

## RECENT FEDERAL CIRCUIT DECISIONS ASSESSING JURISDICTION

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### I. INTRODUCTION

During the last year the Court of Appeals for the Federal Circuit (the “Federal Circuit”) has issued several opinions giving further guidance on the determination of jurisdiction in patent cases. Four recent cases offer insight to the court’s willingness to liberally interpret the conduct of parties but narrowly interpret contract terms when considering jurisdictional issues.

### II. AGREEMENT TRANSFERRING LIMITED RIGHTS INEFFECTIVE TO CONFER STANDING AS PATENTEE

In *Diamond Coating Technologies, LLC, et al. v. Hyundai Motor America et al.*, 823 F.3d 615 (Fed. Cir. 2016), the Federal Circuit examined the terms of a patent license and transfer agreement determining the rights transferred were insufficient to give the recipient standing to file the law suit as *patentee*. Diamond Coating Technologies, LLC (“Diamond”) sued Hyundai Motor America and others alleging patent infringement. The district court dismissed the action because it found the Patent Assignment and Transfer Agreement (“PATA”) between Diamond and Sanyo Electric Co. Ltd. (“Sanyo”), the original assignee of the patents-in-suit, failed to confer *patentee* status on Diamond. Without *patentee* status, Diamond lacked standing to sue under 35 U.S.C §281 and thus could not sue defendants without joining Sanyo as a party. After the district court dismissal, Diamond sought reconsideration relying on newly executed *nunc pro tunc* agreements (retroactive agreements) with Sanyo that were drafted to address the deficiencies of the prior agreement. However, the district court held the *nunc pro tunc* agreements did not cure the original lack of standing.

On appeal, the Federal Circuit analyzed the PATA to determine if Diamond had all the substantial rights in the patents-in-suit at the time it filed the lawsuit. Without having all substantial rights in the patents-in-suit Diamond would not be the *patentee* capable of bringing the lawsuit on its own. To successfully transfer title the PATA needed to transfer: (1) the entire exclusive patent right, (2) an undivided interest in the patents rights, or (3) the entire exclusive right within any

geographical region of the U.S. If the PATA did not transfer one of those interests it is merely a license and would not transfer title to the patents-in-suit.

The Federal Circuit focused its analysis on just two characteristics of the PATA that the court believed were determinative of whether an agreement transfers sufficient rights to render the recipient the owner of the patent. First, the court emphasized that the right to make, use and sell is vitally important. Secondly, the court identified the nature of the grantor's retained right to sue accused infringers and license the patent as the other most important factor.

The court found that Diamond did not possess sufficient rights to make, use or sell the patented inventions. This was evidenced by the PATA's grant to Sanyo of a royalty free right to make, use and sell products covered by the patents-in-suit while failing to grant a similar right to practice and sell to Diamond. Second, the court found that Diamond did not possess sufficient rights to sue and license others. Sanyo retained significant control over Diamond's enforcement by including terms in the PATA that limited Diamond's activities only to those that took into consideration the best interests of Sanyo, restricted licensing that required Sanyo's prior written consent and limited Diamond's discretion in suing other companies. These PATA terms evidenced the limited nature of the rights received by Diamond and showed Sanyo retained significant control over Diamond's enforcement and litigation activities. With only limited rights Diamond could not stand alone as a *patentee* under 35 U.S.C. §281.

The Federal Circuit affirmed the dismissal concluding the PATA did not convey all of the substantial rights in the patents-in-suit to Diamond. Accordingly, Diamond was not a "patentee" under 35 U.S.C. §281 and therefore could not bring the lawsuit alone without Sanyo. The Federal Circuit also affirmed the district court's holding that the Diamond and Sanyo *nunc pro tunc* agreements could not act retroactively to cure the standing deficiency.

### III. PARTY'S SHIPPING PRODUCT FROM FINLAND SUFFICIENT TO ESTABLISH MINIMUM CONTACTS WITH DELAWARE

In *Polar Electro Oy v. Suunto Oy et al*, 829 F.3d 1343 (Fed. Cir. 2016), the Federal Circuit found a Finnish company met the minimum contacts test in Delaware by packaging and labeling product in Finland and shipping to Delaware at the request of others. Upon being sued for patent infringement in Delaware, Suunto Oy ("Suunto") filed a motion to dismiss the complaint for lack of personal jurisdiction.

Suunto did not directly sell products in the U.S., but instead sold its products through its sister company Amer Sports Winter & Outdoor (“ASWO”). After completion of jurisdictional discovery, the Delaware district court granted the motion to dismiss. The district court found that under the Delaware long arm statute, while the specific jurisdiction provisions were not met because Suunto did not *directly* sell the accused products in Delaware, the long arm statute was satisfied under the “dual jurisdiction” theory used by Delaware state courts. However, when considering the due process prong, the district court concluded that Suunto did not have sufficient contacts with Delaware to support specific jurisdiction. According to the district court, the facts only showed Suunto had a general intent to serve the U.S. market without any particular focus on Delaware. The district court concluded the due process considerations prevented its exercise of jurisdiction over Suunto.

The Federal Circuit reversed the district court by focusing on the due process requirement that there be sufficient minimum contacts with the forum state. After reviewing the unsettled nature of the stream-of-commerce theory of personal jurisdiction, the Federal Circuit concluded Suunto did have sufficient contacts with Delaware, even under the more stringent tests of the stream of commerce theory for determining specific jurisdiction. The evidence showed Suunto purposefully shipped at least ninety-four accused products to Delaware retailers fully expecting that its products would then be sold in Delaware, indicating an intent and purpose to serve not only the U.S. market generally but also the Delaware market specifically. While ASWO provided the addresses, took title to the goods in Finland and directed and paid for shipping to the U.S., it was Suunto that physically fulfilled the orders, packaged the products and prepared the U.S. shipments in Finland. The court held that Suunto, through its conduct in Finland, purposefully availed itself of the Delaware market.

The court distinguished Suunto from a small manufacturer selling its products to an independent distributor who then distributes products to consumer across the nation. Suunto’s acting in concert with ASWO and its active participation in supplying and shipping the accused products to Delaware constituted purposeful availment sufficient to satisfy the minimum contacts requirement.

The Federal Circuit vacated the district court’s determination that it lacked personal jurisdiction over Suunto and remanded the case for the district court to determine whether, under due process, exercising jurisdiction over Suunto would be reasonable and fair. Because the district court did not believe Suunto’s activities met the specific jurisdiction provisions of the Delaware long arm statute nor met the minimum contacts under due process it would be unsurprising if the district

court dismissed the case on remand. The remand issue has been fully briefed and is pending in the district court.

#### IV. PURPOSEFULLY SHIPPING ACCUSED PRODUCT TO FORUM STATE SATISFIES MINIMUM CONTACTS

While *In re TC Heartland LLC*, with its venue issues, is now before the Supreme Court and will be addressed in the materials by another presenter, it is worth a quick mention that the Federal Circuit did discuss personal jurisdiction and minimum contacts issues relating to Delaware in its order denying a Petition for Writ of Mandamus. 821 F.3d 1338 (Fed. Cir. 2016). Relying primarily on *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1565 (Fed. Cir. 1994), the court reaffirmed its long standing precedent that the minimum contacts element of the due process requirement is met when a non-resident defendant purposefully ships accused products into the forum through an established distribution channel. The minimum contacts element was satisfied in this case by shipments to Delaware that were only about 2% of total yearly sales of the defendant.

#### V. PATENTEE'S INTENT TO ENFORCE PATENT SUFFICIENT TO ESTABLISH JURISDICTION EVEN WITHOUT KNOWLEDGE OF INFRINGING PRODUCT

In *Asia Vital Components Co., Ltd. v. Asetek Danmark A/S*, 837 F.3d 1249 (Fed. Cir. 2016) the Federal Circuit found a controversy existed due to patentee's objective intent to assert its patents thus conferring jurisdiction on the district court. Asia Vital Components Co., Ltd. ("AVC") filed a declaratory judgement action against Asetek Danmark A/S ("Asetek") seeking a declaration that AVC did not infringe two Asetek patents and that those patents were invalid. The district court dismissed the case for lack of subject matter jurisdiction, concluding that AVC's complaint did not plead sufficient facts to show there was a substantial controversy between the parties. The Federal Circuit reversed the district court's ruling and remanded for further proceedings.

In 2012, Asetek began bringing lawsuits against competitors that make and sell cooling systems alleging infringement of its patents. In 2014, Asetek sent a letter to AVC accusing AVC of infringing the its patents. The letter was based on the mistaken premise that AVC manufactured a particular product, the Liqmax 120s. In response, AVC told Asetek it did not make the Liqmax 120s, but requested a meeting to discuss related matters and possible future cooperation. Asetek responded by email that if the AVC was not making the Liqmax 120s then there

was no reason to meet. However the email went on to discuss (1) the bad prior experience between the parties, (2) the distrust between the parties, (3) the refusal of Asetek to license AVC, (4) the Asetek belief that AVC was likely selling infringing products, (5) Asetek's pending litigation against other competitors, and (6) its foreign patents.

A month later AVC filed a complaint against Asetek seeking a declaration that its new K7 and K9 products did not infringe the Asetek patents and that those patents were invalid. AVC contended the prototype K7 and K9 products were similar to competitor products that Asetek had accused of infringement. Asetek responded that it never accused the K7 and K9 products and in fact did not even know that those products existed before the AVC complaint. The district court, in dismissing the case for lack of subject matter jurisdiction, relied heavily on Asetek's declarations that it was unaware of the existence of those products.

In its review, the Federal Circuit applied the *MedImmune* test for whether a case or controversy exists. The *MedImmune* test is "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant issuance of a declaratory judgment." 549 U.S. 118, 127 (2007).

In looking at the totality of the circumstances, the Federal Circuit focused its analysis on statements made in Asetek's responsive email finding it indicated an actual controversy between the parties existed. Statements evidencing the existence of a controversy were (1) the rehash of the volatile relationship between the parties; (2) the declaration it would not license its patents to AVC; (3) the accusation AVC was likely selling other infringing products; (4) Asetek's warning AVC that it would enforce its IP and had pending litigations against competitors; and (5) emphasizing allowance of foreign counterparts of the asserted patents. There was also evidence Asetek had made infringement threats to AVC's customers.

The Federal Circuit rejected Asetek's lack of knowledge of the specific infringing products and its failure to allege infringement of a specific product as being determinative of whether a controversy existed. Instead, the Federal Circuit, citing *Hewlett-Packard v. Accelaron LLC*, 587 F.3d 1358, 1363 (Fed. Cir. 2009), found Asetek's actions, including its responsive email, clearly demonstrated intent to enforce its patent and was thus sufficient to conclude that a substantial controversy between the parties existed at the time of the complaint. Also, the requirement that the threat of the lawsuit was real and immediate was satisfied because K7 and K9

products were completed designs with prototypes that AVC intend to market and sell and that AVC had customers lined up to purchase.

## VI. SUMMARY

These cases offer further guidance to practitioners on jurisdictional issues related to patent litigation. The Federal Circuit continues its strict reading of agreements and contracts when determining if substantial rights, sufficient to confer standing, have been transferred between the parties. Parties must be explicit as to the rights being transferred and that the transfers occur without limitations. At the other end of the spectrum, the Federal Circuit reviews the conduct of parties liberally when determining if minimum contacts have been made within a district or if a case or controversy exists. Knowledge alone of where products may end up after they enter the stream of commerce now seems sufficient to establish minimum contacts with a forum state. It will become more and more difficult for cooperating businesses to structure relationships and duties that will shield a party from being pulled into court. Last, a letter, with few specifics, sent to a known competitor could be sufficient to create a case or controversy. When sending letters to competitors, parties must recognize that omitting specific facts from the letter will not necessarily prevent triggering a declaratory judgement action.