

No. 2019-2164

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IN THE  
**United States Court of Appeals  
for the Federal Circuit**

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TRIMBLE, INC. AND INNOVATIVE SOFTWARE ENGINEERING, LLC,  
*Plaintiffs-Appellants,*

v.

PERDIEMCo LLC,  
*Defendant-Appellee.*

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APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN  
DISTRICT OF CALIFORNIA, JUDGE JEFFREY S. WHITE

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**BRIEF OF THE R STREET INSTITUTE, PUBLIC KNOWLEDGE, THE  
ELECTRONIC FRONTIER FOUNDATION, ENGINE ADVOCACY, AND  
THE INNOVATION DEFENSE FOUNDATION AS *AMICI CURIAE* IN  
SUPPORT OF PLAINTIFFS-APPELLANTS**

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## CERTIFICATE OF INTEREST

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

(1) The full name of every party or amicus represented by me is **the R Street Institute, Public Knowledge, the Electronic Frontier Foundation, Engine Advocacy, and the Innovation Defense Foundation.**

(2) The Innovation Defense Foundation is part of the Method Foundation. The other above-identified parties are the real parties in interest.

(3) The corporate disclosure statement of Rule 26.1 of the Federal Rules of Appellate Procedure is as follows: There is no parent corporation to or any corporation that owns 10% or more of stock in the above-identified parties.

(4) The names of all law firms and the partners and associates that have appeared for the party in the lower tribunal or are expected to appear for the party in this court, not including those who have entered or are expected to enter an appearance before this court, are: **None.**

(5) The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal are: **None.**

Dated: September 30, 2019

*/s/ Charles Duan*

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## INTEREST OF *AMICI CURIAE*

The R Street Institute<sup>1</sup> is a nonprofit, nonpartisan public-policy research organization. R Street’s mission is to engage in policy research and educational outreach that promotes free markets as well as limited yet effective government, including properly calibrated legal and regulatory frameworks that support economic growth and individual liberty.

Public Knowledge is a nonprofit organization dedicated to preserving the openness of the Internet and the public’s access to knowledge, promoting creativity through balanced intellectual property rights, and upholding and protecting the rights of consumers to use innovative technology lawfully. As part of this mission, Public Knowledge advocates on behalf of the public interest for a balanced patent system, particularly with respect to new, emerging technologies.

The Electronic Frontier Foundation (“EFF”) is a nonprofit civil liberties organization that has worked for more than 25 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 31,000 members have a strong interest in helping the courts and policy-makers ensure that intellectual property law furthers the public interest.

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<sup>1</sup>This brief is being tendered with a motion for leave to file this brief. Pursuant to Rule 29(c)(5), no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity, other than *amici*, their members, or their counsel, made a monetary contribution to the preparation or submission of this brief.



Engine Advocacy is a nonprofit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups, working with government and a community of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship. Engine conducts research, organizes events, and spearheads campaigns to educate elected officials, the entrepreneur community, and the general public on issues vital to fostering technological innovation. Part of amplifying startup concerns includes highlighting the unique challenges small startups face when confronted with abusive, and typically opaque, patent litigation.

The Innovation Defense Foundation is a project of the Method Foundation, which is a nonprofit, nonpartisan research and issue-advocacy institution that advocates for “permissionless innovation,” seeking to repeal, relax, or replace unnecessary regulations that stand in the way of innovation. Through a combination of research, advocacy, and regulatory filings, the IDF pushes back against risk-averse, regressive, and precautionary policies that both threaten America’s innovators and limit our society’s ability to cope with new and existing challenges.

## SUMMARY OF ARGUMENT

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

*Red Wing Shoe* makes the choice of forum in patent cases consistently unfair by restricting choice of jurisdiction for declaratory judgment actions. When the patent owner is a patent licensing entity with no business other than sending demand letters, accused infringers are placed in a situation where their only declaratory judgment option is to sue in the patent owner's home forum. In many cases, this may be a forum with little to no relationship to the alleged infringer, the accused products, or any sales.

Such an arrangement has contributed to a remarkable situation of forum shopping in patent cases. Even more remarkably, evidence suggests that this arrangement may be drawing courts into competition to *attract* patent owners—the ones with unilateral choice over forum—by engaging in practices and procedures

favorable to them. And evidence suggests that this forum shopping has tangible, substantive effects on outcomes, a result contrary to principles of law and contrary to the very existence of the Court of Appeals for the Federal Circuit, an institution designed to eliminate a perceived problem with forum shopping for favorable substantive patent law. See Charles W. Adams, *The Court of Appeals for the Federal Circuit: More than a National Patent Court*, 49 Mo. L. Rev. 43, 57 (1984).

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

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

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

## ARGUMENT

### I. THE CONSTRAINING OF DECLARATORY JURISDICTION IN *RED WING SHOE* IS FUNDAMENTALLY UNFAIR

*Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.* held that a patent asserter's sending of licensing demand letters cannot, as a matter of law, give rise to jurisdiction for a declaratory judgment action, on the grounds that "personal jurisdiction on such contacts alone would not comport with principles of fairness." 148 F.3d 1355, 1361 (Fed. Cir. 1998) (citing *Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102, 121–22 (1987) (Stevens, J., concurring)).

Yet it is *Red Wing Shoe* that does not comport with principles of fairness. By allowing patent asserters to engage in potentially massive campaigns of patent litigation threats and still constrain declaratory jurisdiction to a forum of choice, *Red Wing Shoe* has contributed to the widely criticized practices of "forum selling" and "patent privateering," harming small businesses in particular.

**A. RED WING SHOE HAS LONG BEEN KNOWN TO ENCOURAGE FORUM SHOPPING BY PATENT HOLDERS**

To prevent a patentasserter from unyieldingly harassing firms and individuals, the Declaratory Judgment Act allows accused infringers, in appropriate situations, to initiate legal proceedings and thereby resolve questions of patent validity and infringement once and for all. *See* 28 U.S.C. § 2201(a); Lisa A. Dolak, *Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer*, 38 B.C. L. Rev. 903, 911 (1997). An obvious and important consequence is that “the defendant can preempt the venue choice of the plaintiff by filing a declaratory judgment action,” thus balancing out the possibility of rampant forum shopping. *See* J. Jonas Anderson, *Court Competition for Patent Cases*, 163 U. Pa. L. Rev. 631, 644 (2015).

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

The evidence makes clear that, if accused infringers had their druthers, they would bring declaratory judgment actions in diverse locations.<sup>2</sup> But the evidence also makes clear that patent assertion entities will take extraordinary measures to force jurisdiction down to a forum of choice, to the point of opening sham headquarters in “empty offices with telephone lines that no one answers.” Edgar Walters, *Tech Companies Fight Back Against Patent Lawsuits*, N.Y. Times, Jan. 23, 2014, at A23A, *available online*;<sup>3</sup> see also *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. 12-cv-1106, 2013 WL 4479336, at \*7 (N.D. Cal. Aug. 20, 2013) (observing that patent owner “manufactured venue in Texas via a sham” when it “rented a windowless file-cabinet room with no employees in Texas and held it out as an ongoing business concern to the Texas judge”).

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

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<sup>2</sup>One review of declaratory judgment actions between 2000 and 2015 found that the Northern and Central Districts of California, the District of Delaware, and the Northern District of Illinois received the most declaratory judgment actions, at 11.4%, 6.5%, 6.1%, and 4.4%, respectively. By contrast, the forum most preferred by patent holders, the Eastern District of Texas, received a mere 2.5% of declaratory actions. See Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. Cal. L. Rev. 241, app. 5, at 62 (2016).

<sup>3</sup>Locations of authorities available online are shown in the Table of Authorities.

**B. THE ABILITY TO FORCE PATENT LITIGATION INTO A FORUM OF CHOICE HAS GIVEN RISE TO MARKED UNFAIRNESS**

Patent assertion entities' powerful ability to force litigation into a forum of choice has historically been the precondition for practices widely perceived as unfair to American businesses targeted, in many cases unjustifiably, with infringement assertions.

Unilateral control over jurisdiction gave rise to a practice of “forum selling” in which judges, particularly those in the Eastern District of Texas, would seek to attract litigation to their district through substantive and procedural rules tilted toward patent owners—essentially “courts competing for litigants” by marginally increasing the litigants likelihood of success. Anderson, *supra*, at 634. In one extensive survey of local court rules, two commentators identified eight “procedural deviations” in that district, the “cumulative effect” of which “tilts the handling of patent cases in the Eastern District of Texas in favor of patentees.” Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. Cal. L. Rev. 241, 250 (2016).

The procedural imbalances that attract patent owners impose unfair costs on defendants. As two commentators observe, because of the “accumulated effect of several marginal advantages” it is “predictably expensive for accused infringers to defend patent suits filed in East Texas.” Brian J. Love & James Yoon, *Predictably Expensive: A Critical Look at Patent Litigation in the Eastern District of Texas*, 20 Stan. Tech. L. Rev. 1, 1 (2017). For small firms, these ramped-up costs could spell

the difference in terms of being able to afford a defense. Historical evidence repeatedly shows the willingness of many patent owners to exploit those marginal sensitivities to cost in order to extract nuisance settlements. *See, e.g., Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011).

Patent privateering offers another way to exploit unilateral jurisdictional control unfairly. While a practicing firm that asserts its patents is obviously amenable to declaratory judgment suit in its places of business, the firm can divest its patent assertion activities to an unrelated “privateer” entity, thereby changing the landscape of available courts for declaratory actions. *See generally* Tom Ewing, *Indirect Exploitation of Intellectual Property Rights By Corporations and Investors: IP Privateering and Modern Letters of Marque and Reprisal*, 4 *Hastings Sci. & Tech. L.J.* 1 (2012), *available online*.

As an example, several California firms acquired Nortel’s patent portfolio with the intent of asserting it. *See Google Inc. v. Rockstar Consortium US LP*, No. 13-cv-5933, 2014 WL 1571807, at \*1 (N.D. Cal. Apr. 17, 2014). Rather than accepting jurisdiction in California, they formed the Rockstar and MobileStar entities, nominally sited in Plano, Texas, to assert the patents. *See id.* A declaratory action was brought in the Northern District of California, and Rockstar moved to dismiss for lack of personal jurisdiction. *See id.* The court was cognizant of the gamesmanship at work, calling MobileStar a “sham entity for the sole purpose of



avoiding jurisdiction in all other fora,” but nevertheless relied on *Red Wing Shoe* to hold that Rockstar’s campaign of patent assertion was “per se insufficient” to establish jurisdiction. *Rockstar Consortium*, 2014 WL 1571807, at \*2, 4.

Forum selling and patent privateering share two common threads: They are fundamentally unfair to those faced with assertions of patent infringement, and they are enabled by patent asserters’ unilateral control over the jurisdiction of patent lawsuits. That *Red Wing Shoe* enables that unilateral control means that its holding is a key cause of this ongoing unfairness.

**C. *TC HEARTLAND DOES NOT RELIEVE THE JURISDICTIONAL UNFAIRNESS OF RED WING SHOE***

Recently, in *TC Heartland, LLC v. Kraft Foods Group Brands LLC*, the Supreme Court restored the historical statutory limits on venue in patent cases, thereby rejecting the ongoing practice in which patent owners had free rein in choice of district court. *See* 137 S. Ct. 1514, 1521 (2017). *TC Heartland* has undoubtedly had a dramatic impact on patent litigation, reducing the case load in the Eastern District of Texas from about half of all patent infringement lawsuits from before *TC Heartland* to about 14% today. *See* Dennis Crouch, *Plano as the Venue Center for E.D. Texas*, Patently-O (Jan. 25, 2019), *available online*.

While *TC Heartland* went a long way toward correcting jurisdictional unfairness in patent cases, it is not sufficient and cannot justify retention of *Red Wing*

*Shoe*.<sup>4</sup> The two cases deal with different strands of jurisdictional law—*TC Heartland* with venue in infringement cases, *Red Wing Shoe* with personal jurisdiction in declaratory actions—and there are at least two reasons, one logical and one empirical, fairness.

Logically, *TC Heartland* cannot suffice for jurisdictional fairness because patent assertion entities have a winning strategy to continue forcing cases into the Eastern District of Texas or other jurisdiction of choice: The patent-holding entity may harass a targeted firm with claims of infringement until the firm brings a declaratory action. While *TC Heartland* prevents a patent assertion entity from bringing suit in an arbitrary district court, it does not mandate that the entity bring suit at any particular time. The targeted firm's only means of stopping the harassment is with a declaratory action, and if *Red Wing Shoe* remains in force, then the firm will be forced into the patent asserter's jurisdiction of choice.

Empirically, control over declaratory jurisdiction must give an unfair advantage to patent assertion entities because they sought it even before *TC Heartland* was decided. Prior to that 2017 decision, there were numerous examples

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<sup>4</sup>It should be noted that *TC Heartland* would likely not operate to constrain venue in declaratory judgment cases, since courts even after *TC Heartland* have deemed the patent venue statute inapplicable to declaratory judgments, and the structure of the patent venue statute suggests its inapplicability. *Apicore US LLC v. Beloteca, Inc.*, No. 2:19-cv-77, slip op. at 13 & n.13 (E.D. Tex. Apr. 17, 2019) (citing cases); *Bristol-Myers Squibb Co. v. Mylan Pharm., Inc.*, No. 17-cv-379, slip op. at 12 n.8 (D. Del. Sept. 11, 2017).

of “sham” patent assertion entities with vacant offices addressed in the Eastern District of Texas. *See Rockstar Consortium*, 2014 WL 1571807, at \*4; *see also supra* p. 7 (further examples). Offices in the district were unnecessary to secure venue under pre-*TC Heartland* law, they likely did little to garner sympathy of Texan juries when defense counsel pointed out the sham nature of the connection, and they could not have been necessary to overcome change-of-venue motions considering that the district court almost never granted them anyway. The most likely reason behind the spate of false offices in Texas, as exemplified by *Rockstar Consortium*, was to guarantee favorable declaratory jurisdiction.

That patent assertion entities will expend the financial and reputational costs of opening up a sham office in Texas demonstrates how important declaratory jurisdiction control is to them, regardless of venue law and *TC Heartland*. The Supreme Court’s decision is unrelated and should not justify retaining a rule with demonstrably unfair effects.

## **II. THE JUSTIFICATIONS FOR THIS NARROW VIEW OF PERSONAL JURISDICTION ARE IRRECONCILABLE WITH MODERN PATENT ASSERTION PRACTICE**

In justifying its strict rule that patent demand letters can never give rise to personal jurisdiction over their senders, *Red Wing Shoe* relied exclusively on the sentiment that permitting such jurisdiction would “be contrary to fair play and substantial justice by providing disincentives for the initiation of settlement ne-

gotiations.” 148 F.3d at 1361 (quoting *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 476 (1985)); see also *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1206 (Fed. Cir. 2003) (noting rationale of *Red Wing Shoe*).

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

**A. RECENT DECISIONS SHOW THAT INTEREST IN PROMOTING SETTLEMENTS CANNOT JUSTIFY DENIAL OF PERSONAL JURISDICTION**

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

In *Federal Trade Commission v. Actavis, Inc.*, the Supreme Court considered whether the Federal Trade Commission could prosecute for antitrust violations a “reverse payment settlement” of patent litigation between a drug patent holder and a generic manufacturer. See 133 S. Ct. 2223, 2227 (2013).<sup>5</sup> The Eleventh Circuit had held that the reverse settlement was permissible, in part based on “a general legal policy favoring the settlement of disputes.” *Id.* at 2234.

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

*Kimble v. Marvel Entertainment, LLC*, 135 S. Ct. 2401 (2015), lends further support to the view that encouragement of patent licensing cannot be determinative of patent law rules. There, the Supreme Court considered whether to overturn its older decision *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), which held as invalid *per se* any patent license providing for royalties extending beyond the term of the underlying patent. *Kimble*, 135 S. Ct. at 2407–08. To support invalidation, the

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<sup>5</sup>Such a settlement agreement involves the patentee paying the generic manufacturer to settle a Hatch-Waxman patent infringement lawsuit, thus allowing the patentee to maintain its monopoly position with the drug. See *id.* at 2229.

patent owners championed greater flexibility in licensing, stating that rejecting the *Brulotte* restriction on patent licenses would “more often increase than inhibit competition” and potentially “lead to lower consumer prices.” *Kimble*, 135 S. Ct. at 2412.

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

*Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523 (2017), represents a further rejection of licensing flexibility as a basis for firm rules of patent law. There, the Supreme Court held that the doctrine of patent exhaustion, in which no patent license may be demanded for use of an article once authorizedly sold, cannot be overridden by a “conditional sale” form of patent license. *See id.* at 1532–33. In reaching that conclusion, the Supreme Court rejected the repeated arguments of the patent owner that it was merely subdividing the “bundle of rights” in the patent; the act of sale “extinguishes that exclusionary power” regardless of any contractual attempts to the contrary. *Id.* at 1534.

These cases reveal a general principle that the interest in promoting patent settlements or licenses cannot, in itself, wholly justify a rule of law. *Red Wing Shoe* thus did precisely what it should not have done: It constructed a rule stating that no declaratory judgment personal jurisdiction would arise out of a patent demand letter on the sole grounds that such a rule was necessary to promote settlements. That reasoning is highly questionable and ought to be revisited.

**B. GROWING COMMODITIZATION OF PATENT LICENSES UNDERCUTS *RED WING SHOE*'S ASSUMPTION THAT LICENSES ARE SETTLEMENTS**

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

1. There is little question that business contacts relating to marketing or solicitation within a state can, in appropriate circumstances, give rise to personal jurisdiction. As the Supreme Court has repeatedly said, personal jurisdiction is

appropriate “if the defendant has ‘purposefully directed’ his activities at residents of the forum” with appropriate relation to the cause of action. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 (1985) (citing *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 774 (1984)).

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

Other courts of appeal are in accord with the rule that solicitation can create personal jurisdiction. For example, an Oklahoma medical center was subject to jurisdiction in Ohio based on a television advertisement aired in Ohio for purposes of soliciting Ohio patients. *Creech v. Roberts*, 908 F.2d 75, 79–80 (6th Cir. 1990). Specifically, said the court, “Advertising is among the activities that constitute ‘reaching out’ to forum state residents.” *Id.* at 79. Similarly, personal jurisdiction in Washington was appropriate over a Florida cruise ship company, where that company had “advertised in the local media, promoted its cruises through



brochures sent to travel agents in that state, and paid a commission on sales of cruises in that state,” among other things. *Shute v. Carnival Cruise Lines*, 897 F.2d 377, 382 (9th Cir. 1990), *rev’d on other grounds sub nom. Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991). These “efforts to solicit business in Washington” were sufficient to confer personal jurisdiction. *Id.*

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

Patent licensing is big business today. As the Supreme Court recently wrote, “an industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (internal quotations omitted) (quoting *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006)). Numerous companies, including multi-million-dollar public ones like Acacia Research Corporation, specialize in “the generation of licensing revenue from users of their patented technologies.” Acacia Research Corp., Annual Report (Form 10-K), at 3 (Feb. 27, 2015); *see also* J.P. Mello, *Technology Licensing and Patent Trolls*, 12 B.U. J. Sci. & Tech. L. 388, 389 (2006) (“[P]atent trolls have generated tremendous

revenue through both licensing and litigation.”). Indeed, there has been at least one recent attempt to create a commodity exchange for patent licenses, one that “treats intellectual property rights like bushels of corn.” Ameet Sachdev, *New Exchange Is Formed for Trading Patent Rights*, Chi. Trib. (July 7, 2013), *available online*.<sup>6</sup> That patent licenses are seen as market-exchangeable goods strongly suggests that they are products being offered for sale.

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

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<sup>6</sup>IPXI’s intended business was to sell “Unit License Rights,” namely bundles of patent licenses granting the right to manufacture a specified quantity of products under those patents. See Jorge L. Contreras, *FRAND Market Failure*, Proc. Ninth Int’l Conf. on Standardization & Innovation Info. Tech. 2–3 (Oct. 6, 2015), *available online*.

It is difficult to maintain that practices like MPHJ's are "more closely akin to an offer for settlement" as *Red Wing Shoe* did. 148 F.3d at 1361. This sort of widespread campaign resembles far more closely a mass solicitation or advertisement of a product. Indeed, the fact that MPHJ was "not prepared to initiate legal action and did not intend to initiate legal action," see *MPHJ Tech. Invs.*, 159 F.T.C. at 1012, makes it impossible to believe that MPHJ intended to engage in settlement negotiations as *Red Wing Shoe* assumes. Yet MPHJ appears to have specifically taken advantage of *Red Wing Shoe* to prevent almost all courts from determining the merits of its claims. See *Eng'g & Inspection Servs. v. IntPar, LLC*, No. 13-cv-801, 2013 WL 5589737, at \*5 (E.D. La. Oct. 10, 2013) (holding the court did not have personal jurisdiction over IntPar or its parent MPHJ, due to the holding of *Red Wing Shoe*). And that the Federal Trade Commission investigated MPHJ's demand letters under its consumer protection authority leaves little doubt that such demand letters were acts of commerce, not mere offers for settlement. See *MPHJ Tech. Invs.*, 159 F.T.C. at 1013 (citing Federal Trade Commission Act § 5(a), 15 U.S.C. § 45(a) (2012)).

This activity of sending patent demand letters *en masse* undercuts the settlement promotion rationale of *Red Wing Shoe* in another way. The rule against personal jurisdiction in that case was supposedly crafted to avoid "providing disincentives for the initiation of settlement negotiations." See *Red Wing Shoe*, 148

F.3d at 1361. But in the context of large demand letter campaigns, there is clearly little need to *avoid disincentives* of such activity. Instead, it seems apparent that the senders of such bulk mail see *Red Wing Shoe* as insulation from legal liability, leading to the demand letter practices that many see as socially undesirable. See Megan La Belle, *Demand Letters, DJ Actions, and Personal Jurisdiction*, Patently-O (Apr. 2, 2014), *available online*.

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

### **III. COMPLETE AND PROPER RESOLUTION OF THE PRESENT CASE REQUIRES EN BANC OVERRULING OF *RED WING SHOE***

The Federal Circuit should either deem *Red Wing Shoe* overruled in light of subsequent Supreme Court precedent or take this case en banc to overrule *Red Wing Shoe*. As shown above, that decision has in substantial part led to a notorious and ongoing problem of forum shopping, which has had a detrimental impact on the patent system and the public good. Furthermore, the reasoning underly-

ing *Red Wing Shoe* is unsupportable as a matter of law and wrong as a matter of policy, particularly given the contemporary environment of patent licensing.

In cases in the past, this Court has avoided revisiting *Red Wing Shoe* by distinguishing its facts. See, e.g., *Xilinx, Inc. v. Papst Licensing GmbH & Co. KG*, 848 F.3d 1346, 1357 (Fed. Cir. 2017); *Jack Henry & Assocs., Inc. v. Plano Encryption Techs. LLC*, 910 F.3d 1199, 1206 (Fed. Cir. 2018). But see *id.* at 1207 (Stoll and Wallach, J.J., additional views) (calling for reconsideration of *Red Wing Shoe*). That may be an appropriate way to deal with this case alone, but it would not resolve the ongoing harms that *Red Wing Shoe* has created. As discussed above, the effect of *Red Wing Shoe* has been to encourage incredible jurisdictional gamesmanship in the form of sham offices, shell companies, and corporate misdirection.

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

Distinguishing *Red Wing Shoe* on the facts would only encourage patent plaintiffs to seek out further tactics to make their jurisdictional status fall within *Red Wing Shoe*'s categorical rule. The only way to properly avoid this activity is to remove that categorical rule and to replace it with a flexible inquiry into the

totality of the circumstances—the exact flexible inquiry that the Supreme Court’s “fair play and substantial justice” standard prescribes.

Accordingly, *Red Wing Shoe* is in condition to be overruled, and strong legal and policy considerations militate in that direction.

### CONCLUSION

For the foregoing reasons, *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355 (Fed. Cir. 1998), should be held overruled.

Respectfully submitted,

Dated: September 30, 2019

*/s/ Charles Duan*

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I hereby certify that on September 30, 2019, I caused the foregoing **Brief of the R Street Institute, Public Knowledge, the Electronic Frontier Foundation, Engine Advocacy, and the Innovation Defense Foundation as *Amici Curiae* in Support of Plaintiffs-Appellants** to be electronically filed with the Clerk of the Court using CM/ECF, which will automatically send email notification of such filing to all counsel of record.

Dated: September 30, 2019

*/s/ Charles Duan*

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