FEDERAL CIRCUIT HOLDS SENDING PATENT DEMAND LETTERS ALONE MAY SUBJECT THE SENDER TO PERSONAL JURISDICTION

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Clarifying ten-year-old precedent on personal jurisdiction in patent declaratory judgment actions, the Federal Circuit recently held in *Jack Henry & Associates, Inc. v. Plano Encryption Technologies* [1] that sending a patent enforcement letter to an accused infringer in a district created personal jurisdiction over the sender in that district. A unanimous Federal Circuit panel rejected the district court's holding that the Federal Circuit has a unique rule for personal jurisdiction in patent cases that "letters threatening suit for patent infringement sent to the alleged infringer by themselves do not suffice to create personal jurisdiction." The Federal Circuit emphasized that the district court must consider all three due process factors, including whether exercising personal jurisdiction would be "reasonable and fair."

In addition, two of the three Federal Circuit judges wrote "additional views" that questioned prior Federal Circuit decisions that held "the sending of infringement letters would satisfy the minimum contacts requirement of due process except for policy considerations unique to the patent context." Those two judges concluded that such decisions may conflict with Supreme Court precedent and should be rejected.

BACKGROUND AND PROCEEDING BELOW

Plano Encryption Technologies ("PET") is located in the Eastern District of Texas. PET sent letters to a number of banks located in the Northern District of Texas, alleging that the recipient banks infringed PET's patents. Each letter invited the recipient bank to enter a nonexclusive patent license. The recipient banks filed a declaratory judgment action for noninfringement in the Northern District of Texas. PET moved to dismiss, arguing that PET was not subject to personal jurisdiction in the Northern District of Texas because all it had done was send letters into the Northern District.

The district court granted PET's motion to dismiss. The court stated that the Federal Circuit has "held that, based on policy considerations unique to the patent context, letters threatening suit for patent infringement sent to the alleged infringer do not suffice by themselves to create personal jurisdiction." [2]

FEDERAL CIRCUIT DECISION

In a decision authored by Judge Pauline Newman, the Federal Circuit reversed and remanded, and clarified that its decision in *Avocent* did not establish a general rule for patent cases that a letter charging infringement by itself can never provide specific personal jurisdiction. Instead, when evaluating specific personal jurisdiction over a defendant, courts must consider all three due process factors:

> (1) whether the defendant “purposefully directed” its activities at residents of the forum; (2) whether the claim “arises out of or relates to” the defendant’s activities within the forum; and (3) whether asserting personal jurisdiction is “reasonable and fair.”

The first two factors are the "minimum contacts" portion of the jurisdictional framework. At oral argument, PET conceded that these two factors were met in this case.

For the third due process factor, the Federal Circuit held that district courts must determine if the connection between the forum and the episode-in-suit could justify the exercise of specific personal jurisdiction. The Federal Circuit emphasized that this analysis "is not susceptible of mechanical application" and that the standard is "fair play and substantial justice." [3] The Federal Circuit held that the burden falls on the defendant, as the source of the minimum contacts, to make a "compelling case" that the exercise of jurisdiction would be unreasonable and unfair.

PET did not assert that jurisdiction in the Northern District of Texas was inconvenient, unreasonable, or unfair. The Federal Circuit noted that PET had voluntarily undertaken a licensing program with threats of litigation directed to the banks in the Northern District of Texas, and that PET's only business appeared to be that of licensing and litigating its patents. The Federal Circuit also noted that the Northern District has an interest in resolving disputes involving its residents and businesses. Given these circumstances, the Federal Circuit concluded that PET met the minimum contacts requirement without offending due process. Thus, the court concluded that PET was subject to personal jurisdiction in the Northern District of Texas, where PET sent its patent enforcement letters.

Judge Kara F. Stoll and Judge Evan J. Wallach also issued two paragraphs of "additional views" in which they argued that the Federal Circuit should revisit *Red Wing Shoe Co. v. Hockerson-Halberstadt* [4] and its progeny. They asserted that those cases are contrary to Supreme Court precedent to the extent they suggest that comprehensive analysis of the fairness factors discussed above is not required where patent enforcement letters are concerned.

CONCLUSION

When developing and executing patent enforcement strategies, businesses and individuals should be mindful of the possibility that sending an enforcement letter could cause the recipient to file a declaratory judgment action. The Federal Circuit's *Jack Henry & Associates* decision clarifies that there is no per se rule that merely sending such a letter, without more, can never establish personal jurisdiction. Instead, personal jurisdiction in patent declaratory judgment actions will remain a fact-specific determination that is likely to turn on whether the assertion of personal jurisdiction would be unreasonable and unfair.

NOTES

[1] 2016-2700 (Fed. Cir. Dec. 7, 2018).

[2] *Id.* (citing Avocent Huntsville Corp. v. Aten Int'l Co., 552 F.3d 1324, 133 (Fed. Cir. 2008)).

[3] *Id.* (quoting Kulko v. Superior Court of Cal., 436 U.S. 84, 92 (1978) and International Shoe Co. v. Washington, 326 U.S. 310, 316 (1945)).

[4] 148 F.3d 1355 (Fed. Cir. 1998).

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