

Personal Jurisdiction Takeaways From Fed. Circ. In Xilinx

Law360, New York (February 16, 2017, 3:50 PM EST) -- In Xilinx Inc. v. Papst Licensing GmbH & Co., decided on Feb. 15, 2017, the Federal Circuit held that California's long-arm statute conferred personal jurisdiction over a patent licensing firm that sent cease-and-desist letters to a California company, and that also met with the company in California to discuss issues of infringement and potential licensing of patents that may be asserted against the California company. This case serves as a lesson to patent owners that if they do not want to be hauled into potentially unfavorable jurisdictions to defend declaratory judgment actions, such as jurisdictions in which a potential infringer's headquarters is located, they should be careful as to what actions they perform in those jurisdictions.



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Background

Papst, a patent licensing company headquartered outside the U.S., determined that Xilinx, a California-based corporation, may be infringing patents owned by Papst. In January 2014, Papst sent out several patent infringement notice letters to Xilinx, which proposed discussing potential licenses to certain Papst patents. Also, Papst sent three representatives to California to meet with Xilinx, in which allegations of infringement and potential licensing of Papst patents were discussed. No agreement was reached between the parties.

Xilinx filed a declaratory judgment action in the Northern District of California on Nov. 7, 2014, which asserted that Xilinx's products do not infringe the Papst patents mentioned in the letters sent by Papst to Xilinx, and that those Papst patents are invalid. On that same day, Papst filed an infringement suit against Xilinx in the District of Delaware. Papst moved to dismiss the California declaratory judgment action for lack of personal jurisdiction, or in the alternative, to transfer the action to Delaware.

The judge in the California declaratory judgment action addressed Papst's motion to dismiss for lack of personal jurisdiction, by first finding that the court lacked general jurisdiction over Papst because Papst is not incorporated in California and does not have its principal place of business there. The California court judge then analyzed whether the California court had personal jurisdiction over Papst, and held that Papst's California contacts were "either solely related to Papst's attempts to license the patents, which the Federal Circuit has held insufficient [to confer personal jurisdiction], or according to Federal Circuit law are irrelevant to the parties' instant dispute." The California court judge also determined that prior patent lawsuits involving Papst in California "are irrelevant to the question at hand: whether this Court can assert specific jurisdiction over Papst based on its efforts to enforce the patents-in-suit." So, lacking both general jurisdiction and personal jurisdiction, the California court judge granted Papst's motion to dismiss the California declaratory judgment action.

Federal Circuit Personal Jurisdiction Analysis

The main issue^[1] addressed by the Federal Circuit was whether or not Papst's actions in California involving the patents-in-suit were sufficient to confer personal jurisdiction over Papst in a California court. The Federal Circuit first set forth the criteria for determining whether jurisdiction exists in California over an out-of-state defendant such as Papst. This involves determining "whether a forum state's long-arm statute permits service of process and whether assertion of personal jurisdiction violates due process."^[2] Since California's long-arm statute permits service of process to the full extent allowed by the due process clause of the U.S. Constitution, the Federal Circuit held that these "two inquiries collapse into a single inquiry: whether jurisdiction comports with due process."^[3]

The Federal Circuit then applied the U.S. Supreme Court's three-factor test involving due process jurisprudence, which amounts to: (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 with the forum, and (3) whether assertion of personal jurisdiction is "reasonable and fair."^[4] The first two of the three factors correspond to the "minimum contacts" prong of the U.S. Supreme Court's holding in *International Shoe Co. v. Washington*,^[5] and the third of the three factors corresponds to the "fair play and substantial justice" prong of *International Shoe*.^[6]

Papst did not argue before the Federal Circuit that its actions in California do not satisfy the "minimum contacts" prong of the *International Shoe* test. The Federal Circuit noted that Papst purposefully directed its activities to California when it sent multiple notice letters to Xilinx and traveled there to discuss Xilinx's alleged patent infringement and potential licensing arrangements. Papst did argue before the Federal Circuit that its actions did not satisfy the "reasonable and fair" prong of the *International Shoe* personal jurisdiction test. In more detail, Papst asserted that forcing Papst to defend a declaratory judgment action in California based on Papst sending out cease-and-desist letters to Xilinx's California address does not comport with fair play or substantial justice.

Citing *Burger King Corp. v. Rudzewicz*,^[7] the Federal Circuit noted that "once it has been decided that a defendant purposefully established minimum contacts within the forum State, these contacts may be considered in light of other factors to determine whether the assertion of personal jurisdiction would comport with 'fair play and substantial justice'. These other factors — the burden on defendant, the plaintiff's interest in obtaining convenient and effective relief, etc., ... often cannot be analyzed without looking to circumstances beyond those that give rise or relate to the specific lawsuit."

The Federal Circuit then discussed the *Asahi* case,^[8] in which the U.S. Supreme Court held that the reasonableness prong was not satisfied to force a Japanese corporation to defend an action in a California forum, since: (1) it would pose a heavy burden on the Japanese defendant to defend an action in California, and (2) the plaintiff, which is also a foreign entity, did not demonstrate that litigating in California would be more convenient than litigating in some other jurisdiction such as Taiwan or Japan.

In *Burger King*, the U.S. Supreme Court identified five considerations relevant to the reasonableness analysis: (1) the burden on the defendant, (2) the forum state's interest in adjudicating the dispute, (3) the plaintiff's interest in obtaining convenient and effective relief, (4) the interstate judicial system's interest in obtaining the most efficient resolution of controversies, and (5) the shared interest of the several states in furthering fundamental substantive social policies. The Federal Circuit then applied these five considerations to the matter at hand.

The Federal Circuit made an initial determination that Papst has the required minimum contacts with California to make the exercise of personal jurisdiction in California presumptively reasonable. As to the second through fifth Burger King considerations, Papst did not present any arguments weighing against a finding of personal jurisdiction. Thus, the only consideration to be analyzed by the Federal Circuit is the first Burger King consideration — the burden on the defendant.

Papst had argued to the Federal Circuit that, based on the holding in *Silent Drive Inc. v. Strong Industries Inc.* [9] in which the Federal Circuit held that “a patentee’s sending of warning letters and offers to license, without more, ... are not sufficient to satisfy the requirement of Due Process in declaratory judgment actions,” Papst should not be forced to defend a declaratory judgment action in California. The Federal Circuit agreed in part with Papst, but held that since Papst did more than just send out warning letters to Xilinx’s California address, and in particular because Papst also sent representatives to California to discuss infringement contentions and potential licensing with Xilinx, these amount to “more” actions in California that tilt the balance in favor of satisfying the due process requirement with respect to Papst having to defend a declaratory judgment action in California.

Further, the Federal Circuit found that since Papst is a foreign corporation, the burden of conducting an action in one state (e.g., Delaware) as opposed to another state (e.g., California) is not much different, which also weighs against Papst in the Federal Circuit determining that it is reasonable to confer personal jurisdiction over Papst in a California court. Also, since Papst had “repeatedly availed itself of the California federal court system — at least seven times — by filing patent infringement lawsuits there,” the Federal Circuit determined that having to defend a declaratory judgment action in a California court is not unduly burdensome on Papst.

Lesson Learned

While it may have been the case that the Federal Circuit would have found that Papst had to defend the declaratory judgment action in California — based on the fact that Papst is a foreign corporation and thus the burden on Papst for having to adjudicate a patent dispute in one state as opposed to another state is substantially the same — the fact that Papst also sent representatives to California to discuss infringement and patent licensing issues with Xilinx appears to have been an important factor in the personal jurisdiction determination by the Federal Circuit.

Patent owners should regard the Federal Circuit’s decision in this case as a “lesson learned” that if they want to stay out of declaratory judgment actions in nonfavorable forums such as the state in which the potential infringer is located, they should not send their representatives to that state to discuss infringement issues and licensing issues with the other party. Maybe a telephone call between Papst’s representatives and Xilinx’s representatives in which potential infringement and licensing issues were discussed may have saved Papst from having to defend a declaratory judgment action in a forum not of their choosing. Then again, maybe not, but at the very least it would have made the Federal Circuit’s decision as to whether or not to confer personal jurisdiction on Papst in a California court a closer call.

Also, a patent owner should be careful as to which jurisdiction it files a patent infringement lawsuit, since that may weigh toward a finding of personal jurisdiction on the patent owner in that jurisdiction for a future patent case brought by another party.

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[1] The Federal Circuit also briefly addressed a “mootness” issue, which will not be discussed in this article.

[2] Citing Autogenomics, 566 F.3d at 1017 (quoting Genetic Implant Sys. Inc. v. Core-Vent Corp., 123 F.3d 1455, 1458 (Fed. Cir. 1997)).

[3] Citing Inamed Corp. v. Kuz-mak, 249 F.3d 1356, 1360 (Fed. Cir. 2001).

[4] Citing Inamed, at 1360.

[5] International Shoe Co. v. Washington, 326 U.S. 310 (Supreme Court 1945)

[6] Citing Inamed, at 1360.

[7] Burger King v. Rudzewicz, 471 U.S. 462, 476 (Supreme Court 1985)

[8] Asahi Metal Industry Co. v. Superior Court of Cal., Solano Cty., 480 U.S. 102, 116 (Supreme Court 1987).

[9] Silent Drive, Inc. v. Strong Indus., Inc. 326 F.3d. 1194, 1206 (Fed. Cir. 2003).

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