PATENT LITIGATION AND STRATEGY* 722 (2d ed. 2003).

<sup>35</sup> See Elizabeth D. Ferrill, *Patent Investment Trusts: Let's Build a Pit to Catch the Patent Trolls*, 6 N.C. J.L. & TECH. 367, 371–72 (2005) (“[A] licensing agreement is essentially a contract between the patent owner and another party that wishes to have permission to practice the patent. In addition to actually practicing the patent, licensing allows patent owners to ‘extract hidden, additional value’ from their intellectual property . . . .”) (citations omitted).

<sup>36</sup> Vernon M. Winters, *If It's Broke, Fix It: Two Suggestions and One Note About Patent Reform*, FED. LAW. SEPT. 2006 at 6, 6.

last thirty years.<sup>37</sup> Although market exclusivity is still an important patent function, patent licensing comprises the most significant use of patent rights today.<sup>38</sup>

### **B. Patent Holding Organizations**

A growing number of patent owners engage in the patent licensing model without practicing any invention.<sup>39</sup> These patent holding organizations<sup>40</sup> acquire patent rights through invention<sup>41</sup> or assignment<sup>42</sup> and, unlike a typical inventor or manufacturer, exist solely for the purpose of licensing the patent to others.<sup>43</sup> By avoiding the interstate business activities typical of other types of

<sup>37</sup> Robert H. Resis, *History of the Patent Troll and Lessons Learned*, 17 INTELL. PROP. LITIG. 1, Winter 2006, para. 3 & n.5.

<sup>38</sup> *Id.* para. 1 & n.2 (basing the conclusion on the number of patent litigation cases filed). *But see* Raymond P. Niro, *Who Is Really Undermining the Patent System - "Patent Trolls" or Congress?*, 6 J. MARSHALL REV. INTELL. PROP. L. 185, 186 (2007) (averring that only two percent of all patent lawsuits are filed by non-practicing patentees).

<sup>39</sup> eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 396 (2006) (Kennedy, J., concurring); David G. Barker, *Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review*, 2005 DUKE L. & TECH. REV. 9, ¶2, n.8 (2005); Resis, *supra* note 37, para. 3 & n.2; Sandburg, *supra* note 5, at 1.

<sup>40</sup> Ferrill, *supra* note 35, at 374. The term "patent holding organization" is not intended to refer to any specific form of business association. The term is intended as a generic phrase to refer to organizations that behave as described herein and is not intended to reference any external definition. The term is distinct from a natural person holding a patent as an individual rather than as a business association; the individual is subject to a more limited patent venue statute.

This paper is limited to discussing the forum isolative activities of patent holding organizations, and not intended as a criticism of non-practicing patent owners in general. Some commentators argue that so long as the intellectual property rights are asserted in good faith, non-practicing patent owners provide not a tax on the patent system but a boon by funding inventors that would otherwise be unable to enforce their rights. Raymond P. Niro, *The Patent Troll Myth*, 7 SEDONA CONF. J. 153, 156 (2006).

<sup>41</sup> *See* Resis, *supra* note 37, para. 11 (recounting the story of George Selden, the first recognized patent troll, who managed to submarine a "road engine" patent for 16 years while the auto industry blossomed).

<sup>42</sup> Sandburg, *supra* note 5, at 1 (recounting the story of TechSearch, a patent troll who "began a long search of the Patent and Trademark Office's list of issued patents . . . to find one that wasn't being enforced and that could ring the bells on the company cash register").

<sup>43</sup> *Id.* It may be useful to divide patent holding organizations into two classes: patent speculators that invest in commercially unproven technology in the hopes that their investment may eventually turn a profit; and patent prospectors who sift through thousands of issued patents in the hopes of finding a dormant patent that covers commercially successful technology. *See* Ferrill, *supra* note 35, at 375 (coining the term "patent speculator"); Niro, *supra* note 40, at 156 (citing Lisa Lerer, *Going Once?*, IP L. & BUS., Oct. 2005 (coining the term "IP prospector")). Not all commentators distinguish between patent holding organizations that ac-

patent owning organizations—such as marketing a product or patent—these patent holding organizations are able to focus on maximizing the value of their intellectual property.<sup>44</sup>

The patent holding organization's business model is distinct from other patent owning entities, even those that base their business on licensing.<sup>45</sup> The distinction stems from the patent holding organization's practice of pursuing licensing agreements from organizations that are already intractably invested in the market.<sup>46</sup> Unlike many patent owners who either practice patents themselves or aggressively market their innovations to others who will practice the invention,<sup>47</sup> the patent holding organization waits until a patent is already being practiced before seeking a license.<sup>48</sup> The patent holding organization's business model depends on the potentially infringing party investing heavily enough that it will have little choice but to acquire the right to practice the invention.<sup>49</sup>

The patent holding organization has one more significant distinction from other patent owning entities: the patent holding organization does not practice any patents. Ordinarily, patent-practicing organizations must be hesitant

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quire patent rights through invention and those that acquire rights through acquisition; therefore the term patent speculator appears in both contexts. See Philip S. Johnson, *Patent Reform Legislation: An Introductory Note*, SM024 A.L.I.-A.B.A. COURSE OF STUDY, Sept. 28–29, 2006, at 47, 63 (2006) (referencing the life story of Jerome C. Lemelson, who used “submarine” patents to create a fortune).

<sup>44</sup> Ferrill, *supra* note 35, at 372. “[T]he existence of highly publicized awards that are affirmed on appeal might be viewed by a profit-maximizing entity as a significant incentive to pursue the assertion of patents against potential infringers.” Amy L. Landers, *Let the Games Begin: Incentives to Innovation in the New Economy of Intellectual Property Law*, 46 SANTA CLARA L. REV. 307, 346 (2006).

<sup>45</sup> Jennifer Kahalelio Gregory, *The Troll Next Door*, 6 J. MARSHALL REV. INTELL. PROP. L. 292, 293 (2007).

<sup>46</sup> *Id.*; see also Brief of Amicus Curiae Yahoo! Inc. in Support of Petitioner at 13, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130) [hereinafter *Yahoo! Brief*].

<sup>47</sup> Gregory, *supra* note 45, at 299. Consider IBM, a company that generates billions of dollars in revenue from licensing thousands of patents, many of which IBM does not practice itself. Unlike a patent holding organization, IBM aggressively markets its patents. In fact, IBM has created an Internet-based means of marketing its patents called Delphion. See Pete Barlas, *IBM Cashing in Patents Via Web*, INVESTORS BUS. DAILY, Aug. 6, 2001, at A6, available at [http://www.delphion.com/news\\_stories/news-ibd](http://www.delphion.com/news_stories/news-ibd); see also Ferrill, *supra* note 35, at 373–74 (discussing Qualcomm, Inc., another well-known non practicing patentee).

<sup>48</sup> See Resis, *supra* note 37, at 1 n.1 (quoting Paul Tobin, founder and chairman of Boston Communications, “No one comes after you until it all works. They don’t go after the failures.”).

<sup>49</sup> Sandburg, *supra* note 5 (“Patent enforcers and their lawyers have used the simple, yet effective, power of financial threat to persuade companies to settle.”).



about exerting their patent rights due to the cost of such litigation<sup>50</sup> and the potential of a countersuit.<sup>51</sup> In contrast, a patent holding organization does not infringe any patents and is not subject to an infringement counterclaim.<sup>52</sup> Therefore, the patent holding organization is free to seek license from any source, risking only the validity of its patents.<sup>53</sup>

Patent holding organizations operate by identifying manufacturers that are already producing a potentially infringing product or service and licensing patents to them.<sup>54</sup> Once it acquires a patent, the patent holding organization simply waits until a manufacturing firm successfully markets a product that may infringe the patent.<sup>55</sup> Typically, a patent holding organization will approach a manufacturer with an offer to license a patent or group of patents.<sup>56</sup> This offer usually takes the form of a letter that informs the manufacturer of the patent and suggests that some of the manufacturer's products may infringe the patent.<sup>57</sup> The offer carries with it an implied threat that the patent holder will litigate if a license cannot be negotiated.<sup>58</sup> The patent holding organization might choose to forgo negotiations and file suit against a potentially infringing party, but since the patent holding organization is interested in licensing fees rather than market exclusivity, negotiations are the preferred course.<sup>59</sup> In the unlikely event that a patent holding organization is unable to reach a licensing agreement with a potentially infringing party, litigation will resolve the dispute.

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<sup>50</sup> See *Yahoo! Brief*, *supra* note 46, at 12 (noting that “[o]ne ‘industry rule of thumb’ is that it costs \$1.5 million to defend a typical [patent] case and \$4 million to defend a damage claim of over \$25 million”).

<sup>51</sup> Winters, *supra* note 36, at 6.

<sup>52</sup> Williams, *supra* note 1, para. 18.

<sup>53</sup> Winters, *supra* note 36, at 6 (“The rise of the patent troll is particularly problematic because of asymmetric risks.”).

<sup>54</sup> Barker, *supra* note 39, ¶ 7.

<sup>55</sup> See Reiss, *supra* note 37, at 1 n.1.

<sup>56</sup> Barker, *supra* note 39, ¶ 7.

<sup>57</sup> 151 CONG. REC. E1160-01 (daily ed. June 8, 2005) (statement of Rep. Berman) (expressing concern over the patent troll practice of indiscriminately sending vaguely worded licensing letters). “Section 6 [of the Patent Act of 2005] addresses the unfair incentives currently existing for patent holders who indiscriminately issue licensing letters.” *Id.*

<sup>58</sup> David V. Radack, *Patent Trolls: Pay Up or Fight?*, 8 LAW. J. 3, 13 (2006). Patentees are not entitled to an automatic injunction but may seek an injunction, and damages. 35 U.S.C. §§ 283–84 (2006); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006).

<sup>59</sup> Sandburg, *supra* note 5.

### C. Patent Infringement Suits

Prior to filing suit for patent infringement pursuant to 35 U.S.C. § 281, the plaintiff-patentee must choose the court in which the litigation will take place.<sup>60</sup> As previously discussed, subject-matter jurisdiction requires that patent-related claims be adjudicated in the federal district courts.<sup>61</sup> Within certain limitations, the plaintiff may choose from any of the ninety-four federal district courts.<sup>62</sup> In addition to subject-matter jurisdiction, there are two basic limitations on the plaintiff's forum selection: personal jurisdiction and venue.<sup>63</sup> If the plaintiff's choice of forum fails to comport with personal jurisdiction limitations or venue requirements, the defendant may move for dismissal.<sup>64</sup> Even if the plaintiff's choice of forum meets these requirements, the defendant may move to have the case transferred to another forum under the doctrine of venue transfer.<sup>65</sup>

#### 1. Personal Jurisdiction Over Potentially Infringing Parties

The doctrine of personal jurisdiction expresses the limitations on a court's authority over the defendant.<sup>66</sup> The Federal Rules of Civil Procedure

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<sup>60</sup> Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 894 (2001).

<sup>61</sup> See *supra* note 14 and accompanying text.

<sup>62</sup> Elizabeth J. Cabraser, *Class Action Update 2000: Mass Tort Trends, Emerging Jurisprudence in Rule 23(F) Appeals, and Proposed Amendments to Rule 23*, SF13 A.L.I.-A.B.A. COURSE OF STUDY 763, at 22 n.19 (2000).

<sup>63</sup> Moore, *supra* note 60, at 894.

<sup>64</sup> FED. R. CIV. P. 12(b)(2) (motion to dismiss for lack of jurisdiction over the person); FED. R. CIV. P. 12(b)(3) (motion to dismiss for improper venue).

<sup>65</sup> 28 U.S.C. §§ 1404, 1406 (2006).

<sup>66</sup> *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945). Known as personal—or in personam—jurisdiction, this right protects the individual from being unexpectedly hailed into a distant forum. FED. R. CIV. P. 4(k). In addition, the doctrine of personal jurisdiction also serves as a balancing measure between the interests of one state to provide relief to its citizens as against another state's right to protect its citizens from unreasonable foreign judgments. See *Fitzsimmons v. Barton*, 589 F.2d 330, 333 (7th Cir. 1979) (discussing the fairness standard of personal jurisdiction within the context of nationwide jurisdiction, along its way to finding that nationwide personal jurisdiction does not apply in patent cases except where foreign corporations are involved). *But see* *Ins. Corp. of Ir., Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 702 (1982) (noting that while subject-matter jurisdiction is a restriction on the sovereign, personal jurisdiction is an individual right extending from the due process clause).

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The early history of in personam jurisdiction relied on the notion that the court might send some large, heavily armed representative to arrest the defendant and bring him before the tribunal to answer the plea, and hold him to await the sovereign's pleasure. See *McDonald v. Mabee*, 243 U.S. 90, 91 (1917) ("The foundation of jurisdiction is physical power, although in civilized times it is not necessary to maintain that power throughout proceedings properly begun . . ."). As early as 1285, English statutory law provided for the detention of debtors under The Statute of Merchants. The Statute of Merchants, 13 Edw. I (1285), available at <http://www.fordham.edu/halsall/source/1283stat-merchants.html>. If the sale of a debtor's property was insufficient to satisfy his debt, the creditor was entitled to hold the debtor ransom until his debt could be paid, though the creditor was expected to provide his debtor with basic sustenance. *Id.*; Vern Countryman, *Bankruptcy and the Individual Debtor—And a Modest Proposal to Return to the Seventeenth Century*, 32 CATH. U. L. REV. 809, 811 (1983). Creditors were not satisfied with the expense necessary to collect a debt, and so developed the writ of *capias ad respondendum* to attach the body of the debtor prior to judgment, and the writ of *capias ad satisfaciendum* to attach the body of the debtor after judgment. *Id.* The critical "improvement" in these new writs was the elimination of the requirement that the creditor provide for the debtor's support. *Id.* Seventeenth century English jurist Sir Robert H. Hyde wrote:

If a man be taken in execution and lie in prison for debt, neither the plaintiff at whose suit he is arrested, nor the sheriff who took him, is bound to find him meat, drink, or clothes (a) ò but he must live on his own, or on the charity of others: and if no man will relieve him, let him die in the name of God, says the law (i); and so say I.

*Manby v. Scott*, 1 Mod. 124, 132, 86 Eng. Rep. 781, 786 (1663).

As the social contract among citizens has developed it has become unnecessary to restrain the defendant; an accused may retain his liberty, awaiting justice. Thomas Moers Mayer, *Sheltering Assets in 1994*, in 402 REAL ESTATE LAW & PRACTICE HORNBOOK SERIES 375, 386 (Practising Law Institute 1994). In *Michigan Trust Co. v. Ferry*, 228 U.S. 346, 353 (1913), Justice Holmes wrote: "[W]e dispense with the necessity of maintaining the physical power, and attribute the same force to the judgment or decree whether the party remain within the jurisdiction or not. This is one of the decencies of civilization that no one would dispute." The strong American libertarian predilection against what can be likened to a prior restraint eventually led to the Court declaring that the writ of *capias ad respondendum* was replaced by the requirement of service of process. *Int'l Shoe*, 326 U.S. at 316. A court's ability to exercise its judicial power is no longer a question of its ability to detain a defendant, but its ability to properly notify the defendant. *Id.* It should not be forgotten—even as the critical question has changed from whether the defendant was subject to the brute force of the Sovereign to whether the defendant was duly notified of the pending proceedings—that the underlying basis of judicial power remains a courts ability to enforce its judgment by force if necessary. *McDonald*, 243 U.S. at 91. Though debtor's prisons are a thing of the past, courts retain the power to detain a defendant who refuses to respect the court through the power of contempt. 28 U.S.C. § 2007 (2006) (abolishing debtor prisons); see Erin McClam, *Man Jailed for 11 Years in Bizarre Divorce Saga*, ASSOCIATED PRESS, Sept. 18, 2006, available at <http://www.judicialaccountability.org/articles/7year.htm>.

explain that this authority may be obtained by properly notifying the defendant of the suit through a process called service of summons.<sup>67</sup> This rule is set forth in Federal Rule of Civil Procedure 4(k)(1):

Serving a summons or filing a waiver of service establishes personal jurisdiction over a defendant:

(A) who is subject to the jurisdiction of a court of general jurisdiction in the state where the district court is located;

...

(C) when authorized by a federal statute.<sup>68</sup>

Service of summons is usually achieved through actual delivery of a summons, a physical document that notifies the defendant of the pending suit and orders it to appear before the court.<sup>69</sup> Subsection A of this statute provides the default rule—that personal jurisdiction is grounded by the geographic boundaries of the state in which the federal court is located.<sup>70</sup> Subsection C of this statute provides Congress the statutory framework on which to hang special rules for personal jurisdiction.<sup>71</sup> Therefore, once a case has been filed and the defendant has been notified, the scope of a federal district court's personal jurisdiction is conterminous with the scope of the local state court's personal jurisdiction, unless another federal statute applies.<sup>72</sup>

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<sup>67</sup> FED. R. CIV. P. 4(k)(1).

<sup>68</sup> *Id.*

<sup>69</sup> Serving an Individual Within a Judicial District of the United States. Unless federal law provides otherwise, an individual . . . may be served in a judicial district of the United States by:

...

(2) doing any of the following:

(A) delivering a copy of the summons and of the complaint to the individual personally;

(B) leaving a copy of each at the individual's dwelling or usual place of abode with someone of suitable age and discretion who resides there; or

(C) delivering a copy of each to an agent authorized by appointment or by law to receive service of process.

FED. R. CIV. P. 4(e).

<sup>70</sup> FED. R. CIV. P. 4(k)(1)(A); Robert C. Casad, *Personal Jurisdiction in Federal Question Cases*, 70 TEX. L. REV. 1589, 1596 (1992).

<sup>71</sup> FED. R. CIV. P. 4(k)(1)(C); Casad, *supra* note 70, at 1596.

<sup>72</sup> Howard M. Erichson, *Nationwide Personal Jurisdiction in All Federal Question Cases: A New Rule 4*, 64 N.Y.U. L. REV. 1117, 1122 (1989).

There are only a few ways in which a state court may justify personal jurisdiction over the defendant.<sup>73</sup> The most common justification is residence; all residents of a state are subject to the authority of the courts of that state.<sup>74</sup> A court's personal jurisdiction may also be justified by physical presence; service within the territorial boundaries of the state is sufficient to establish personal jurisdiction even over non-residents.<sup>75</sup> In addition, parties may submit to the jurisdiction of a court by waiving the requirement of service and acceding to the court's authority.<sup>76</sup> Waiver is effective even if the court would not otherwise have authority over the party,<sup>77</sup> because when a plaintiff files suit, submission to the court's authority is inherently invoked.<sup>78</sup> Finally, if the defendant has established sufficient contacts with the forum state, a court may justify the exertion of its authority over non-resident defendants who were not served within the state and have not waived service.<sup>79</sup>

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<sup>73</sup> See generally *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945) (noting that a civil defendant is not subject to personal jurisdiction by the courts of a state unless the defendant has established minimum contacts with that state).

<sup>74</sup> *Pennoyer v. Neff*, 95 U.S. 714, 722 (1877) (Every State possesses "jurisdiction and sovereignty over persons and property within its territory.").

<sup>75</sup> See *Grace v. MacArthur*, 170 F. Supp. 442, 443 (E.D. Ark. 1959) (upholding service on an airline passenger as the plane flew over Arkansas).

<sup>76</sup> See *De Dood v. Pullman Co.*, 57 F.2d 171, 171-72 (2d Cir. 1932) (noting that a lack of personal jurisdiction can be cured through waiver).

<sup>77</sup> *Id.*

<sup>78</sup> David G. Post, *Personal Jurisdiction on the Internet: An Outline for the Perplexed*, TEMPLE CYBERSPACE LAW INSTITUTE, (June 2008), <http://www.temple.edu/lawschool/dpost/outline.htm>.

<sup>79</sup> See *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

[N]ow that the *capias ad respondendum* has given way to personal service of summons or other form of notice, due process requires only that in order to subject a defendant to a judgment in personam, if he be not present within the territory of the forum, he have certain minimum contacts with it such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.

*Id.* Prior to 1945, the leading case on the ability of a state court to exert control over the person of the defendant was *Pennoyer*. Despite a primary focus on legal jurisdiction over property, the Court strongly iterated a position that the extent of personal jurisdiction was contingent with the extent of the Court's ability to exert physical force. *Pennoyer*, 95 U.S. at 722. This notion came to a historic end when the Supreme Court decided *International Shoe*. In *International Shoe*, the Court redefined the limits of a state court's personal jurisdiction. *Int'l Shoe*, 326 U.S. at 316. Instead of ending at the border, the court's power was instead limited by the application of the due process clause of the 14th amendment to the Constitution. *Id.*

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All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

U.S. Const. amend. XIV, § 1.

Essentially a test of fairness to the defendant, the new rule from *International Shoe* depended upon the connections between the defendant and the forum.

[D]ue process requires only that in order to subject a defendant to a judgment in personam, if he be into present within the territory of the forum, he have certain minimum contacts with it such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'

*Int'l Shoe*, 326 U.S. at 316 (citations omitted). This test requires that the defendant have certain minimum contacts with the forum before being hailed into court. *Id.* Though the precise definition of minimum contact is the subject of substantial litigation, one test that has emerged—purposeful availment—looks to whether the defendant has purposefully acted in such a way as to bring himself within the jurisdiction of the court. See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297–98 (1980).

*International Shoe* is often cited for the concept that personal jurisdiction is grounded in traditional notions of fair play and substantial justice, but the Court never clearly articulated how those notions should be applied. *Id.* at 292, 297. The reference speaks to the fiction the Court created when declaring that service of process on an out of jurisdiction defendant may be sufficient to render the Court's jurisdiction valid. *Id.* at 297. A court's power over citizens within the same state is clear and unambiguous; however, its power over aliens to the forum requires the operation of the full faith and credit clause of the constitution. *Id.* at 291.

Every state possesses exclusive jurisdiction and sovereignty over persons and property within its territory. *Pennoyer*, 95 U.S. at 737 (Hunt, J., dissenting). As a result of the ambiguity around these traditional notions of fair play and substantial justice, it is an easy error to mistake subsequent case law as supporting the idea that these notions account for a concern on the logistical burden a defendant might otherwise be forced to endure after being hailed in to a geographically distant forum. See *Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102, 111 (1987). When confronted with an alien defendant who would potentially be forced to litigate thousands of miles from its corporate headquarters, the Supreme Court remarked that "certainly the burden on the defendant . . . is severe." *Id.* at 114. The Court then directly followed this language by noting the distance the defendant would be forced to "traverse." *Id.* Despite the Court's apparent sympathy for Asahi, it is clear upon careful consideration that the Court is not basing its consideration of personal jurisdiction jurisprudence on Asahi's airline and hotel bills. See *id.* Rather the court is using that burden as counterpoint to the fundamental due process right that the Constitution provides to defendants: not to be subject to the force of law of a state of which the defendant has not availed itself. *Id.* at 108–09. After noting the distance Asahi would be forced to travel the Court went on to say that Asahi was being forced "to submit its dispute [to a] foreign nation's judicial system." *Id.* at 114. Rather than geography, due process requires the citizen to have a relationship with the forum, and that the citizen have reason to suspect that courts of the forum might pass judgment upon the citizen's rights. *Id.* at 103. Fundamentally, due process

Parties that have sufficient contacts with the forum state are said to be amenable to service from the courts of that state.<sup>80</sup> A party that has substantial or continuous and systematic contacts with the forum state will be subject to personal jurisdiction irrespective of the nature of the claims, which is known as general jurisdiction.<sup>81</sup> If general jurisdiction does not apply, the state's personal jurisdiction is dependent on the activities of the parties that occurred within the state, and which gave rise or are related to the claims. This form of jurisdiction is known as specific jurisdiction.<sup>82</sup> Therefore, by application of Federal Rule of Civil Procedure 4(k)(1)(A), a federal district court may exert personal jurisdiction over the defendant if he or she either has substantial contacts with the state, or her contacts with the state gave rise to the cause of action.<sup>83</sup>

The types of activities that constitute patent infringement (e.g., making, using, selling, etc.) are generally considered sufficient to establish the minimum contacts necessary to support the exercise of personal jurisdiction.<sup>84</sup> In fact, a manufacturer may be subject to the personal jurisdiction of a court that sits in a state where the manufacturer has never done any business if the manufacturer knew its infringing product would make its way into that state in the normal course of commerce.<sup>85</sup> As a result, manufacturers and other patent practicing organizations may be sued in many, if not all, judicial districts.<sup>86</sup> The plaintiff's

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requires that the citizen submit to the will of the court in exchange for the protection of the laws of the forum. *See id.* at 108–09. “We repeat, also, that the ground for giving subsequent effect to a judgment is that the court rendering it had acquired power to carry it out.” *McDonald v. Mabee*, 243 U.S. 90, 92 (1917).

<sup>80</sup> *See Int'l Shoe*, 326 U.S. at 320 (1945).

<sup>81</sup> *See Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 415 (1984) (recognizing the distinction between specific and general jurisdiction); *Rano v. Sipa Press, Inc.*, 987 F.2d 580, 587–88 (9th Cir. 1993) (enunciating the basic standard for general jurisdiction).

<sup>82</sup> *See Helicopteros*, 466 U.S. at 415–16. “It has been said that when a State exercises personal jurisdiction over a defendant in a suit arising out of or related to the defendant's contacts with the forum, the State is exercising ‘specific jurisdiction’ over the defendant.” *Id.* at 414 n.8. “When a State exercises personal jurisdiction over a defendant in a suit not arising out of or related to the defendant's contacts with the forum, the State has been said to be exercising ‘general jurisdiction’ over the defendant.” *Id.* at 415 n.9.

<sup>83</sup> *See id.*

<sup>84</sup> *See Moore*, *supra* note 60, at 895 n.13.

<sup>85</sup> *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297–98 (1980) (“The forum State does not exceed its powers under the Due Process Clause if it asserts personal jurisdiction over a corporation that delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State.”).

<sup>86</sup> *See Moore*, *supra* note 60, at 894–95.

selection of forum, however, must comport with the requirements for proper venue.<sup>87</sup>

## 2. Venue in Patent Infringement Suits

The venue doctrine expresses procedural limitations on the proper application of a court's power over a specific case.<sup>88</sup> Unlike personal jurisdiction, which focuses on the court's authority over the defendant, venue addresses the propriety and efficiency of resolving a specific case in a specific court.<sup>89</sup> In essence, venue limitations are designed to ensure that the court hearing a case has reasonably efficient access to the evidence necessary to resolve the case.<sup>90</sup> To achieve this goal, Congress enacted a general venue statute, 28 U.S.C. § 1391(b), which controls all federal question cases except "as otherwise provided by law."<sup>91</sup>

For patent infringement cases, Congress has supplanted the general venue statute with a more targeted patent venue statute.<sup>92</sup> This statute, 28 U.S.C. § 1400(b), provides that "[a]ny 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

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<sup>87</sup> The term venue connotes locality and originally referred to the neighborhood from which witnesses were drawn. 92A C.J.S. *Venue* § 3 (2007). Modern usage of the term has not completely lost connection with the ancient definition; venue still implicates some consideration for a connection between the matter and the location. See Christian E. Mammen, *Here Today, Gone Tomorrow: The Timing of Contacts for Jurisdiction and Venue under 28 U.S.C. § 1391*, 78 CORNELL L. REV. 707, 713 (1993) ("venue addresses the issue of where it would be most convenient for the parties to litigate a particular dispute").

<sup>88</sup> See Mammen, *supra* note 87, at 713 n.19.

<sup>89</sup> *Id.* at 713 n.20; Moore, *supra* note 60, at 895 n.15.

<sup>90</sup> See *Braden v. 30th Judicial Circuit Court*, 410 U.S. 484, 493–94 (1973) (holding that the District Court for the Western District of Kentucky was the "most desirable forum" for litigation because it is Kentucky "where all of the material events took place, [and where] the records and witnesses . . . are likely to be found.").

<sup>91</sup> 28 U.S.C. § 1391(b) (2006).

<sup>92</sup> See *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1579 (Fed. Cir. 1990) (holding that the then new § 1391(c) overrode the patent venue statute with respect to the definition of corporate residence). See also Moore, *supra* note 60, at 895 n.16.



of business.”<sup>93</sup> Therefore, at a minimum, a patentee may file an infringement action in any forum where the defendant resides.<sup>94</sup>

For corporate defendants, residence is defined so that venue and personal jurisdiction collapse into a single determination.<sup>95</sup> Statute 28 U.S.C. § 1391(c) provides that “[f]or purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.” The patent venue statute, which falls within the same statutory chapter as § 1391,<sup>96</sup> thereby resolves into a test of personal jurisdiction when applied to corporations.<sup>97</sup>

### 3. Transfer of Venue

Once a patentee has filed suit, the defendant may move to have the case transferred to a different forum.<sup>98</sup> Congress established the right to seek a transfer of venue in 28 U.S.C. § 1404(a): “For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.” While either party has the right to request a transfer of venue,<sup>99</sup> granting such a motion is entirely at the court’s discretion.<sup>100</sup> The only statutory requirement for transfer of venue is that the plaintiff could have originally brought the case in the re-

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<sup>93</sup> 28 U.S.C. § 1400(b) (2006).

<sup>94</sup> See *Fourco Glass Co. v. Transmirra Prod. Corp.*, 353 U.S. 222, 226 (1957) (interpreting a change to § 1400(b) from applying where the defendant inhabits, to where the defendant resides so as not to include where the defendant does business).

<sup>95</sup> Under the patent venue statute, venue was proper over corporate defendants in their state of incorporation. See *id.* This changed in 1988 when Congress amended the general venue statute to define residence for corporate defendants in terms of personal jurisdiction. See Moore, *supra* note 60, at 895–96. The Federal Circuit decided that the 1988 amendment supplanted the *Fourco Glass* rule. *VE Holding*, 917 F.2d at 1579.

<sup>96</sup> *VE Holding*, 917 F.2d at 1579.

<sup>97</sup> *Id.*; see also Moore, *supra* note 60, at 896–97 nn.25–27.

<sup>98</sup> Moore, *supra* note 62, at 897 nn.28–30.

<sup>99</sup> See *One Beacon Ins. Co. v. JNB Storage Trailer Rental Corp.*, 312 F. Supp. 2d 824, 829 (E.D. Va. 2004) (“Any party-in-interest, including the original plaintiff, the defendant, and any third-party defendant, has standing to ask the court to exercise its discretion to transfer under § 1404(a).”).

<sup>100</sup> See *Mallett v. Missouri*, 494 U.S. 1009, 1010 (1990) (finding that “the virtually unrestricted discretion of the trial judge to make the venue determination” was limited by good faith; a discriminatory motive was not permitted).

quested venue.<sup>101</sup> Therefore, at the court's discretion, a case may be transferred to any court that has personal jurisdiction over the defendant.<sup>102</sup> Interestingly, there is no corresponding requirement of personal jurisdiction over the plaintiff.<sup>103</sup>

Due to the great deference afforded to the plaintiff's choice of forum,<sup>104</sup> few motions for transfer of venue are granted.<sup>105</sup> In evaluating a motion under § 1404, courts will consider the relative convenience for the parties, witnesses and attorneys.<sup>106</sup> The court must also consider the availability of evidence. For example, physical evidence must be shipped to the courthouse, and a geographically remote witness may not be subject to the court's subpoena power.<sup>107</sup> In addition, the court will consider the effect transfer has on the cost of litigation and the relative caseloads of other fora.<sup>108</sup> Each of these factors must be weighed against the significant deference given to the plaintiff's choice of venue.<sup>109</sup> All things considered, courts are generally not willing to override the plaintiff's forum selection.<sup>110</sup> If the patentee has not yet filed a case, however, the potentially infringing party may be able to seek a declaratory judgment.

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<sup>101</sup> 28 U.S.C. §§ 1404, 1406 (2006); *see also* *Hoffman v. Blaski*, 363 U.S. 335, 337 n.2 (1960) (noting that a case could not be transferred to a venue that did not have personal jurisdiction over the defendant at the time the case was initiated).

<sup>102</sup> *See Hoffman*, 364 U.S. at 344.

<sup>103</sup> *See Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 779–80 (1984) (noting that the court has never required the plaintiff to have minimum contacts with the forum state before jurisdiction would be exerted over the defendant).

<sup>104</sup> *See Hollyanne Corp. v. TFT, Inc.*, 199 F.3d 1304, 1307 n.2 (Fed. Cir. 1999) (“A transfer of venue for the convenience of the parties normally requires that the court give great weight to the plaintiff's choice of forum . . .”).

<sup>105</sup> Moore, *supra* note 60, at 897 n.29.

<sup>106</sup> *See id.* at 897 n.30.

<sup>107</sup> *See Zepherin v. Greyhound Lines Inc.*, 415 F. Supp. 2d 409, 411 (S.D.N.Y. 2006) (emphasizing the importance of the court's subpoena power over the witness).

<sup>108</sup> CHARLES ALAN WRIGHT ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 3853 (3d ed. 2007).

<sup>109</sup> Moore, *supra* note 60, at 897 n.29.

<sup>110</sup> *See* WRIGHT ET AL., *supra* note 108, § 3848 (noting that there is some divergence on the weight to give the plaintiff's choice of forum, with the majority giving fairly significant weight).

### D. Declaratory Judgments

A declaratory judgment action enables a potentially infringing party to force a judicial determination on liability by suing the patentee.<sup>111</sup> Congress provided for declaratory judgment actions to protect potential defendants from pre-litigation abuses, such as aggressive forum shopping, on the part of the putative plaintiff.<sup>112</sup> In the patent context, a declaratory judgment action is essentially the mirror image of a patent infringement action.<sup>113</sup> The same basic substantive issues must be resolved,<sup>114</sup> but the potentially infringing party becomes the plaintiff and gains the right to choose the forum and the ability to dictate the timing of the suit;<sup>115</sup> however, a patent holding organization can usually avoid a declaratory judgment suit.<sup>116</sup>

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<sup>111</sup> A declaratory judgment is defined as “[a] binding adjudication that establishes the rights and other legal relations of the parties without providing for or ordering enforcement.” BLACK’S LAW DICTIONARY 846 (8th ed. 2004).

<sup>112</sup> [A] patent owner engages in a *danse macabre*, brandishing a Damoclean threat with a sheathed sword. Guerilla-like, the patent owner attempts extrajudicial patent enforcement with scare-the-customer-and-run tactics that infect the competitive environment of the business community with uncertainty and insecurity. Before the Act, competitors victimized by that tactic were rendered helpless and immobile so long as the patent owner refused to grasp the nettle and sue. After the Act, those competitors were no longer restricted to an *in terrorem* choice between the incurrence of a growing potential liability for patent infringement and abandonment of their enterprises; they could clear the air by suing for a judgment that would settle the conflict of interests. The sole requirement for jurisdiction under the Act is that the conflict be real and immediate, i.e., that there be a true, actual “controversy” required by the Act.

Arrowhead Indus. Water, Inc. v. Ecolochem, Inc., 846 F.2d 731, 734–35 (Fed. Cir. 1988).

<sup>113</sup> WRIGHT ET AL., *supra* note 108, § 3823.

<sup>114</sup> *See id.* § 2761 nn.2–4.

<sup>115</sup> *See Moore, supra* note 60, at 898.

<sup>116</sup> *See* Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy Against Patent Threats*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 205 (2006). A declaratory judgment action will not be heard unless the patentee has given the plaintiff some concrete indication that the plaintiff’s activity infringes the patent and that the patentee intends to enforce the patent. *Japan Gas Lighter Ass’n v. Ronson Corp.*, 257 F. Supp. 219, 237 (D.N.J. 1966). *But see Arrowhead*, 846 F.2d at 736 (noting that the court must consider the totality of the circumstances in determining whether reasonable apprehension existed).

Because certain conditions must be met, putative plaintiffs do not necessarily have the right to sue for declaratory judgment.<sup>117</sup> The declaratory judgment act is codified at 28 U.S.C. § 2201(a), which says:

In a case of actual controversy within its jurisdiction . . . as determined by the administering authority, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.<sup>118</sup>

The statutory requirement of an actual controversy at the start of § 2201(a) has been interpreted in the patent context to include cases where the potentially infringing party has reasonable apprehension of imminent litigation.<sup>119</sup> Such apprehension may arise out of express threats of litigation or specific allegations of infringement,<sup>120</sup> but may not stem from communications that do not directly suggest the likelihood of litigation.<sup>121</sup> The patent holding organization, interested in licensing the patent rather than preventing its practice, can avoid a declaratory judgment action by carefully phrasing its communications with potential licensees.<sup>122</sup> Although a direct allegation of infringement has been found to

<sup>117</sup> See *Arrowhead*, 846 F.2d at 735 n.6 (“There is no absolute right to a declaratory judgment. . . . [W]hen there is a clear controversy and thus jurisdiction, a district court’s decision on whether to exercise that jurisdiction is discretionary.”).

<sup>118</sup> 28 U.S.C. § 2201(a) (2006).

<sup>119</sup> Moore, *supra* note 60, at 898 n.35. An “actual controversy exists in patent disputes when there is (1) an explicit threat or other action by the patentee which creates in the infringer an objectively reasonable apprehension of being sued and (2) present potentially infringing activity or concrete steps taken with the intent to conduct such activity.” *Id.*

<sup>120</sup> *Arrowhead*, 846 F.2d at 736 (“If defendant has expressly charged a current activity of the plaintiff as an infringement, there is clearly an actual controversy.”).

<sup>121</sup> See *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 889 (Fed. Cir. 1992) (holding that oblique charges of infringement, or ‘jawboning,’ were not sufficient grounds to give reasonable apprehension of suit).

We must look at these events in the context in which the discussions arose. Amoco took no action against Shell; it made no assertive contact concerning the patent; it issued no threats. Shell, in an exercise of prudent good business citizenship, approached Amoco, stating that it intended to embark on a course of conduct, recognizing, but disagreeing, that Amoco’s patent might be considered to dominate its work. Rather than wait to be caught in a possibly infringing posture, it identified its proposed activity to Amoco and sought either confirmation of its views or a license. Such conduct is praiseworthy.

*Id.*

<sup>122</sup> See *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053 (Fed. Cir. 1995) (“[O]ne who may become liable for infringement should not be subject to manipula-

cause sufficient apprehension of suit, an offer to license a patent will not give rise to a declaratory judgment action by itself, even if such an offer contains vague suggestions that some products may be infringing.<sup>123</sup> Nevertheless, if a patent holding organization does threaten litigation or the circumstances otherwise give rise reasonable apprehension of a suit, it may be subject to a declaratory judgment action.<sup>124</sup>

The plaintiff's choice of forum in a declaratory judgment suit must comport with the same basic requirements as any other civil litigation: subject-matter jurisdiction, personal jurisdiction, and venue.<sup>125</sup> Subject-matter jurisdiction depends on the underlying causes of action that the defendant could have brought, and is therefore satisfied in patent cases.<sup>126</sup> Personal jurisdiction and venue, on the other hand, provide unique challenges in the declaratory judgment context.<sup>127</sup>

### 1. Personal Jurisdiction Over the Patent Holder

While patent practicing entities are usually amenable to service in many jurisdictions,<sup>128</sup> a patent holding organization's activities do not necessarily establish sufficient minimum contacts to meet the personal jurisdiction standard.<sup>129</sup> Though individual organizations may engage in any number of contact estab-

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tion by a patentee who uses careful phrases in order to avoid explicit threats . . ."). *But see* *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 812 (Fed. Cir. 1996) ("[T]he question is whether the relationship between the parties can be considered a 'controversy,' and that inquiry does not turn on whether the parties have used particular 'magic words' in communicating with one another.").

<sup>123</sup> *See Phillips Plastics*, 57 F.3d at 1053–54 (holding that the patentee, who had "carefully refrained from threatening Phillips Plastics with suit, either expressly or implicitly, as it attempted to open license negotiations," did not give rise to reasonable apprehension of suit).

<sup>124</sup> *See Moore*, *supra* note 60, at 898.

<sup>125</sup> *See Tegic Commc'ns Corp. v. Bd. of Regents*, 458 F.3d 1335, 1338–39 (Fed. Cir. 2006).

<sup>126</sup> *See Grip Nut Co. v. Sharp*, 124 F.2d 814, 815 (7th Cir. 1941) (holding that the federal courts have subject-matter jurisdiction of a controversy concerning a patent, regardless of whether the action is brought by directly or as an action for declaratory judgment).

<sup>127</sup> *Moore*, *supra* note 60, at 898–99. "Personal jurisdiction and venue requirements for a declaratory judgment plaintiff are governed by the general venue statute rather than the specific venue statute because a declaratory judgment action is not considered a 'civil action for patent infringement.'" *Id.* at 898–99 nn.38–39.

<sup>128</sup> *See id.* at 924–25, 930.

<sup>129</sup> *See generally Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1361 (Fed. Cir. 1998) (holding that three cease-and-desist letters did not suffice to find personal jurisdiction).

lishing activities, the activities necessary to support the patent holding organization's licensing model—including sending letters offering to license the patent and actually entering into licensing agreements—do not generally give rise to personal jurisdiction.<sup>130</sup>

In contrast, with many other patent licensing business models, a patent holding organization need not engage in any other extraterritorial activity that might give rise to personal jurisdiction.<sup>131</sup> As discussed above, patent practicing manufacturers tend to conduct a variety of business activities, such as advertising and sales, which cross many state boundaries and establish contacts with multiple fora.<sup>132</sup> Similarly, even other non-practicing patent licensing businesses engage in many contact establishing activities to market their patented innovations.<sup>133</sup> These activities might be sufficient for a court to exert personal jurisdiction over these organizations.<sup>134</sup> Patent holding organizations, however, neither practice nor market their patents, and therefore do not establish minimum contacts on those grounds.<sup>135</sup>

Pre-licensing communications, such as offer letters, are not significant enough contacts with the target forum to satisfy the minimum contacts test.<sup>136</sup> In *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*,<sup>137</sup> a patent holding company, Hockerson-Halberstadt (HHI), located in Louisiana, sent several letters to Red Wing Shoe Co., in Minnesota.<sup>138</sup> The letters accused Red Wing of infringing HHI's patents and offered to license the patent to Red Wing.<sup>139</sup> After Red Wing brought suit against HHI in the federal district court for Minnesota, HHI's

<sup>130</sup> See *id.*; see also *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1222–24 (D. Utah 2005) (lamenting having to dismiss a case against a patent troll for lack of personal jurisdiction).

<sup>131</sup> See *Overstock.com*, at 1219 (noting the standards for personal jurisdiction in patent cases).

<sup>132</sup> See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 299 (1980) (noting that products capable of crossing state borders create a risk of exposing a company to personal jurisdiction).

<sup>133</sup> See Ferrill, *supra* note 35, at 372–74 (discussing Qualcomm Inc., a well known non-practicing patentee).

<sup>134</sup> Qualcomm, for example, has been subject to a number of suits. See, e.g., *Nokia Corp. v. Qualcomm, Inc.*, No. CIV. A06-509-JJF, 2006 WL 2521328 (D. Del. August 29, 2006); *GTE Wireless, Inc. v. Qualcomm, Inc.*, 71 F. Supp. 2d 517 (E.D. Va. 1999)

<sup>135</sup> See *supra* note 40.

<sup>136</sup> See *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053–54 (holding that there was no reasonable apprehension of suit when the patentee sent several letters indicating that their patents covered some of Phillips fasteners and offering licenses).

<sup>137</sup> 148 F.3d 1355 (Fed. Cir. 1998).

<sup>138</sup> *Id.* at 1357.

<sup>139</sup> *Id.*

motion to dismiss for lack of personal jurisdiction was granted.<sup>140</sup> The court noted that “[p]rinciples of fair play and substantial justice afford a patentee sufficient latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum.”<sup>141</sup> The court also noted that the fact that the offer was contained within a cease-and-desist letter did not fundamentally change the nature of the communication.<sup>142</sup> Though the court will consider the totality of the circumstances in determining whether a patentee’s communications are sufficient grounds for reasonable apprehension of litigation,<sup>143</sup> a patent holding organization is generally able to communicate with potentially infringing parties without submitting to foreign jurisdiction.<sup>144</sup>

Furthermore, the limited contacts that arise out of a patent licensing agreement are not an independently sufficient basis for the exercise of personal jurisdiction.<sup>145</sup> In addition to sending offer letters into Minnesota, the patent holding company in *Red Wing* licensed patents to thirty-four companies that did retail business in Minnesota.<sup>146</sup> Despite the quantity of the contacts with Minnesota, the third party nature of HHI’s relationship to those contacts was enough separation to make the application of personal jurisdiction unfair.<sup>147</sup> The court also distinguished the grant of an exclusive license to a foreign corporation,<sup>148</sup> in that exclusive license agreements limit the patentee’s options for revenue generation and result in a much closer relationship between the parties, wherein the licensor retains a great deal of interest in the licensee’s activities.<sup>149</sup> In exclusive

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<sup>140</sup> *Id.* at 1358.

<sup>141</sup> *Id.* at 1360–61.

<sup>142</sup> *Id.* at 1361.

<sup>143</sup> *See* *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953, 955 (Fed. Cir. 1987) (“[T]he pivotal issue turns on whether, looking at the totality of the circumstances, Releasomers’ activities were such that Goodyear was placed in reasonable apprehension of a suit for patent infringement.”).

<sup>144</sup> *See Red Wing*, 148 F.3d at 1360–61.

<sup>145</sup> *See id.* at 1361 (noting that “contacts resulting from ‘the unilateral activity of another party or third person’ are not attributable to a defendant” (citing *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985))).

<sup>146</sup> *Id.* at 1357.

<sup>147</sup> *See id.* at 1361 (“Red Wing’s flawed theory would subject a defendant to nationwide personal jurisdiction if it decides to do business with a company that does business nationwide.”).

<sup>148</sup> *See id.* at 1362.

<sup>149</sup> *See* *Akro Corp. v. Luker*, 45 F.3d 1541, 1546 (Fed. Cir. 1995) (holding that an exclusive license “created continuing obligations between” the parties and that “it could scarcely be more clear that [the patentee] purposefully directed activities at residents of [the forum] within the meaning of the due process inquiry mandated by *Burger King* and *International Shoe*”).

license arrangements, the licensor tends to act more like a partner and effectively adopts an interest in practicing the patent.<sup>150</sup> As such, they are no longer considered a non-practicing patent holding organization.<sup>151</sup> As *Red Wing* demonstrates, a patent holding company can operate effectively on a national level while remaining amenable to personal jurisdiction only in its home state.<sup>152</sup>

## 2. Venue in Declaratory Judgment Actions

Unlike an action for patent infringement, which is controlled by the specific patent venue statute,<sup>153</sup> the general venue statute controls venue in declaratory judgment actions.<sup>154</sup> The text of the patent venue statute specifically limits its application to patent infringement cases.<sup>155</sup> Although declaratory judgment actions arise under patent law, they are not considered patent infringement actions for venue purposes.<sup>156</sup> As a result, courts trying patent-related declaratory judgment actions must resolve venue disputes pursuant to the general venue statute, 28 U.S.C. § 1391, which declares:

A civil action wherein jurisdiction is not founded solely on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property

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<sup>150</sup> Where a defendant-licensor has a relationship with an exclusive licensee headquartered or doing business in the forum state, the inquiry requires close examination of the license agreement. In particular, our case law requires that the license agreement contemplate a relationship beyond royalty or cross-licensing payment, such as granting both parties the right to litigate infringement cases or granting the licensor the right to exercise control over the licensee's sales or marketing activities.

*Breckenridge Pharm., Inc. v. Metabolite Labs., Inc.*, 444 F.3d 1356, 1366 (Fed. Cir. 2006).

<sup>151</sup> See *supra* note 40 and accompanying text.

<sup>152</sup> See *Red Wing*, 148 F.3d at 1358.

<sup>153</sup> *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1575 (Fed. Cir. 1990); see also 28 U.S.C. § 1391(b) (2006).

<sup>154</sup> *American Chem. Paint Co. v. Dow Chem. Co.*, 161 F.2d 956, 959 (6th Cir. 1947) (finding that a declaratory judgment action arising out of a patent controversy does not fall within the statutory language of the patent venue statute and is therefore subject to the general venue statute). Though the statutory formulations have changed since 1947, the courts have followed *American Chemical* without commentary. See *U.S. Aluminum Corp. v. Kawneer Co.*, 694 F.2d 193, 195 (9th Cir. 1982).

<sup>155</sup> 28 U.S.C. § 1400(b) (2006) (stating that venue rests in “the judicial district where the defendant resides” for “[a]ny civil action for patent infringement”).

<sup>156</sup> *American Chem.*, 161 F.2d at 958–59.



that is the subject of the action is situated, or (3) a judicial district in which any defendant may be found, if there is no district in which the action may otherwise be brought.<sup>157</sup>

Proper venue is more expansive in the declaratory judgment context than in a patent infringement case.<sup>158</sup> While venue is always proper where the defendant resides,<sup>159</sup> in a patent infringement case venue is also proper where the defendant has a regular place of business and infringement has occurred.<sup>160</sup> In a declaratory judgment action, there is no requirement that the defendant have a regular place of business,<sup>161</sup> and the patentee may be sued in any venue where a substantial part of the related events occurred.<sup>162</sup>

### *E. Summary*

Fundamentally, a patent provides its owner with the right to exclude all others from practicing the patented invention.<sup>163</sup> While this right is historically exercised by manufacturers that are intent on protecting a market for their products,<sup>164</sup> patent licensing has become a significant channel for the exercise of patent rights.<sup>165</sup> Patent holding organizations take advantage of this channel by licensing patents to parties who have invested in practicing a potentially infringing product.<sup>166</sup> The ability of patent holding organizations to generate revenue through licensing is inherently dependent on their ability to enforce their patents in court through patent infringement suits.<sup>167</sup> The value of a patent is therefore

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<sup>157</sup> 28 U.S.C. § 1391(b) (2006).

<sup>158</sup> WRIGHT ET AL., *supra* note 108, § 3823 n.49.

<sup>159</sup> 28 U.S.C. § 1400(b) (2006).

<sup>160</sup> *Id.*; Cordis Corp. v. Cardiac Pacemakers, 599 F.2d 1085, 1086 (1st Cir. 1979).

<sup>161</sup> Eastman Kodak Co. v. Studiengesellschaft Kohle mbH, 392 F. Supp. 1152, 1157 (D. Del. 1975) (“[A] declaratory judgment action arises where the alleged infringer is located, receives the damaging charges of infringement, or suffers economic injury as a result of the charges.”).

<sup>162</sup> Uniroyal, Inc. v. Sperberg, 181 U.S.P.Q. (BNA) 89 (S.D.N.Y. 1973) (finding reasonable apprehension of suit existed after a meeting took place in the jurisdiction).

<sup>163</sup> Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 (1980) (“[T]he essence of a patent grant is the right to exclude others from profiting by the patented invention.”).

<sup>164</sup> Resis, *supra* note 37, para. 2.

<sup>165</sup> *Id.* para. 3.

<sup>166</sup> Gregory, *supra* note 45, at 293.

<sup>167</sup> *Id.*

significantly enhanced by ensuring that any related litigation takes place in a favorable forum.<sup>168</sup>

Patent holding organizations isolate themselves within a single federal judicial district.<sup>169</sup> By avoiding activities that create the type of minimum contacts necessary for the exercise of personal jurisdiction, patent holding organizations are able to control forum.<sup>170</sup> Their business model is uniquely able to achieve forum isolation because the patent holding organization's only interstate activities have been found insufficient contact with the target state to support the exercise of personal jurisdiction.<sup>171</sup>

Patent holding organizations can practically control forum for all patent-related litigation, including declaratory judgment actions filed against them.<sup>172</sup> As the plaintiff in a patent infringement case, the patent holding organization has the ability to dictate where the suit will be filed.<sup>173</sup> Although the defendant has the right to request a transfer of venue in the interest of justice, great weight is given to the plaintiff's choice of venue, and few requests are granted.<sup>174</sup> Even in a declaratory judgment action where the patent holding organization is the defendant rather than the plaintiff, the patent holding organization's ability to isolate itself in a forum allows them to effectively retain control over the locus of any patent-related litigation.<sup>175</sup>

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<sup>168</sup> Venue is often a vitally important matter, as is shown by the frequency with which parties contractually provide for and litigate the issue. Suit might well not be pursued, or might not be as successful, in a significantly less convenient forum. Transfer to such a less desirable forum is, therefore, of sufficient import that plaintiffs will base their decisions on the likelihood of that eventuality when they are choosing whether to sue in state or federal court.

Stewart Org. v. Ricoh Corp., 487 U.S. 22, 39–40 (1988) (Scalia, J., dissenting).

<sup>169</sup> See *supra* notes 66–87 and accompanying text.

<sup>170</sup> *Id.*

<sup>171</sup> See *supra* notes 44–48 and accompanying text.

<sup>172</sup> See *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1361 (Fed. Cir. 1998).

<sup>173</sup> Moore, *supra* note 60, at 898.

<sup>174</sup> See *supra* notes 104–110 and accompanying text.

<sup>175</sup> See *supra* notes 128–162 and accompanying text.

#### IV. PROBLEM

##### A. Introduction

The patent holding organization's ability to limit its amenability to personal jurisdiction to a single predetermined forum allows the patent holding organization to exert significantly greater litigation and bargaining power than they would otherwise enjoy.<sup>176</sup> The ability to choose a forum is one of the most significant means available to a patent holding organization for increasing the likelihood of litigation successes.<sup>177</sup> This critical decision can dictate procedural law and significantly impact the likelihood of success for the plaintiff, and in an ideal world, this choice would have no impact on the outcome.<sup>178</sup> The administration of justice should be fair and consistent from forum to forum.<sup>179</sup> In patent litigation, the rate of success can swing as much as thirty percent, depending on the forum.<sup>180</sup> In addition, the choice of forum can have a significant impact on the size of any remedial awards.<sup>181</sup> As a result, forum is frequently a significant point of contention, and patent holding organizations will attempt to preserve their choice.<sup>182</sup>

The litigation advantage generated by patent holding organizations distorts the patent licensing market and undermines the general goals of patent

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<sup>176</sup> Radack, *supra* note 58, at 13.

Ignoring a patent troll is a risky strategy that could lead to costly litigation and a large damage payment. Even worse, ignoring a patent troll's demand could lead to a ruinous loss of business if a court issues an injunction to stop using or selling products incorporating the disputed technology.

*Id.*

<sup>177</sup> 35 U.S.C. § 282 (2006); see Kevin M. Clermont & Theodore Eisenberg, *Exorcising the Evil of Forum-Shopping*, 80 CORNELL L. REV. 1507, 1514–15 (1995).

<sup>178</sup> Moore, *supra* note 60, at 892–93.

<sup>179</sup> *Id.* Optimally, the plaintiff would always choose to file in the court best suited to decide the operative facts. *Id.* Generally this is the court that is best connected with the events that inspired the case. *Id.* As a policy matter, the court most convenient to the locus of events is preferred because of the practical benefit to judicial efficiency that stems from proximity to the evidence. *Stewart Org. v. Ricoh Corp.*, 487 U.S. 22, 40 (1988) (Scalia, J., dissenting).

<sup>180</sup> See Creswell, *supra* note 1; Williams, *supra* note 1.

<sup>181</sup> Creswell, *supra* note 1, para. 10.

<sup>182</sup> See *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355 (Fed. Cir. 1998); *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217 (D. Utah 2005).

law,<sup>183</sup> resulting in inefficient operation of the patent system and, ultimately, harm to the consumer.<sup>184</sup> Coupled with the relatively high cost of patent litigation,<sup>185</sup> the patent holding organization's ability to secure this litigation advantage easily translates into a substantially stronger bargaining position.<sup>186</sup> Therefore, potential infringers are effectively forced to pay licensing fees that are higher than the market would otherwise bear<sup>187</sup> and to take licenses on patents that they believe are invalid, unenforceable or not infringed.<sup>188</sup> The validity of patents that would otherwise be tested at bar is instead bolstered by the existence of these licensing agreements.<sup>189</sup> As a result, patents that should otherwise be invalidated or held unenforceable remain in effect.<sup>190</sup> Ultimately, the patent holding organization's advantage leads to a less effective patent system.<sup>191</sup>

### B. Likelihood of Litigation Success

The advantage in litigation and negotiation that a patent holding organization can produce by carefully preserving its choice of forum is significant. On average, sixty-eight percent of all patent cases that go to trial are decided in favor of the patentee.<sup>192</sup> Superficially, this statistic seems to represent a satisfactory balance between the presumption of validity to which the patent holder is

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<sup>183</sup> COMM. ON INTELLECTUAL PROP. RIGHTS, NAT'L RESEARCH COUNCIL, A PATENT SYSTEM FOR THE 21ST CENTURY 1–2 (2004) [hereinafter PATENT SYSTEM FOR THE 21ST CENTURY], available at <http://www.nap.edu/html/patentsystem/0309089107.pdf>.

<sup>184</sup> Moore, *supra* note 60, at 893, 923.

<sup>185</sup> See *Yahoo! Brief*, *supra* note 46, at 12.

<sup>186</sup> Cf. Leandra Lederman, *Precedent Lost: Why Encourage Settlement, and Why Permit Non-Party Involvement In Settlements?*, 75 NOTRE DAME L. REV. 221, 228–31 (1999) (discussing the economic model of settlement and its derivation from likely trial outcome).

<sup>187</sup> See Robert Greene Sterne et al., *The 2005 U.S. Patent Landscape for Electronic Companies*, in 823 PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES 293, 310–311 (Practising Law Institute 2005).

<sup>188</sup> Ferrill, *supra* note 35, at 376–78.

<sup>189</sup> See Andrea Lynn Evensen, *'Don't Let the Sun Go Down On Me: An In-Depth Look at Opportunistic Business Method Patent Licensing and a Proposed Solution to Allow Small-Defendant Business Method Users to Sing a Happier Tune*, 37 J. MARSHALL L. REV. 1359, 1371 (2004) (discussing the negative effect of unchallenged low quality patents).

<sup>190</sup> *Id.*

<sup>191</sup> See *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892) (“It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.”).

<sup>192</sup> Williams, *supra* note 1; see also Creswell, *supra* note 1.

entitled<sup>193</sup> and the reality of an imperfect patent office.<sup>194</sup> Meanwhile, in Marshall, in the Eastern District of Texas, patent holders win eighty-eight percent of patent trials.<sup>195</sup> In contrast, New York courts find for the patentee in less than fifty percent of patent cases.<sup>196</sup> These statistics may explain why the Eastern District of Texas is the most popular venue for patent litigation in the nation<sup>197</sup> despite the relatively low number of patents granted in the region.<sup>198</sup> There is little doubt that a patent holding organization has the motivation to ensure that its patent cases will be heard in the Eastern District of Texas.

Current personal jurisdiction standards allow patent holding organizations to effectively ensure that any patent cases that arise will be heard in the Eastern District of Texas or any other single district of their choosing.<sup>199</sup> As the plaintiff, the patent holding organization can file in any court that has personal jurisdiction over the defendant, so long as venue is proper.<sup>200</sup> As the defendant, personal jurisdiction over the patent holding organization must be based on either residence or minimum contacts.<sup>201</sup> By establishing its residence within the eastern district of Texas, a patent holding organization submits to the personal jurisdiction of that forum's courts.<sup>202</sup> All other courts must find minimum contacts in order to exert personal jurisdiction.<sup>203</sup> As we have seen, the patent holding organization's business model benefits from avoiding extraterritorial contact. Therefore, the patent holding organization is able to isolate itself within a single judicial district.

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<sup>193</sup> 35 U.S.C. § 282 (2006).

<sup>194</sup> There are roughly 3000 patent examiners handling 350,000 filings per year. Terrence P. McMahon, *Who Is a Troll? Not a Simple Answer*, 7 SEDONA CONF. J. 159, 160 (2006). Each application is given 17–25 hours of inspection against prior art. *Id.* “The PTO approves between 85 to 97 percent of the applications it receives.” *Yahoo! Brief*, *supra* note 46, at 8.

<sup>195</sup> Williams, *supra* note 1; *see also* Creswell, *supra* note 1 (citing an average plaintiff success rate at trial of 78%).

<sup>196</sup> Creswell, *supra* note 1.

<sup>197</sup> Some credit a 2003 law capping medical malpractice damages for the move to the ‘greener pastures’ of intellectual property law in Marshall, Texas. Williams, *supra* note 1.

<sup>198</sup> Patent data searched at <http://www.uspto.gov/> shows that the 7884 patents issued to Texas inventors in 2006 is far outnumbered by the 28073 patents issued to California inventors.

<sup>199</sup> *See supra* notes 66–87 and accompanying text.

<sup>200</sup> Moore, *supra* note 60, at 894.

<sup>201</sup> *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945) (announcing the standard for extraterritorial judicial authority over the person of the defendant).

<sup>202</sup> *Pennoyer v. Neff*, 95 U.S. 714, 722 (1877).

<sup>203</sup> *Int'l Shoe*, 326 U.S. at 316 (creating the minimum contacts standard).

The patent holding organization's grip on forum is strong but not absolute.<sup>204</sup> Even if the patent holding organization is isolated in a single forum, an opponent can move for a transfer of venue,<sup>205</sup> but such motions are rarely granted.<sup>206</sup> Data regarding the historical success rate of venue transfer motions in patent litigation cases is scarce,<sup>207</sup> however, one article suggests that less than six percent of all filed patent cases are transferred.<sup>208</sup> As a policy matter, it is easy to see why so few cases are transferred as the moving party must overcome the deference with which the court treats the plaintiff's choice of forum.<sup>209</sup> In general, the availability of evidence is often a critical factor in determining the propriety of a motion to transfer.<sup>210</sup> Consideration is also given to the expense to which the parties must incur to plead their case and the relative ability of the parties to bear that expense.<sup>211</sup> There is some evidence suggesting that courts recognize when the plaintiff has forum-shopped the case into a court with no connection at all to the underlying action.<sup>212</sup> For the period 1983 to 1999, the transfer rate was as high as sixteen percent for patent cases filed in the eastern district of Virginia,<sup>213</sup> which, at the time, was a hotbed of patent litigation.<sup>214</sup> Nevertheless, it remains unlikely that a forum-isolated patent holding organization will be transferred out of their home forum.

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<sup>204</sup> The national average success rate for plaintiffs at trial drops from 58% to 29% after a successful motion to transfer venue. Moore, *supra* note 60, at 925.

<sup>205</sup> 28 U.S.C. § 1404 (2006).

<sup>206</sup> Moore, *supra* note 60, at 897.

<sup>207</sup> *Id.* at 892.

<sup>208</sup> *Id.* at 911 (the combined rate of remand and transfer averages less than 6%). Nevertheless, transfer of venue motions are quite common. See Clermont & Eisenberg, *supra* note 177 at 1520 ("Litigators deal with nearly as many change-of-venue motions as trials.").

<sup>209</sup> *Hollyanne Corp. v. TFT, Inc.*, 199 F.3d 1304, 1307 n.2 (Fed. Cir. 1999).

<sup>210</sup> *Zepherin v. Greyhound Lines Inc.*, 415 F. Supp. 2d 409, 411 (S.D.N.Y. 2006) (noting the importance of the availability of evidence when weighing a transfer of venue motion).

<sup>211</sup> See *In re Volkswagen AG*, 371 F.3d 201, 203 (5th Cir. 2004) (reviewing the public and private factors that must be considered in deciding a motion to transfer venue).

<sup>212</sup> See Moore, *supra* note 60, at 914-15.

<sup>213</sup> *Id.*

<sup>214</sup> See *United States v. Ferguson*, 432 F. Supp. 2d 559, 568-69 (E.D. Va. 2006) (noting that patent cases are drawn to the Eastern District of Virginia thanks to its 'rocket-docket').

### C. *Bargaining Power*

The outcome of licensing negotiations depends on the relative strength of the parties' bargaining positions,<sup>215</sup> which is largely dependent on the parties' perceptions of the patent holding firm's probability of success in court.<sup>216</sup> As a matter of simple economics, the rational manufacturer will pay licensing fees if those fees, over the probable term of the license agreement, will not exceed the probable cost of litigation, including the potential remedies.<sup>217</sup> The probable cost of litigation can be estimated based on the value of the infringing product and the likelihood of success in the case.<sup>218</sup> The cost of litigation is essentially a linear function of the value of the product in question.<sup>219</sup> The more lucrative the product, the more both parties will be willing to invest in litigation.<sup>220</sup> Similarly, the potential remedy is also a reasonably definable value.<sup>221</sup> If the patent is found invalid or unenforceable, or the product is found not to infringe, then the remedy will be nil, but if the product is found to infringe a valid and enforceable patent, then the remedy will again be a function of the value of the product in question.<sup>222</sup> Therefore, if the aggregate cost of the license is less than the estimated cost of litigation added to the estimated remedy and multiplied by the likelihood of success, the rational manufacturer will take a license.<sup>223</sup>

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<sup>215</sup> Cf. Lederman, *supra* note 186, at 228–31 (discussing the economic model of settlement and its derivation from likely trial outcome).

<sup>216</sup> *Id.* This is a vastly simplified analysis of the complex economics of patent licensing; however, all other things being equal, the strength of the patentee's threat depends on the patentee's likelihood of success at trial. See Creswell, *supra* note 1, para. 10.

<sup>217</sup> McMahon, *supra* note 194, at 159.

<sup>218</sup> Evensen, *supra* note 189, at 1359; see generally Moore, *supra* note 60.

<sup>219</sup> See *Yahoo! Brief*, *supra* note 46, at 12.

<sup>220</sup> *Id.*

<sup>221</sup> See Dr. Gregory K. Leonard & Lauren J. Stiroh, *Economic Approaches To Intellectual Property: Policy, Litigation, And Management*, in 875 PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES 625, 644-46 (Practising Law Institute 2006) (discussing economic theories of setting a reasonable royalty).

<sup>222</sup> See *id.* at 646 (discussing the market-based method of determining a reasonable royalty). The availability of injunctive relief is something of an x-factor; however, following *eBay* injunctions should not often be granted to patent holding organizations. *eBay Inc. v. MercExchange*, L.L.C. 547 U.S. 388, 390 (2006).

<sup>223</sup> See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. REV. 1495, 1517 (2001) (discussing the social cost of bad patents).

### D. Patent Quality

The patent holding organization's artificially strong position may result in a decrease in the overall quality of patents.<sup>224</sup> Strong patent rights spur invention, but the system is strongest when only truly worthy applications are protected.<sup>225</sup> The complexity of the patent system<sup>226</sup> and practical implications of limited resources inevitably lead the patent office to erroneously approve some applications.<sup>227</sup> Society relies on the market to correct these mistakes through litigation, but improvidently granted patents may go unchallenged when the high cost of litigation is coupled with an artificially low expectation of defeating a patent.<sup>228</sup> By isolating itself in a forum, the patent holding organization significantly increases the likelihood that a given patent will be judged to be valid and enforceable if challenged.<sup>229</sup> In addition, the patentee's advantage will intimidate potential infringers into accepting a license rather than attempting to invalidate a questionable patent.<sup>230</sup> As a result, many dubious patents will be upheld, and many others will never be contested.<sup>231</sup> Overall, more low-quality patents will remain viable, and the average patent quality will diminish.<sup>232</sup> In

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<sup>224</sup> See Johnson, *supra* note 43, at 60 (discussing the effects of poor patent quality).

<sup>225</sup> Evensen, *supra* note 189, at 1369–70.

<sup>226</sup> The Federal Trade Commission has noted that the rapid pace of innovation in the computer and Internet industries results in each product incorporating, “often in an incidental, tangential and sometimes unintentional way” many patented innovations. *Yahoo! Brief*, *supra* note 46, at 7. This quagmire of overlapping rights is known as the patent thicket. *Id.*

<sup>227</sup> Johnson, *supra* note 43, at 60.

<sup>228</sup> See Evensen, *supra* note 189, at 1371 (noting that if those that would challenge bad patents are discouraged from doing so, “the public may continually be required to pay tribute to would-be monopolists without need or justification”).

<sup>229</sup> Creswell, *supra* note 1. This problem may be more extreme than it first appears, as those that would challenge a patent in court are encouraged by the high cost of litigation to pursue only very strong cases. See Kimberly A. Moore, *Populism and Patents*, 82 N.Y.U. L. REV. 69, 82–85 (2007) (discussing economic modeling of patent cases, explaining the divergence between predicted and observed outcome, and suggesting that as the likelihood of success decreases so must the strength of the case increase before challenge is justified).

<sup>230</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653, 669 (1969) (“[C]ompetition is limited to the extent that the royalty charged by the patentee serves as a barrier to entry.”).

<sup>231</sup> Ashley Chuang, *Fixing the Failures of Software Patent Protection: Detering Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J. 215, 243 (2006) (“Because of poor patent quality, it is difficult to determine whether any given patent claim will be deemed valid in litigation. In order to avoid risky and costly lawsuits, target companies almost always settle with patent trolls.”).

<sup>232</sup> *Id.*



turn, this decrease can result in public ill-will toward the patent office, and a loss of respect for good patents.<sup>233</sup>

### ***E. Market Distortion***

The market value of a patent is distorted by the artificial increase in licensing fees secured by patent holding companies.<sup>234</sup> In theory, a patent's license value should represent the agreement that would result between a willing seller and a willing buyer.<sup>235</sup> A low-quality patent that would likely be invalidated should receive a comparatively small license fee, if any. All patents carry with them the presumption of validity,<sup>236</sup> and, due to the expense of overcoming this presumption in court, rational parties will consider a reasonable offer to license.<sup>237</sup> Therefore, if a market exists, the licensing value of a patent is directly affected by the quality of the patent.

The patent licensing market is distorted when the patentee is able to preserve a favorable forum. A forum less likely to invalidate a patent gives superior bargaining power to patent holding organizations to demand higher licensing fees than the market would otherwise provide. Ultimately, patents achieve artificially high licensing fees, and the resultant market produces an inefficient allocation of resources.<sup>238</sup>

### ***F. Purpose of Patent Law***

The bargaining and litigation advantage patent holding organizations achieve through forum isolation reduces the efficiency with which patent legislation achieves the express constitutional purpose of patent law.<sup>239</sup> In order to

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<sup>233</sup> Evensen, *supra* note 189, at 343.

<sup>234</sup> See Ferrill, *supra* note 44, n.71 (calling patent trolls “a hidden tax on technology products”); Landers, *supra* note 44, at 343 (“Increasing damages above a neutral market rate also raises the possibility that patentees have an ‘incentive to be harmed’ by infringement.”).

<sup>235</sup> See *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108–09 (Fed. Cir. 1996) (instructing the jury on how to determine a reasonable royalty); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978) (calling the hypothetical negotiation a “heads-I-win, tails-you-lose” proposition for the infringer because there is little penalty beyond what the infringer would have paid). In the theoretically perfect negotiation the parties have perfect knowledge, and their relative position is based on the intrinsic value of the patent to both parties. *Id.*

<sup>236</sup> 35 U.S.C. § 282 (2006).

<sup>237</sup> Radack, *supra* note 58, at 13–14.

<sup>238</sup> See Ferrill, *supra* note 35, at 376–77, 381.

<sup>239</sup> Evensen, *supra* note 189, at 1369 & n.65.

effectively “promote the Progress of Science and the useful Arts”<sup>240</sup> patent law must strive to achieve at least three primary goals. First, patent laws should encourage the sharing of innovation so that the sum of human knowledge might be enhanced and others can further innovate.<sup>241</sup> This goal is achieved through the requirement that a patent application disclose the claimed invention.<sup>242</sup> Next, patent law should encourage invention by providing a means through which inventors can capitalize on their innovations.<sup>243</sup> Finally, business and industry must be encouraged to make capital investment into new technologies so that society may enjoy the fruits of innovation.<sup>244</sup> The latter two goals are essentially achieved through the patentee’s right to exclude.<sup>245</sup> Unfortunately, these goals are not met efficiently when some patentees are able to gain an artificial advantage through forum isolation.

Patent laws fail to encourage innovation when the scope of a patent is too broad.<sup>246</sup> To be effective, a patent must allow its owner some scope of exclusion beyond the narrowest reading of the patent.<sup>247</sup> To do otherwise would allow copycat “inventors” to avoid infringement by making trivial alterations.<sup>248</sup> Likewise, extending the scope of exclusion to the limits of reason will allow the patentee a monopoly over other true innovations.<sup>249</sup> Therefore, patent law strives to find a balance between these two extremes.<sup>250</sup> This balance is disturbed when a patent holding organization enjoys a higher likelihood of litiga-

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<sup>240</sup> U.S. CONST. art. III, § 8, cl. 8.

<sup>241</sup> Ferrill, *supra* note 35, at 370.

<sup>242</sup> See *Eldred v. Ashcroft*, 537 U.S. 186, 216 (2003) (discussing the quid pro quo agreement between the state and the patentee).

<sup>243</sup> Ferrill, *supra* note 35, at 370. Smaller inventors typically lack the means to properly police their patents. See *Barker*, *supra* note 39, ¶¶ 13–16. As a result, they must rely on third parties for this purpose. See *id.* ¶ 15. Patent holding organizations argue that they provide a means for small inventors to achieve some financial compensation for their work. See *Niro*, *supra* note 40, at 156. Critics counter that patent holding organizations rarely compensate inventors fairly. See *id.* at 156–57.

<sup>244</sup> Ferrill, *supra* note 35, at 370.

<sup>245</sup> *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599–600 (Fed. Cir. 1985) (“The encouragement of investment-based risk is the fundamental purpose of the patent grant . . .”).

<sup>246</sup> See PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 183, at 28.

<sup>247</sup> 2 *Intell. Prop. Litig. Guide* (West) § 14:19 (2007) (explaining the rationale behind the doctrine of equivalents).

<sup>248</sup> *Id.*

<sup>249</sup> *Id.*

<sup>250</sup> See generally *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730–42 (2002) (discussing the balance that must be struck between the interests of investors and of the public in regard to the doctrine of equivalents and prosecution history estoppel).

tion success as the result of forum isolation.<sup>251</sup> Forum isolation allows patent holding organizations to prevail more frequently at bar, resulting in a greater scope of infringing activity.<sup>252</sup> As a result, other inventors are discouraged from working around the patent for fear that even a genuine improvement to the art may be found infringing.<sup>253</sup> Therefore, the patent holding organization's ability to preserve its choice of forum leads to a disincentive for other inventors.

Patent laws fail to encourage capital investment when the investment devoted to intellectual property licensing and litigation becomes disproportionately high.<sup>254</sup> Patent policy seeks to encourage capital investment by providing a period of market exclusivity,<sup>255</sup> but essentially leaves the distribution of profit between the patentee and manufacturer to the market.<sup>256</sup> Ordinarily, markets are expected to achieve a natural equilibrium between the parties; however, when the market influence of the patentee is increased through forum isolation, the market is disturbed and a greater percentage of the margin must be devoted to the patentee.<sup>257</sup> As a result, the manufacturer's capital investment costs are in-

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<sup>251</sup> *Seymour v. Osborne*, 78 U.S. 516, 533–34 (1870).

Letters patent are not to be regarded as monopolies, created by the executive authority at the expense and to the prejudice of all the community except the persons therein named as patentees, but as public franchises granted to the inventors of new and useful improvements for the purpose of securing to them, as such inventors, for the limited term therein mentioned, the exclusive right and liberty to make and use and vend to others to be used their own inventions, as tending to promote the progress of science and the useful arts, and as matter of compensation to the inventors for their labor, toil, and expense in making the inventions, and reducing the same to practice for the public benefit, as contemplated by the Constitution and sanctioned by the laws of Congress.

*Id.*

<sup>252</sup> *See* Evensen, *supra* note 189, at 1371.

<sup>253</sup> *Id.* In addition, patent holding organizations are notorious for under compensating inventors who do not understand the value of their innovations. Ferrill, *supra* note 35, at 375.

<sup>254</sup> PATENT SYSTEM FOR THE 21ST CENTURY, *supra* note 183, at 38.

<sup>255</sup> *See* Andrew Beckerman-Rodau, *Patent Law - Balancing Profit Maximization and Public Access to Technology*, 4 COLUM. SCI. & TECH. L. REV. 1, 14–16 (2002).

<sup>256</sup> *See generally* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1053–57 (2005) (differentiating tangible goods—where the law seeks to protect finite resources—and intellectual goods—where the law seeks to encourage innovation by ensuring patentees a limited monopoly, but does not further limit profit distribution).

<sup>257</sup> David B. Conrad, Note, *Mining The Patent Thicket: The Supreme Court's Rejection of the Automatic Injunction Rule in eBay v. MercExchange*, 26 REV. LITIG. 119, 136 (2007).

creased and return on investment is diminished.<sup>258</sup> At some point an otherwise marketable product becomes economically infeasible.<sup>259</sup> Even when a product does eventually reach consumers, too much of the product cost is based on licensing and litigation expenses.<sup>260</sup> Finally, the risk of suffering a substantial judgment or even an injunction at the hands of a patent holding organization makes investment in marginally profitable products impracticable, leaving many useful products unrealized.<sup>261</sup>

### G. Summary

The inequitable litigation and negotiation advantages that patent holding organizations are able to secure through careful manipulation of the current rules for personal jurisdiction analysis create a deleterious economic, social and legal environment that merits correction.<sup>262</sup> As we have seen, certain fora demonstrate a substantial tendency to favor patentees in patent litigation. Patent holding organizations capitalize on this advantage by isolating themselves within a single favorable forum. As a result, patent holding organizations are able to produce more advantageous licensing agreements and secure favorable judgments on patents of dubious quality.<sup>263</sup> This causes a proliferation of weak patents and results in a misallocation of market resources in favor of patent holding organizations that, arguably, offer little benefit to society.<sup>264</sup>

Moreover, the constitutional purpose of patent law is thwarted when the rights of patent holding organizations overwhelm inventors and manufacturers.<sup>265</sup> The overbroad patent rights that patent holding organizations garner cre-

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<sup>258</sup> Eventually this misallocation must be passed on to the consumer in the form of higher prices. Evensen, *supra* note 189, at 1370.

<sup>259</sup> See Conrad, *supra* note 257, at 135 (discussing the commercialization theory of patent law).

<sup>260</sup> See Evensen, *supra* note 189, at 1370.

<sup>261</sup> See Conrad, *supra* note 257, at 135.

<sup>262</sup> Similar concerns were in play leading up to *eBay*; however, legislative reform is required to rectify this situation. See *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1222 (D. Utah 2005).

<sup>263</sup> See generally Gregory, *supra* note 45 (providing background about patent trolls, and specifically explaining how a patent holding organization is able to take advantage of the patent marketplace).

<sup>264</sup> See generally Mark A. Lemley & Philip J. Weiser, *Should Property Or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 796–800 (2007) (discussing “misallocation costs”).

<sup>265</sup> See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395–97 (2006) (Kennedy, J., concurring) (expressing concern over the patent holding industry).

ate a risk of litigation for inventors that stifles innovation.<sup>266</sup> Misallocation of market resources and the need to dedicate more funds to patent licensing and litigation make capital investment in economically marginal but socially desirable products impractical.<sup>267</sup> Ultimately, consumers are harmed either through diminished choice or increased prices.<sup>268</sup> Clearly, the ineludible and antisocial effect patent holding organizations produce through forum isolation requires corrective legislation.

## V. SOLUTION

### A. Introduction

To resolve the inequities that arise when patent holding organizations abuse the normal choice of forum provisions by limiting contact with all but one jurisdiction, Congress should provide for nationwide jurisdiction in all patent-related cases.<sup>269</sup> To achieve nationwide jurisdiction for all patent cases Congress should amend the current patent venue statute so that it applies to all patent cases and includes a nationwide service of process provision.<sup>270</sup>

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<sup>266</sup> See Evensen, *supra* note 189, nn.75–76.

<sup>267</sup> See Conrad, *supra* note 257, at 135.

<sup>268</sup> Symposium, *Ideas into Action: Implementing Reform of the Patent System*, 19 BERKELEY TECH. L.J. 1053, 1090–91 (2004) (discussing the effect of bad patents on the consumer).

<sup>269</sup> Nationwide jurisdiction means that a federal court has the authority to exert personal jurisdiction over defendants throughout the United States. See Casad, *supra* note 70, at 1596. Much like ordinary personal jurisdiction rules allow states to exert extraterritorial jurisdiction where issues of fundamental fairness are satisfied by contact with the forum state, so too are federal courts able to exert their authority internationally when contacts with the United States are present. *Id.*

<sup>270</sup> Personal jurisdiction in federal court must be established through service of process. See *id.* at 1594. Therefore it is possible to create nationwide jurisdiction by enabling nationwide service of process. See *id.* Some courts do not agree, arguing that the Fourteenth Amendment's due process requirement prevents federal courts from exerting extraterritorial jurisdiction even when extraterritorial service of process is allowed. *Id.* at 1596. However, federal jurisdiction in federal question cases should be controlled by application of the Fifth Amendment. See *id.* at 1599–1600. The Fifth Amendment has been found to require a more relaxed standard of minimum contacts with the United States, rather than any single state. *Max Daetwyler Corp. v. Meyer*, 762 F.2d 290, 293–94 (3d Cir. 1985). Though the United States Supreme Court has not squarely addressed the issue, “[i]n general, federal courts no longer seem to question the general propriety of applying a national contacts test when the defendant is served with process pursuant to a provision in a federal statute.” WRIGHT ET AL., *supra* note 108, § 1068.1.

## B. Statutory Framework

### 1. Status Quo

Like all civil litigation, patent cases must comport with both personal jurisdiction and venue requirements. The applicable standard for personal jurisdiction depends on the enabling cause of action.<sup>271</sup> In the absence of an overriding statute, the standard for personal jurisdiction in a federal district court is conterminant with the standard of the local state court.<sup>272</sup> Currently, Congress has not elected to provide a special personal jurisdiction standard for patent cases.<sup>273</sup> Like personal jurisdiction, venue is also controlled by a general federal statute, 28 U.S.C. § 1391(b), which can be overridden by more targeted legislation.<sup>274</sup> Congress has enacted a special patent venue statute, 28 U.S.C. § 1400(b); however, this venue statute applies only to patent infringement suits and not to declaratory judgment actions involving patents.<sup>275</sup> Declaratory judgment actions involving patents are therefore subject to the general rule for venue.<sup>276</sup> Though the patent venue statute is somewhat more restrictive than the general statute,<sup>277</sup> both make venue proper where the defendant resides.<sup>278</sup> Therefore both statutes are subject to the operation of 28 U.S.C. § 1391(c), which defines residence for corporate defendants so as to make venue proper wherever personal jurisdiction is proper.<sup>279</sup> Since patent cases typically involve corporate parties,<sup>280</sup> venue in

<sup>271</sup> In very limited circumstances, personal jurisdiction may depend not on substantive rights, i.e., the underlying cause of action, but procedural posture. Certain parties joined under Rule 14 or 19 may be subject to extraterritorial personal jurisdiction if they reside within 100 miles of the courthouse. FED. R. CIV. P. 4(k)(1)(B). In addition, parties subject to interpleader jurisdiction may be subject to extraterritorial personal jurisdiction. FED. R. CIV. P. 4(k)(1)(C); see 28 U.S.C. § 1335(2006).

<sup>272</sup> See *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1219–20 (D. Utah 2005) (discussing the federal framework for personal jurisdiction analysis).

<sup>273</sup> See *id.*

<sup>274</sup> See *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1577–84 (Fed. Cir. 1990); see also *American Chem. Paint Co. v. Dow Chem. Co.*, 161 F.2d 956, 959 (6th Cir. 1947) (discussing venue in patent infringement and declaratory judgment actions arising out of patent controversies).

<sup>275</sup> *U.S. Aluminum Corp. v. Kawneer Co.*, 694 F.2d 193, 195 (9th Cir. 1982).

<sup>276</sup> *American Chem.*, 161 F. 2d at 959.

<sup>277</sup> Unlike the patent venue statute, 28 U.S.C. § 1400(b), the general venue statute, 28 U.S.C. § 1391(b), does not limit venue to where the defendant has a regular and established place of business. *WRIGHT ET AL.*, *supra* note 108, § 3823.

<sup>278</sup> 28 U.S.C. § 1391(b) (2006); 28 U.S.C. § 1400(b) (2006).

<sup>279</sup> *VE Holding*, 917 F.2d at 1580.

patent cases will usually be proper wherever personal jurisdiction limitations are satisfied.

## 2. Nationwide Service

Nationwide jurisdiction exists when federal legislation grants the federal district courts personal jurisdiction authority coextensive with national territorial limits.<sup>281</sup> Under nationwide jurisdiction the authority of a court over a defendant is limited by the defendant's contacts with the United States and not with a particular state.<sup>282</sup> As discussed above, Congress has the power to enact such legislation pursuant to Rule 4(k)(1)(D).<sup>283</sup> Under Rule 4(k), the personal jurisdiction authority of federal courts is expressed in terms of the efficacy of service of process,<sup>284</sup> and under such a provision, the plaintiff may hail a defendant into any federal district court in the country, so long as process is properly served.<sup>285</sup> Therefore, nationwide jurisdiction is commonly achieved through provision for nationwide service of process.<sup>286</sup>

A nationwide service of process provision does not have the same effect on a natural person that it has on a corporate defendant.<sup>287</sup> As discussed above, venue in a patent suit will be proper, at minimum, where the defendant resides.<sup>288</sup> For a natural person, residence is based on his domicile;<sup>289</sup> however, 28 U.S.C. § 1391(c) defines residence for a corporate defendant in terms of personal jurisdiction.<sup>290</sup> Therefore, for a corporate defendant, venue will be proper

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<sup>280</sup> Moore, *supra* note 60, at 925 (“Patent litigation is primarily conducted between corporations.”).

<sup>281</sup> WRIGHT ET AL., *supra* note 108, § 1068.1.

<sup>282</sup> See Bd. of Trs., Sheet Metal Workers’ Nat’l Pension Fund v. McD Metals, Inc., 964 F. Supp. 1040, 1045 (E.D. Va. 1997); WRIGHT ET AL., *supra* note 108, § 1068.1.

<sup>283</sup> WRIGHT ET AL., *supra* note 108, § 1068.1.

<sup>284</sup> Omni Capital Int’l v. Rudolf Wolff & Co., 484 U.S. 97, 104 (1987).

<sup>285</sup> See Rachel M. Janutis, *Pulling Venue Up by Its Own Bootstraps: The Relationship Among Nationwide Service of Process, Personal Jurisdiction, and § 1391(c)*, 78 ST. JOHN’S L. REV. 37, 48–49 (2004).

<sup>286</sup> WRIGHT ET AL., *supra* note 108, § 1068.1; see Casad, *supra* note 269, at 1596.

<sup>287</sup> See generally Janutis, *supra* note 285 (discussing the different effects of nationwide service of process provision on natural persons and corporate defendants).

<sup>288</sup> See 28 U.S.C. §§ 1391(b), 1400(b) (2006).

<sup>289</sup> See generally Shaw v. Quincy Mining Co., 145 U.S. 444, 447–52 (1892) (discussing the definition of residence for both natural persons and corporations).

<sup>290</sup> VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1579–80 (Fed. Cir. 1990) (identifying that § 1391(c) overrode the patent venue statute with respect to the definition of corporate residence).

wherever personal jurisdiction is proper.<sup>291</sup> In other words, when a nationwide service of process provision applies to a corporation, venue will be proper anywhere in the nation.<sup>292</sup>

### 3. Historical Precedent

The establishment of nationwide service of process is by no means an unprecedented action,<sup>293</sup> and Congress' power to make such an amendment is well established.<sup>294</sup> Indeed, Congress has elected to establish nationwide jurisdiction in more than twenty statutes.<sup>295</sup> Most recently, Congress elected to include a nationwide service of process provision in the Employee Retirement Income Security Act (ERISA).<sup>296</sup> The ERISA nationwide service of process provision was enacted as part of a special venue statute.<sup>297</sup> It provides that an action brought under ERISA "may be brought in the district where the plan is administered, where the breach took place, or where a defendant resides or may be found, and *process may be served in any other district where a defendant resides or may be found.*"<sup>298</sup>

### 4. A New Rule

Congress should amend the patent venue statute so as to provide for nationwide service of process in all patent cases as follows:

28 U.S.C. § 1400(b) Any civil action relating to patents may be brought in the judicial district where the defendant resides or may be found, or where the defendant has committed acts of infringement and has a regular and established place of business or may be found, and process may be served in any district where a defendant resides or may be found.

This amended patent venue statute would achieve two significant changes to patent law. First, by changing the language from "any civil action for patent

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<sup>291</sup> See *id.*

<sup>292</sup> WRIGHT ET AL., *supra* note 108, § 1068.1.

<sup>293</sup> See *Omni Capital Int'l v. Rudolf Wolff & Co.*, 484 U.S. 97, 104 (1987).

<sup>294</sup> WRIGHT ET AL., *supra* note 108, § 1068.1.

<sup>295</sup> See 7 U.S.C. §§ 13a-1(e), -2(4) (2006); 9 U.S.C. § 9 (2006); 15 U.S.C. §§ 5, 22, 25, 49, 77v(a), 78aa, 80a-43, 80b-14 (2006); 18 U.S.C. § 1965 (2006); 28 U.S.C. §§ 1391(e), 1397, 1655, 1695, 2321, 2361 (2006); 29 U.S.C. § 1132(e)(2) (2006).

<sup>296</sup> See 29 U.S.C. § 1132(e)(2) (2006).

<sup>297</sup> See *id.*

<sup>298</sup> *Id.* (emphasis added).



infringement”<sup>299</sup> to “any civil action related to patents,” Congress can unify venue analysis under a single statute.<sup>300</sup> Both patent infringement and declaratory judgment actions would be covered by this new venue statute, resulting in a more rational and equitable legal framework. Second, by adding a nationwide service of process provision, Congress will cure the inequity that arises when patent holding organizations preserve their choice of forum under the current personal jurisdiction framework.

## VI. CONCLUSION

By imbuing the federal district courts with the authority to exert nationwide personal jurisdiction in patent cases, Congress can effectively restore the balance envisioned by the venue transfer statutes and advance important patent law goals by ensuring that patent protection promotes, rather than inhibits, economic growth and scientific progress. This will improve the quality of patents by easing the burden on parties challenging patent validity.

By removing the forum isolation advantage, Congress can adjust the relative bargaining positions in patent licensing negotiations and correct the resulting problems.<sup>301</sup> Nationwide service of process would grant manufacturers the opportunity to counter plaintiffs’ forum shopping by filing for a declaratory judgment in a more favorable forum, rather than facing the unpleasant prospect of litigating in a forum where their chances of success are statistically low, despite the strength of their case.<sup>302</sup> Patent holding organizations’ bargaining posi-

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<sup>299</sup> 28 U.S.C. § 1400(b). This is the language of the current patent venue statute, 28 U.S.C. § 1400(b), that has been interpreted to apply only to patent infringement actions and not to declaratory judgment actions arising out of patent disputes. *American Chem. Paint Co. v. Dow Chem. Co.*, 161 F.2d 956, 959 (6th Cir. 1947). This creates an unusual personal jurisdiction and venue framework wherein a case may be brought in substantially different fora depending on who brings it. *WRIGHT ET AL.*, *supra* note 108, § 3823.

<sup>300</sup> This language is drawn from the copyrights venue statute, 28 U.S.C. § 1400(a), and is intended to clearly encompass all cases and controversies arising out of federal law without regard to whether the patentee is plaintiff or defendant. *See Hill & Range Songs, Inc. v. Fred Rose Music, Inc.*, 58 F.R.D. 185, 189 (S.D.N.Y. 1972).

<sup>301</sup> The new 1400(b) would remove personal jurisdiction barriers for declaratory judgment actions brought against patent holding organizations. Patent infringement actions brought by patent holding organizations would not be directly affected; however, a substantial basis for the patent holding organizations bargaining advantage and control over forum in a declaratory judgment action would be eliminated. Natural person patentees would not be subjected to unreasonably inconvenient fora because 28 U.S.C. § 1391(c) does not apply to them and therefore venue limitations would continue to protect their interests.

<sup>302</sup> Of course, even if a case were filed in an unfavorable forum, a venue transfer might be had, but, as we have seen, the chances remain relatively slim. As previously noted, there is some

tions would be diminished, balancing the relative positions of the parties. This balance would result in more rational licensing agreements and greater overall market efficiency. Additionally, more balanced licensing negotiations would improve the market for such rights, eventually enabling smaller companies, even individual inventors, to more easily understand and capitalize on the value of their inventions. The decreased ability of patent holders to predetermine forum would force them to choose their targets more judiciously. Business and industry would be able to operate more confidently, and inefficiencies that result from the overhead of infringement suits would be reduced. Similarly, providing for nationwide service in patent cases will also have a beneficial effect on patent quality. Increasing the likelihood of success for the potential licensee at trial correspondingly increases the value and, therefore, likelihood of litigation while driving down the inflated patent market. As the likelihood of litigation rises, so too rise the quality of the patents that survive challenge, resulting in a net loss, or invalidation, of patents that should not have been granted.

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evidence to suggest that where venue is clearly inappropriate the courts will be more inclined to transfer. *See Moore, supra* note 60, at 914–15.