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Jurisdictional hurdles presented by foreign patent infringers

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In *In re HTC Corp.*, 889 F.3d 1349 (Fed. Cir. 2018), the U.S. Court of Appeals for the Federal Circuit considered whether a then-recent Supreme Court decision imposed restrictions on where foreign defendants could be sued.

That decision was *TC Heartland LLC v. Kraft Food Group Brands LLC*, 137 S. Ct. 1514 (2017). In it, the high court established that patent suits against domestic defendants may be brought only where the defendant is incorporated or has a "regular and established place of business."

By holding that foreign defendants were not protected by the special patent venue statute, 28 U.S.C.A. § 1400(b), the Federal Circuit in *HTC* reaffirmed the long-standing rule that suits against foreign defendants "are wholly outside the operation of all the federal venue laws, general and special."[1]

> When personal jurisdiction is based on a stream-of-commerce theory, selecting a forum can be especially complicated.

While foreign defendants can still seek to change venue on the basis of the parties' convenience, the venue laws otherwise offer no protection for foreign defendants seeking a venue change, the Federal Circuit said.

The Supreme Court refused to consider HTC Corp.'s appeal,[2] thus preserving the Federal Circuit's venue rule for foreign defendants.

The *HTC* and *TC Heartland* decisions have made foreign defendants attractive targets to patent owners that seek flexibility in their choice of venue.

Additionally, foreign product manufacturers and foreign parent companies can present the most attractive targets for patent infringement suits for strategic and business reasons.

For example, it is not unusual for the foreign manufacturer or foreign parent to be the best source of discovery for liability or damages issues.

A foreign manufacturer may also be the best target for patent infringement if the direct infringer in the U.S. is a customer or potential customer of the patent owner. In that situation, the patent owner can avoid suing a customer if it can plead indirect infringement by the foreign manufacturer and if the district court can exercise personal jurisdiction over the foreign manufacturer.

Because federal courts have exclusive subject-matter jurisdiction over patent infringement cases[3] and because venue is proper to foreign defendants in any district,[4] lack of personal jurisdiction is one of the last defenses a foreign defendant can assert to avoid being sued in the U.S.

STREAM-OF-COMMERCE THEORY

There are two flavors of personal jurisdiction, general and specific, but in the context of foreign defendants with an insignificant U.S. presence, specific jurisdiction is the one that is litigated the most.

Specific jurisdiction exists when a defendant's connections with the forum state comport with the state's long-arm statute, which sets forth the statutory requirements for service of process, and with the "minimum contacts" and "reasonableness" requirements rooted in the due process clause.[5]

When personal jurisdiction is based on a stream-of-commerce theory, selecting a forum can be especially complicated.

Take, for example, a patent owner that relies solely on a foreign manufacturer's placement of infringing products into the stream of commerce to establish personal jurisdiction. The patent owner must argue that the defendant has purposeful minimum contacts with the forum state, at least in part based on the defendant's sales or shipment of products that ultimately reach the forum state.

Unfortunately for patent owners and foreign defendants, however, there are no clear guidelines by which to determine whether personal jurisdiction exists in that situation.

The Federal Circuit applies its own law on matters of personal jurisdiction,[6] but, so far, has avoided constructing a single test by which to assess whether a foreign manufacturer's placement of products into the stream of commerce results in minimum contacts sufficient to create personal jurisdiction.

Even when presented with opportunities to establish such a test, the Federal Circuit has expressly avoided doing so.[7]

Consequently, different courts apply the stream-of-commerce theory of personal jurisdiction differently, prompting one federal judge to comment: "The approach to personal jurisdiction within the sphere of patent law is, resultantly, anything but uniform."[8]

Thus, a patent owner should look closely at the tendencies of the forum court, as well as the controlling state long-arm statute, if personal jurisdiction over a foreign defendant will be based on the defendant's placement of infringing products into the stream of commerce.

The Supreme Court has set forth two approaches to stream of commerce, and without a body of Federal Circuit case law to develop the contours of either approach, the district courts have applied the stream-of-commerce theory inconsistently.[9]

> Annual reports and other information published for investors can provide a rich source of information about the manufacturing activities of a foreign defendant.

The Supreme Court's two approaches to stream of commerce are sometimes called the "*Asahi* divide" in reference to the **justices' 4-4 split in** *Asahi Metal Industry Co. v. Superior Court,* 480 U.S. 102 (1987).

There, one plurality opinion, authored by Justice William Brennan, required only that the defendant be aware that its products would foreseeably reach the forum state. The other plurality opinion, authored by Justice Sandra Day O'Connor, required also that the defendant engage in additional conduct purposefully directed to the forum state.

Because the Federal Circuit is one of the circuit courts that has not picked sides in the *Asahi* divide, the same conduct by a defendant in a patent case can result in the exercise of personal jurisdiction in some courts and not others.[10]

Thus, patent owners should consider the following observations and guidelines when filing an infringement lawsuit against a foreign entity with no U.S. presence.

As an initial matter, patent owners should always try to ascertain whether accused products are placed into the stream of commerce by the potential defendant or another entity.

While a foreign parent corporation may own subsidiaries in the U.S., the patent owner will still have to show that the foreign parent placed, or influenced the placement of, the accused products into the stream of commerce.[11]

NATIONAL SALES CHANNELS

If the situation is unclear, the patent owner should, through its pre-suit investigation, try to obtain enough information about the foreign defendant to support allegations in the complaint that are sufficient for a court to grant a request for jurisdictional discovery if the defendant contests personal jurisdiction.

Annual reports and other information published for investors can provide a rich source of information about the manufacturing activities of a foreign defendant.

The information in an annual report may identify the business activities of the various corporate-family members and indicate whether such activities take place in, or are directed at, the U.S.

When analyzing annual reports, some courts have decided to exercise personal jurisdiction over a defendant based on generic statements that the defendant's products are intended for telecommunications carriers in the U.S., generally.[12]

Where the accused product is such that national distribution and sales are presumed, the defendant's intent to serve the U.S. market will often suffice to establish personal jurisdiction in courts that exercise jurisdiction based merely on whether the defendant could foresee that its products would reach the forum state, thereby applying the broader of the two Asahi tests. Such presumptions are also applied by courts that consider a product's placement in national sales channels sufficient to establish personal jurisdiction under either of the Asahi tests.

Most, if not all, district courts that exercise personal jurisdiction broadly in patent cases follow the Federal Circuit's practice of finding that the defendant's conduct either satisfies both the Brennan approach and the O'Connor approach to stream of commerce or that the conduct fails both approaches.

The decisions of these courts often cite the *Beverly Hills Fan* case, in which the Federal Circuit reversed a district court's determination that it could not exercise personal jurisdiction.[13]

The Federal Circuit found that, under either version of stream-of-commerce theory, the district court could exercise personal jurisdiction because the defendant "delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum state."[14]

Generally speaking, district courts appear to find this approach more attractive when the accused product is mass-produced and nationally distributed, such as a product in the automotive or consumer-electronics industries.

It is more challenging to establish jurisdiction over a foreign manufacturer in courts that apply the narrower of the *Asahi* tests and require additional conduct of the defendant that is purposely directed to the forum state.[15]

In those states, when a foreign defendant makes out-of-state sales to a downstream customer or distributor, the sales alone are insufficient to establish minimum contacts.

Typically, a patent owner must show that the foreign defendant did "something more" to have "targeted the forum."[16]

In such courts, isolated offers to sell in the forum state or Food and Drug Administration manufacturer obligations to customers in the forum state may be insufficient to establish minimum contacts even when it is foreseeable that the defendant's products will reach the forum state.[17]

LONG-ARM JURISDICTION

In some instances, a defendant's ties to the U.S. are so remote that personal jurisdiction is difficult to establish for any particular state.

One remedy is Federal Rule of Civil Procedure 4(k)(2), or the federal long-arm statute. This federal rule provides a statutory basis for personal jurisdiction when a defendant's contacts with each state are so limited that personal jurisdiction does not exist in any state.

It is particularly helpful in patent cases where personal jurisdiction is based on a stream-of-commerce theory.

For example, a patent owner may encounter jurisdictional problems in each state if the defendant is a foreign manufacturer that supplies its customers outside of the U.S. with products that the customers subsequently import into the U.S.

> Patent owners do not have to prove the lack of personal jurisdiction in all 50 states.

The manufacturer may not be directing its activities to any state in particular, even if the manufacturer is inducing patent infringement by its customers under Section 271(b) of the Patent Act, 35 U.S.C.A. § 271(b).

In that scenario, personal jurisdiction is appropriate in any federal district court under Rule 4(k)(2) if the foreign manufacturer is not subject to personal jurisdiction in any state but still has sufficient contacts with the U.S., as a whole, to enable the exercise of jurisdiction without violating due process requirements.

Providing further assistance to patent owners, the Federal Circuit has adopted an approach to Rule 4(k)(2) that encourages patent owners to plead federal long-arm jurisdiction in the alterative.

Specifically, patent owners do not have to prove the lack of personal jurisdiction in all 50 states.

Instead, the court applies a burden-shifting approach that triggers Rule 4(k)(2) when a defendant contests personal jurisdiction in the forum state and refuses to identify another state where it is subject to personal jurisdiction.[18]

Thus, Rule 4(k)(2) provides patent owners with a fallback position against foreign defendants that seek total insulation from the jurisdiction of U.S. courts by forming affiliates to import products into the U.S.[19]

OTHER THEORIES

Other theories of jurisdiction should also be explored. For example, an agency theory of personal jurisdiction may work even where a stream-of-commerce theory fails.

Under an agency theory, the specific jurisdictional acts of a U.S. subsidiary on behalf of its foreign parent can be imputed to the parent.[20]

In determining whether an agency relationship exists, courts will look at the degree of control exercised by the parent over its subsidiary. To do so, they will examine the overlap of corporate officers, financing of operations, division of management, and how each corporate entity obtains its business.

Another alternative for patent owners is to bypass personal-jurisdiction requirements altogether by filing a complaint with the U.S. International Trade Commission.

The ITC exercises jurisdiction over products imported into the U.S., and personal jurisdiction over the manufacturer is irrelevant to whether the ITC can block importation of infringing products through an exclusion order.

While patent owners can take advantage of the generous venue rules for foreign defendants, they should not overlook the intricacies of personal jurisdiction, particularly when personal jurisdiction is based on a stream-of-commerce theory and the defendant has little or no presence in the U.S.

Such situations are increasingly common as supply chains become more complex and the number of foreign-origin products and components that ultimately end up in the U.S. increases.

NOTES

1 *In re HTC Corp.*, 889 F.3d at 1354 (citing *Brunette Mach. Works Ltd. v. Kockum Indus. Inc.*, 406 U.S. 706 (1972)).

2 *HTC Corp. v. 3G Licensing SA*, 139 S. Ct. 1271 (2019).

3 28 U.S.C.A. § 1338(a).

4 *HTC*, 889 F.3d at 1354.

5 *Breckenridge Pharm. Inc. v. Metabolite Labs. Inc.*, 444 F.3d 1356, 1361 (Fed. Cir. 2006).

6 *Akro Corp. v. Luker*, 45 F.3d 1541, 1543 (Fed. Cir. 1995) ("We apply the law of the Federal Circuit, rather than that of the regional circuit in which the case arose, when we determine whether the district court

properly declined to exercise personal jurisdiction over an out-of-state accused infringer.").

[7] *See, e.g., Polar Electro Oy v. Suunto Oy*, 829 F.3d 1343, 1350 (Fed. Cir. 2016) (declining "to decide which version of the stream-of-commerce theory should apply"); *AFTG-TG LLC v. Nuvoton Tech. Corp.*, 689 F.3d 1358, 1364 (Fed. Cir. 2012); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994).

[8] *Polar Electro Oy v. Suunto Oy,* No. 11-cv-1100, 2017 WL 3713396 (D. Del. Aug. 29, 2017).

[9] *Cf.* Non-Confidential Petition for Writ of Mandamus at 23, 31, *In re TCT Mobile Int'l Ltd.,* No. 20-30 (Fed. Cir. Oct. 8, 2019) (arguing that the same district court has used different stream-of commerce tests).

[10] The circuit courts are nearly evenly divided between the Justice Brennan approach (4th, 5th, 7th, and 8th circuits), the Justice O'Connor approach (1st, 6th, and 9th circuits), and a third approach that applies both approaches and has never found their difference to affect the outcome (the Federal Circuit, the D.C. Circuit, and the 2nd and 3rd Circuits). *See, e.g., Lindsley v. Am. Honda Motor Co.,* No. 16-cv-941, 2017 WL 2930962 (E.D. Pa. July 7, 2017).

[11] *See, e.g., Univ. of Mass. Med. Sch. v. L'Oréal S.A.,* No. 17-cv-868, 2018 WL 5919745 (D. Del. Nov. 13, 2018) ("The record before the court does not support plaintiffs' argument that [defendant] introduced the Accused Products into the stream of commerce.").

[12] *See, e.g., Koninklijke KPN NV v. Kyocera Corp.,* No. 17-cv-87, 2017 WL 6447873 (D. Del. Dec. 18, 2017).

[13] *Beverly Hills Fan,* 21 F.3d at 1566.

[14] *Id. (quoting World-Wide Volkswagen Corp. v. Woodson,* 444 U.S. 286, 297–98 (1980)).

[15] *See, e.g., Lambeth Magnetic Structures LLC v. Toshiba Corp.,* No. 14-cv-1526, 2017 WL 782892 (W.D. Pa. Mar. 1, 2017) ("the O'Connor test controls").

[16] *J. McIntyre Mach. Ltd. v. Nicastro,* 564 U.S. 873, 882 (2011) (concurring opinions of Justices Anthony Kennedy and Stephen Breyer).

[17] *See, e.g., RegenLab USA LLC v. Estar Techs. Ltd.,* 335 F. Supp. 3d 526, 545 (S.D.N.Y. 2018) (finding that an exclusive distributorship agreement met the foreseeability requirement of New York's long-arm statute but was insufficient to establish personal jurisdiction under a stream-of-commerce theory).

[18] *See Touchcom Inc. v. Bereskin & Parr,* 574 F.3d 1403, 1415 (Fed. Cir. 2009).

[19] *See, e.g., Syngenta Crop Prot. LLC v. Willowood LLC,* 139 F. Supp. 3d 722, 734 (M.D.N.C. 2015) ("[Defendant] chose to direct the allegedly infringing product to the United States market by selling to an affiliate formed explicitly for that purpose. Thus, [defendant] purposefully directed its activities to citizens in the United States.").

[20] *Celgard LLC v. SK Innovation Co.,* 792 F.3d 1373, 1379 (Fed. Cir. 2015).

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