

State selection

Choice of venue in US
patent litigation

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IN SUMMARY

- The creation of the US Federal Circuit was supposed to curtail forum-shopping because no matter what District Court hears a patent case, Federal Circuit law applies. Nonetheless, forum-shopping has not disappeared from patent litigation.
- The choice of forum raises the question of whether the preferred forum has personal jurisdiction and venue over the Defendants. Many assume that the law regarding personal jurisdiction reaches almost all Defendants and that a Plaintiff can choose a forum with little risk that a motion attacking the forum will succeed
- However, personal jurisdiction and/or venue motions in patent litigation are often granted when the Defendant's contacts with the chosen forum are tenuous or appear to have been orchestrated by the Plaintiff



In my place

Personal jurisdiction and venue in US patent litigation

William J. Brutocao of Sheldon Mak Rose & Anderson looks at the law relating to personal jurisdiction in the US

The creation of the Federal Circuit was supposed to curtail forum-shopping because no matter what District Court hears a patent case, Federal Circuit law applies. Nonetheless, forum-shopping has not disappeared from patent litigation. Certain Districts appeal because of the speed with which a case gets to trial, and certain Districts retain a reputation as being more favourable or unfavourable to patentees. Procedural rules specifically applicable to patent litigation adopted in certain Districts, *eg*, the Northern District of California, attract or deter some litigants. And, of course, as in any kind of litigation, Plaintiffs generally prefer to litigate in their "home" state and to require Defendants to defend litigation away from "home."

The choice of forum raises the question of whether the preferred forum has personal jurisdiction and venue over the Defendants. Many litigators assume that the law regarding personal jurisdiction reaches almost all Defendants and that a Plaintiff can choose a forum with little risk that a motion attacking the forum will succeed. Traditional "minimum contacts" and "stream of commerce" theories seem to snare any Defendant if the allegedly infringing product is found anywhere in the forum. The author's experience in recent years, however, demonstrates that personal

jurisdiction and/or venue motions in patent litigation are often granted when the Defendant's contacts with the chosen forum are tenuous or appear to have been orchestrated by the Plaintiff.

During the last eight years, we have filed six motions in intellectual property litigation on personal jurisdiction and/or venue grounds. We filed these motions in the following District Courts: Minnesota, Southern District of Ohio, Southern District of New York, Central District of California, Nevada, and Southern District of Florida. Five of the six motions were granted.

Two of the cases have published opinions: *Westvaco Corp. v. Viva Magnetics Ltd.*, 2002 WL 1933756 (S.D.N.Y. 2002) and *Elite Aluminum Corp. v. Trout*, ___ F.Supp.2d ___, 2006 WL 2456465 (S.D. Fla. 2006). The reported *Westvaco* case dealt with jurisdictional discovery. Later, the court granted the motion.

We have learned that some courts take a long time to decide these motions. Although two of the motions were decided within about a month, another two were not decided until more than six months after being fully briefed, and in one case, more than two years later. Such a long passage of time is not in the best interests of either party.

In addition to the added expense, a long



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delay on a jurisdictional motion can frustrate the desire to achieve a prompt resolution. If the Plaintiff seeks a preliminary injunction, a jurisdictional motion needs to be decided first. In *Elite Aluminum*, the judge deferred ruling on the preliminary injunction motion pending decision on personal jurisdiction. A similar fate befell the Plaintiff in *Osteotech, Inc. v. GenSci Regeneration Sciences, Inc.* 6 F.Supp.2d 349 (D.N.J.1998), where the court transferred the action and denied the preliminary injunction motion as moot. Plaintiffs might reconsider the choice of forum to minimize the risk that Defendants could derail an injunction motion by a 12(b)(2) motion to dismiss.

Basic jurisdictional analysis in patent cases

In a patent case, the court applies Federal Circuit law to determine whether the court may exercise personal jurisdiction (*Hildebrand v. Steck Mfg. Company, Inc.*, 279 F.3d 1351, 1354 (Fed. Cir. 2002)). This is a two-part question: first, whether the forum state's long-arm statute permits the assertion of jurisdiction; and second, whether the assertion of personal jurisdiction violates federal due process (*Graphic Controls Corp. v. Utah Medical Products, Inc.*, 149 F.3d 1382, 1385 (Fed. Cir. 1998)).

The Court looks to the local forum's law as interpreted by state courts and the Regional Circuit on the first issue (reach of the long-arm statute), and to the decisions of the Federal Circuit on the second issue (federal due process) (*Graphic Controls*, 149 F.3d at 1385-1386).

In some states, e.g., California and Nevada, the long-arm statute provides that jurisdiction extends to the limits of federal due process (Cal. Code of Civ. Pro. § 410.10; Nev. Rev. Stat. 14.065(1)). Other states, e.g., New York and Florida, have long-arm statutes that list the types of contacts that are necessary for that particular state to exercise personal jurisdiction (see N.Y. Civ. Prac. §302; Fla.Stat. §48.193). In these states even though there might be sufficient minimum contacts under a traditional due process analysis, a jurisdictional motion might be granted because the case does not fit within the long-arm statute. In the *Westvaco* case, the court eventually decided that jurisdiction was lacking under the New York long-arm statute.

Under Federal Circuit precedent in the

Beverly Hills Fan case, if the only issue is whether due process permits jurisdiction, jurisdiction can be based on "stream of commerce" (*Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994)). Thus, if the accused product is found in the forum it is likely that jurisdiction can be established under "stream of commerce." It is debatable whether the Supreme Court would agree with this theory of jurisdiction. In *Asahi Metal Industry Co. v. Superior Court of California*, 480 U.S. 102, 107 S.Ct. 1026 (1987), the plurality opinion rejected a stream of commerce theory, stating:

"The placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State. Additional conduct of the defendant may indicate an intent or purpose to serve the market in the forum State, for example, designing the product for the market in the forum State, advertising in the forum State, establishing channels for providing regular advice to customers in the forum State, or marketing the product through a distributor who has agreed to serve as the sales agent in the forum State. But a defendant's awareness that the stream of commerce may or will sweep the product into the forum State does not convert the mere act of placing the product into the stream into an act purposefully directed toward the forum State."

Asahi was decided by an eight-member court, and only four justices joined in the part of the opinion that discussed the stream of commerce issue, however. Consequently that part of the opinion is not precedential. If the issue were to be raised in the Supreme Court again, perhaps a majority would agree with the plurality's reasoning in *Asahi*.

Cases where plaintiff initiates transactions

Given the *Beverly Hills Fan* decision, one might expect that if one of the Defendant's products is found in the forum, and the long-arm statute is satisfied, that should be enough for jurisdiction. One can find cases that essentially state precisely that, i.e., a sale of just one product within the forum is enough for jurisdiction (see *Osteotech, supra*, 6 F.Supp.2d at 354). One should look further, however, before deciding that jurisdiction may

be based on one product or one transaction in the forum. Several cases have concluded otherwise, especially when it appears that the product found its way into the forum as a result of a transaction or transactions initiated or orchestrated by the Plaintiff.

These cases include: *Shamsuddin v. Vitamin Research Products*, 346 F.Supp.2d 804 (D. Md. 2004); *ESAB Group, Inc. v. Centricut, LLC*, 34 F.Supp.2d 323 (D.S.C. 1999); *Edberg v. Neogen Corp.*, 17 F.Supp.2d 104 (D. Conn. 1998); *Regent Lighting Corp. v. American Lighting Concept, Inc.*, 25 F.Supp.2d 705 (M.D.N.C. 1997); and *DeSantis v. Hafner Creations, Inc.*, 949 F.Supp. 419 (E.D. Va. 1996).

As one court aptly observed: "Any other holding would allow a resident Plaintiff to manufacture jurisdiction over a non-resident Defendant in an inconvenient forum even when the Defendant has not purposefully directed any activity toward the forum state" (*Regent Lighting Corp.*, *supra*, 25 F.Supp.2d at 711).

Agreeing with the above cases, Judge Dimitrouleas in *Elite Aluminum* reached the same conclusion: "Defendants' single unsolicited sale into Florida, which was initiated by the actions of Plaintiff, is not of the nature or quality to satisfy the due process requirements for exercising personal jurisdiction over Defendants."

The court relied on Supreme Court precedent in *World-Wide Volkswagen*, 444 U.S. at 297-98:

"Hence, if the sale of a product by a manufacturer or distributor... is not simply an isolated occurrence, but arises from the efforts of the manufacturer or distributor to serve directly or indirectly, the market for its products in other States, it is not unreasonable to subject it to suit in one of those States if its allegedly defective merchandise has there been the source of injury to its owner or to others."

This reasoning is sound. The fundamental premise of jurisdiction is that a Defendant has in some manner volitionally injected itself into the forum for the purpose of transacting business. If a Defendant has no connection with the Plaintiff's forum and the only reason that the Defendant's product is found in the state is because the Plaintiff initiated a transaction for the purpose of asserting jurisdiction over the Defendant, it is unreasonable to say that the Defendant voluntarily placed itself within the forum.

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This would be “simply an isolated occurrence” that does not arise “from the efforts of the manufacturer or distributor to serve directly or indirectly the market for its products in other States.”

Comment on Beverly Hills Fan

When the Federal Circuit adopted the stream of commerce theory in *Beverly Hills Fan*, it decided that in patent cases it would apply its own law to the issue of personal jurisdiction. In other cases, the Federal Circuit would not apply its own law, but would apply the law of the Regional Circuit (see, e.g., *Amana Refrigeration, Inc. v. Quaddlux, Inc.*, 172 F.3d 852 (Fed. Cir. 1999)).

It is a dubious proposition that any court could or should reach a different conclusion with respect to personal jurisdiction depending on whether, for example, the Plaintiff is suing on one hand for design patent infringement or on the other hand for trade dress infringement. Under current law, Federal Circuit authority would control in a case of design patent infringement, but not trade dress infringement. The exact same product could be at issue and the extent of the contacts with the forum could be identical, but in one case the conclusion might be that there is personal jurisdiction, and in the other case not.

Thus, not only might the Federal Circuit have been wrong with respect to adopting the stream of commerce theory, it might have been wrong in deciding that the Federal Circuit should create its own law with respect to personal jurisdiction in patent cases. The Supreme Court has disagreed with the Federal Circuit where it has carved out special rules for patent cases (see, e.g., *eBay Inc. v. MercExchange, L.L.C.*, ___ U.S. ___, 126 S.Ct. 1837 (2006)). If the issue of personal jurisdiction in patent cases is brought to the Supreme Court, perhaps it would do so again.

Special issues for individual defendants

Jurisdiction over individuals

Jurisdiction analysis for an individual differs from analysis for a corporation. Even though there may be jurisdiction over a corporate defendant, that does not mean there is jurisdiction over an associated individual defendant, including its President (see *3D Systems, Inc. v. Aarotech Laboratories, Inc.*, 160 F.3d 1373, 1380-81, (Fed. Cir. 1998); and *Genetic Implant Sys., Inc. v. Core-Vent Corp.*, 123

F.3d 1455, 1459-60 (Fed. Cir. 1997)). Thus, jurisdiction needs to be established for each defendant based on that defendant’s particular contacts. The result obviously can be that there is jurisdiction over less than all defendants.

Furthermore, in jurisdictions that recognise the “fiduciary shield” doctrine, there may be additional arguments why the court lacks jurisdiction over individual defendants. “The fiduciary shield doctrine recognises that if an individual’s only contacts with a particular state are in his capacity as a fiduciary of a corporation, he may be shielded from that state’s exercise of personal jurisdiction over him” (*Sage Computer Technology v. P-Code Distributing Corp.*, 576 F. Supp. 1194, 1196 (D. Nev. 1983)). The “fiduciary shield” doctrine is not recognised in all jurisdictions and has various exceptions.

The Federal Circuit has not indicated whether it will apply a fiduciary shield doctrine. At least one district court has concluded that the Federal Circuit would apply it:

“Because the Federal Circuit has previously applied the law of the forum state in determining whether the fiduciary shield doctrine applies to limit the exercise of personal jurisdiction over a non-resident, this Court will follow its lead and look to Texas law in its jurisdictional inquiry” (*Auto Wax Co., Inc. v. Marchese*, 2002 WL 1558376 (N.D. Tex. 2002)).

The *Auto Wax* court went on to hold, however, that the fiduciary shield doctrine did not apply because the individuals were accused of committing an intentional tort of wilful patent infringement.

Logically, in the first part of the jurisdictional analysis, in which we look to the state’s long-arm statute, the Federal Circuit should apply the fiduciary shield doctrine to the same extent that the local jurisdiction would apply it. Although there are limits to the application of the doctrine, it might apply in a given case.

Venue for individuals

Venue for an individual in a patent case might also be different than for a corporation. Venue and jurisdiction over a corporation are a single inquiry. Under 28 U.S.C. § 1400(b) venue may be in any district where the defendant “resides” and under 28 U.S.C. § 1391(c) a corporation resides anywhere that the court has personal jurisdiction over it. Thus, if the

court has personal jurisdiction over a corporation, it also has venue (*VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990)).

The same cannot automatically be said for an individual. If an individual is the *alter ego* of a corporation, then proper venue as to the corporation can establish venue over the individual (*Minnesota Min. & Mfg. Co. v. Eco Chem, Inc.* 757 F.2d 1256 (Fed. Cir. 1985)). Also, venue for personal liability of a corporate officer for acts of infringement by the corporation, whether or not there is a basis to pierce the corporate veil, may be based on venue for the corporation (*Hoover Group, Inc. v. Custom Metalcraft, Inc.* 84 F.3d 1408 (Fed. Cir. 1996)). Venue as to corporate employees charged with personal liability for acts taken as individuals, not as *alter ego* of the corporation, however, does not flow automatically from venue over the corporation (*Id.*).

If circumstances do not justify predicating venue over an individual on venue over a corporation, then one must establish venue over the individual independently under section 1400(b). If the individual does not reside in the forum state, one has to look to the second part of section 1400(b), namely: “where the defendant has committed acts of infringement **and has a regular and established place of business**” (emphasis added). Normally, an individual who does not reside in a state will not have a regular and established place of business there. The result could be proper venue as to a corporate defendant, but not the individual.

Summary

Personal jurisdiction and venue in a patent case requires one to evaluate:

- (1) the forum state’s long-arm statute;
- (2) minimum contacts for each Defendant;
- (3) whether the Defendant’s forum sales are isolated or initiated by a Plaintiff or a surrogate;
- (4) whether there is jurisdiction over individuals;
- (5) whether the “fiduciary shield doctrine” might apply; and
- (6) whether there is venue over individuals.

Personal jurisdiction and venue in patent cases is not a foregone conclusion and it is more likely than one might think that a motion challenging the forum may be granted. 