House Judiciary Committee, IP Subcommittee Hearing
"The Supreme Court's TC Heartland Decision," June 13, 2017
Testimony by Colleen Chien[1]

Chairman Goodlatte, Ranking Member Conyers, Subcommittee Chairman Issa and Ranking Member Nadler,

Thank you for inviting me to testify today on the Supreme Court's TC Heartland's decision. I will address three issues: the decision's likely near-term impact, the possible long-term impact, and third, new or remaining opportunities and risks. Or in other words: what just happened, what will happen, and, do we need to do anything about it?

My answers to the first two questions draw from my research with Professor Michael Risch of Villanova,[2] who's not here today but deserves much credit for the research I will present. The opinions I express are solely my own.

What Just Happened?

The short answer is that the Supreme Court decided that patent cases must be brought on defendant's turf, not plaintiff's. This is a sea change that will substantially curb forum shopping and impact every single patent case. It's also a return to business as usual over the long arc of patent history. What do I mean?

For most of the 200 plus years of the patent system, the rule has been that patent holders can sue only where the defendant inhabits or is present. For the first one hundred or so years, this was the law of all civil cases, not just patent cases.[3] Over the next hundred years, civil venue law changed, but patent venue mostly stayed the same. As the Supreme Court confirmed twice, patent cases could only be brought only in districts of the defendant.[4]

From about 1990 to about three weeks ago, things took a detour. The Federal Circuit's *VE Holdings* decision flipped the rule, stating that patent plaintiffs could file in virtually any venue, as long as personal jurisdiction requirements were met. This made the proper venue plaintiffs' choice, not defendant's turf.

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[1] Associate Professor, Santa Clara University Law School. Thanks to my co-author Michael Risch, Brian Howard of Lex Machina, Shawn Ambwani of Unified Patents, Shubha Ghosh, the support of the High Tech Law Institute at Santa Clara Law School, companies and counsel that spoke to me about their experiences with patent venue, and terrific research assistants Jerome Ma, Trevor Mead, Theresa Yuan, and Danielle York.

[2] *Recalibrating Patent Venue*, ___Md Law Rev. ___ (2017) (forthcoming), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2834130. See paper for support, citations and detail for this testimony, unless otherwise noted.

[3] Per Section 11 of the 1789 Judiciary Act. In 1889, even after the reins had been loosened on civil cases generally, Congress made a point to specify that patent cases were subject to the more restrictive rule.

[4] That is, İnhabited by the defendant or where the defendant had a place of business and committed infringing acts).

But by as early as 2001, it became clear that patent cases were increasingly clustering in certain districts, and not only because they were close to innovative companies. Plaintiffs were showing up in places like the ED Va due to procedural advantages such as time to trial and win rates.

Recently, parties have flocked to the Eastern District of Texas, not because of the barbeque, but again, because of the favorable reputation it has with plaintiffs. The Eastern District had 23 patent cases in 2000, but 283 cases in 2010. Each averaged more than 12 defendants per case, many of them users rather than makers of technology, vs. a national average closer to 4. To discourage this, the Committee added a joinder provision to the America Invents Act of 2011, requiring separate suits for separate products. But cases there just multiplied, from 283 in 2010 to 2,540 in 2015, 44% of all patent cases. Over 90% of these were brought by entities that don't make anything, patent assertion entities or so-called "patent trolls."

When given the opportunity to restore the law to where it had been for most of its 200+ year history, and make it harder for trolls to file in Texas, the Supreme Court did so in TC Heartland.

And so venue in patent cases is, once again, defendants' turf.

That's what just happened.

What Will Happen

The honest answer to the question, what will happen after TC Heartland is of course, no one really knows.

But the upshot is that *all* plaintiffs will have fewer options for where to file. So while patent trolls won't be able to file in East Texas as much anymore, California operating companies, New York universities, and Georgian individuals likewise will also have a harder time filing in venues of their choice.

When we crunched the numbers, based on a sample of 939 cases from 2015, we found that nearly 60% of patent assertion entities would had to have moved their cases. But that 51% of operating company cases would also have had to move. Individuals and universities would have to move less than either trolls or operating companies, we found.

Defendants will benefit from the changed rule, but less uniformly, we found. The smaller a defendant's footprint, the less likely it will get dragged into an unfamiliar venue – that's good news for startups and small businesses – though that might mean going to Delaware instead of Texas.

Firms that are present all over – like retailers – can still be sued all over. Foreign defendants will get no relief.

That's what we think the decision will mean for parties. What about districts? Again, our best guess is that:

- Cases will be more evenly distributed, although still concentrated in the "top 3" including Delaware and the Eastern District of Texas.
- The Eastern District of Texas will see hundreds of fewer cases; and Delaware and Districts in California will see more.
- How many specifically is hard to tell, as some cases may not survive the move, but so far, based on 2017 to the present, filings in these districts have moved in the directions we predicted. (FIG A)[5]

We do not believe that the Delaware court will necessarily be saddled with more cases than it has had in the recent past. (TABLE B) If we assumed that filings continue at their 2016 pace of 4534 cases per year, which is aggressive, and that Delaware captures a 24% share, as we did, that would be about 1,088 cases. That's less than Delaware saw in 2013 and close to what it saw in 2012.

Overall, then, the TC Heartland case should result in less forum shopping, less top court concentration, fewer of certain suits, and greater convenience for defendants. But we should also see impacts beyond patent venue.

That's because, in my personal opinion, the rise of the Eastern District has stunted other parts of the patent system. Patent law is federal, but interventions like inter partes review, section 101 jurisprudence, and even the patent pilot program have all "taken" differently in the Eastern District than they have nationally.[6] Permissive venue has enabled plaintiffs to, in effect, to select a different, plaintiff friendly, version of the patent system. While differentiation is healthy for the system, the gamesmanship that has resulted from the District's practices has not been. As such, TC Heartland will have positive multiplier effects, advancing not only venue law but the more consistent and uniform implementation of all patent interventions, and laws.

For example, the next five years of the Patent Pilot Program may look very different than the first five years. In the first half of the program, I would argue, Plaintiff's choices have been driven largely by the lure of procedural benefits rather than substantive expertise. During this time, while judges that don't like patent cases arguably have been able to more easily avoid them, pilot judges have not achieved

[5] Showing that Eastern Texas' share has declined, and that the shares of Delaware and Northern District Cal have increased from 2015 to the present.

[6] See description in Chien and Risch, supra note 2. See also, Federal Judicial Center, *Patent Pilot Program: Five Year Report (April 2016)*, available at https://www.fjc.gov/sites/default/files/2016/Patent%20Pilot%20Program%20Five-Year%20Report%20(2016).pdf on the differential implementation of reforms (showing that only over the first five years of the pilot program: only 1% of ED Texas cases have reached a judgment, as compared to 7% nationwide (Table 31), 1% of ED Texas cases have had at least one appeal, as compared to 4% nationwide (Table 29), approximately 80% of serially filed cases in pilot courts have been in the Eastern District (Table 26) (5,261/6,657), and the Eastern District had a disproportionally small share of cases stayed for PTO or ITC review (18, Table 9)).

greater success on appeal, a study by Amy Semet has found.[7] But with the venue change, and more support for the program – it largely functions now as an unfunded mandate – its promise for realizing the potential of trial court specialization can be thoroughly tested.[8]

What Might the Subcommittee Do?

While what else might happen is anyone's guess, here are three things the Subcommittee might keep its eye on.

First, patent assertion entities may adapt their behavior, focusing on foreign defendants and defendants with large footprints, like retailers and their customers. Customer stay or other provisions may become more urgent.

Second, patentholders – operating companies as well as patent assertion entities – may lobby for a more moderate rule. If the pre-Heartland rule was plaintiff friendly, the post-Heartland rule could be considered defendant friendly, with equity perhaps lying somewhere in between. Unlike TC Heartland, which impacts all plaintiffs uniformly, the Senate's VENUE act, which we also modeled, takes a more surgical approach – impacting a majority (54%) of NPE cases, we found, but only a small minority (14%) of non-NPE cases.

Third, other problems could remain unresolved or get worse. The best options the smallest defendants now have,[9] while less expensive than litigating in Texas, still cost tens or hundreds of thousands of dollars and a lot of stress, making nuisance settlement attractive. The smallest plaintiffs likewise, can't afford to defend against challenges to their patent and will have fewer options to sell their patents.

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[7] Amy Semet, *Patent Law Differences Among the Federal District Court: A Review of the Patent Pilot Project at the Five Year Mark* (unpublished paper) available at http://scholar.princeton.edu/sites/default/files/amysemet/files/semet_amy_patent_paper.docx (finding, based on a careful five-year review, that, "the pilot program has not yet achieved its aims and that specialized judges do not have greater success on appeal.")

[8] Competition from another intervention introduced in the AIA – *inter partes review* – may also limit the impact of the patent pilot program, as features like statutorily fixed time periods, technically trained and expert judges, and early assessments of the merits of the case (relayed through the institution decision) have all contributed to the procedure's popularity, at least with defendants. In addition, numerous other studies that have looked at whether or not judicial specialization leads to lower overturn rates haven't necessarily found it, see description of the following studies in Semet 2016, id. at 11-14: Schwartz (2008 and 2009) (experienced district judges aren't more accurate than less experienced district judges and ITC's administrative judges aren't more accurate than generalist judges in claim construction); Olson (2008) (claim construction accuracy not noticeably different across different tiers of generalist judicial experience); but see Miller and Curry (2009) (Judges with technical experience are likelier to view patent cases as salient than non-specialists), Kesan and Bell (2011) (Judicial experience reduces case duration; specialization increases accuracy of decision-making as measured by whether or not the CAFC totally/partially reverses trial courts on appeal).

[9] For example, *inter partes review* proceedings, also created under the America Invents Act, cost about 200-300K and 18 months to resolve; in court, "Alice" 101 motions, while potentially heard quickly, in 3 months, still cost 50-100K. Settlements of 10-20K look attractive in this light.

Poor patent quality as well as changes in the law are expensive to keep up with, placing the smallest parties at a disadvantage. How we encourage innovation in the patent system through technology transfer, licensing, and commercialization, not litigation should remain in the Subcommittee's view.

I thank and commend the Subcommittee for its commitment and attention to the proper functioning of the patent system.

FIG A: Actual and Projected Shares of Patent Cases in Leading Districts

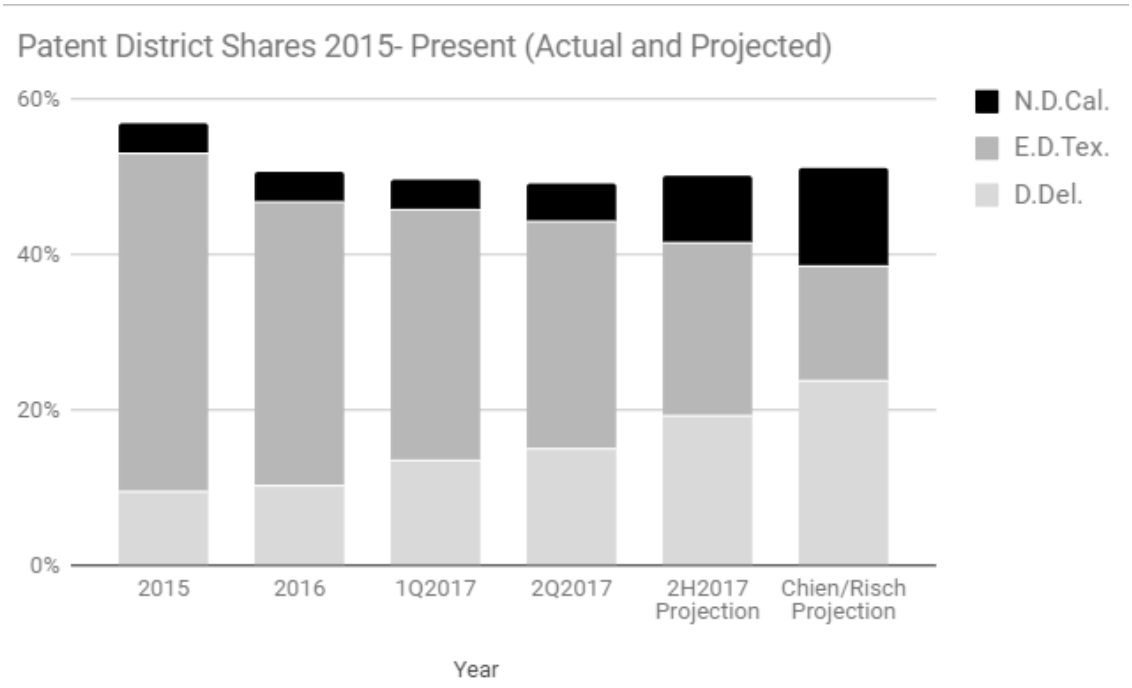

TABLE A: Actual and Projected Shares of Patent Cases in the Top 10 Districts

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**1Q17**	**2Q17**	**2H17 Projection**	**Chien/Risch Projection**
D.Del.	9%	14%	18%	22%	19%	9%	10%	13%	15%	19%	24%
E.D.Tex.	10%	12%	23%	24%	28%	44%	37%	32%	30%	22%	15%
N.D.Cal.	6%	6%	5%	4%	5%	4%	4%	4%	5%	9%	13%
C.D.Cal.	8%	9%	9%	7%	7%	5%	6%	5%	8%	7%	6%
D.N.J.	6%	5%	3%	2%	6%	5%	4%	4%	4%	5%	5%
N.D.Ill.	6%	6%	4%	4%	3%	3%	5%	4%	4%	4%	3%
S.D.N.Y.	4%	4%	3%	2%	2%	3%	2%	2%	2%	3%	3%
S.D.Fla.	2%	2%	2%	3%	2%	2%	3%	2%	1%	1%	2%

D.Mass.	3%	2%	1%	2%	1%	1%	1%	3%	4%	3%	1%
S.D.Cal.	2%	2%	3%	4%	1%	1%	2%	2%	2%	1%	1%

Source of actuals through 2Q17: Lex Machina; Methodology for Projections: the "Chien/Risch projection" shares are based on multipliers we derived based on our 2015 case mapping exercise as applied to 2016 cases because cert was taken on the TC Heartland case in December 2016. Our 2H17 projection shares were calculated based on the assumption that it would take about a year for shifts to be implemented following the Supreme Court's May 22, 2017 decision.

TABLE B: Actual and Projected Numbers of Patent Cases in the Top 10 Districts

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**1Q17**	**2Q17**	**2H17 Projection**	**2017 Projection**
D.Del.	253	485	1,002	1,334	946	545	454	129	168	404	701
E.D.Tex.	285	417	1,251	1,496	1,427	2,542	1,662	311	334	463	1,108
N.D.Cal.	178	220	264	248	260	229	187	39	55	186	279
C.D.Cal.	226	320	519	421	335	299	290	53	91	148	292
D.N.J.	155	181	160	146	287	272	187	42	44	96	183
N.D.Ill.	175	217	238	224	157	163	248	35	44	77	156
S.D.N.Y.	110	154	144	136	122	154	106	16	22	54	92
S.D.Fla.	67	64	134	187	111	132	132	17	13	31	61
D.Mass.	70	87	79	119	53	71	63	31	46	57	133
S.D.Cal.	56	80	142	225	75	81	92	24	20	30	73
Total	2789	3592	5473	6133	5094	5823	4534	965	1,132	2,097	4,195

Source of actuals through 2Q17: Lex Machina (1H17 numbers are approximated); Methodology for Projections: We calculated the 2H17 projections based on the following (aggressive) assumptions: that the filing rate of cases from 1H2017 would stay constant and, as described above, that the share of cases would shift gradually, with parties reaching steady state within about a year of the decision.