

# Exhibit B



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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

## Fed. Circ. Abandons Jurisdiction Rule For IP Demand Letters

By **Karen Boyd and Joshua Rayes** (March 14, 2019, 3:08 PM EDT)

For decades, patentees could create declaratory judgment jurisdiction by sending accused infringers cease-and-desist letters, but they did not create personal jurisdiction over themselves in the forum where the accused infringer resided. That changed with the U.S. Court of Appeals for the Federal Circuit's recent decision in *Jack Henry & Associates Inc. v. Plano Encryption Technologies LLC*.<sup>[1]</sup>

This case abandoned the Federal Circuit's earlier bright-line rule "unique" to the patent context, where sending cease-and-desist letters, without more, could not trigger personal jurisdiction in the accused infringer's home forum.

In many declaratory judgment actions, the injury arises out of a patentee sending an "infringement letter" to the accused party. The patentee may have no other contact with the accused infringer's forum beyond the infringement letter, which for many years was the justification for finding no personal jurisdiction in that forum.

The proliferation of nonpracticing entities solely in the business of enforcing their patents has undermined the justifications for the bright-line rule. Under the bright-line rule, a patentee enforcing its patents as its sole business could engage in a rampant patent assertion campaign against multiple accused infringers in a single district — and that could be the patentees only business activity. But it would not be subject to personal jurisdiction in the targeted jurisdiction. The Federal Circuit, for years, had required some "other activity."

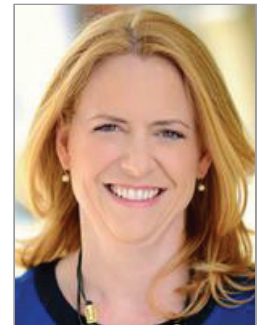
In *Jack Henry*, the Federal Circuit quietly abandoned the bright-line rule, finding the patentee's infringement letters sufficient to subject the patentee to personal jurisdiction. The decision favors a fairness inquiry and creates an effective presumption that cease-and-desist letters are sufficient for personal jurisdiction. To rebut the presumption, the patentee must show a compelling reason why the exercise of personal jurisdiction over it is inconvenient, unreasonable or unfair.

### The Law of Specific Personal Jurisdiction

Except in states where the long-arm statute is narrower than constitutional due process, discerning the limits of due process requires examining whether the defendant established "minimum contacts" with the state, such that it should reasonably anticipate being haled into court there.

"Minimum contacts" is established when the defendant "purposefully directed" its activities at residents of the forum, and the claim "arises out of or relates to" the defendant's activities within the forum. Once "minimum contacts" are established, a court must determine whether exercising personal jurisdiction over the defendant comports with "fair play and substantial justice."<sup>[2]</sup>

### The Old Bright-Line Rule: Cease-and-Desist Letters. Without More. Do Not Create Specific



Karen Boyd



Joshua Rayes

For decades, the Federal Circuit applied a bright-line rule “unique” to the patent context for declaratory judgment actions, holding that sending cease-and-desist letters alone could not trigger a finding of personal jurisdiction.[3]

The court justified the rule in its 1998 decision in *Red Wing Shoe Co. Inc. v. Hockerson-Halberstadt Inc.*, explaining that although cease-and-desist letters by themselves are often substantially related to the cause of action (providing minimum contacts), principles of fair play and substantial justice afford patentees the freedom to inform others of their patent rights without subjecting them to jurisdiction in a foreign forum.

The court reasoned that fairness prevented a party of suspected infringement from subjecting a patentee to personal jurisdiction in the forum where the accused party happened to be located. The court also concluded that cease-and-desist letters that offer a license do not somehow convert the letter into activity sufficient to exercise personal jurisdiction.[4]

### **The Federal Circuit Confuses Its Own Bright-Line Rule**

Over the years, the court confused the *Red Wing Shoe* analysis. In *Inamed Corp. v. Kuzmak* in 2001, rather than finding infringement letters by themselves do not meet the fairness requirement, the court explained such letters do not meet the “minimum contacts” requirement.[5] The court also held the burden shifted to the patentee to show a compelling reason why the exercise of personal jurisdiction over it was not “reasonable and fair,” flipping the analysis articulated by the court in *Red Wing Shoe*.

In 2008, the Federal Circuit's ruling in *Avocent Huntsville Corp. v. Aten Intern Co. Ltd.* stated that policy considerations “unique” to the patent context justify requiring “other activities” with the forum beyond merely sending letters threatening suit for patent infringement to find personal jurisdiction. [6] A patentee’s “other activities” must be related to enforcing or defending the validity of the patents.

Examples of such “other activities” include initiating judicial or extrajudicial patent enforcement within the forum, or entering an exclusive license agreement or undertaking that imposes enforcement obligations with a party residing or regularly doing business in the forum. The majority, describing Federal Circuit precedent as “controversial,” concluded the three infringement letters the patentee sent did not subject it to personal jurisdiction based on notions of fair play and substantial justice.

Judge Pauline Newman, dissenting in *Avocent*, argued the “overarching criteria of precedent are Due Process and fairness; requiring some minimal contacts between the forum and the defendant, but evaluating those contacts in the context of fairness to both parties.” According to Judge Newman, the court need not decide whether the infringement letters, “without more, would provide personal jurisdiction over the sender in the forum of the recipient” because other activities justified exercising personal jurisdiction over the sender.

Judge Newman rejected both the notion that a bright-line rule existed and whether the court needed to decide whether to apply one. Instead, she argued that a single commercial-type contact with the forum, plus an accusatory letter to the plaintiff in the forum, was sufficient for personal jurisdiction. [7]

While *Red Wing Shoe* and its progeny focus on the fairness inquiry to conclude that infringement letters by themselves are insufficient to exercise personal jurisdiction over the patentee, *Inamed* stood as an outlier, focusing on the minimum contacts requirement. *Red Wing Shoe* and its progeny placed the burden of proof on the plaintiff to show the minimum contacts and the fairness requirements were met; whereas *Inamed* held that once the plaintiff carried its burden to show the minimum contacts requirement was met, the burden shifted to the patentee to provide a compelling reason why exercising jurisdiction over it would be unreasonable or unfair.

### **Quietly Abandoning the Bright-Line Rule**

sufficient for personal jurisdiction. But she abandoned the Red Wing Shoe rule without acknowledging it even existed.

In Jack Henry, the plaintiffs (a group of banks) brought a declaratory judgment action in the Northern District of Texas against Plano Encryption Technologies LLC after the Eastern District of Texas-based limited liability company sent the banks letters accusing patent infringement. The U.S. district court dismissed the case for improper venue, holding that PET's infringement letters by themselves did not create personal jurisdiction, citing the Federal Circuit's bright-line Red Wing Shoe rule.[8]

The Federal Circuit reversed. In concluding venue was proper, the court found PET's letters both supported declaratory judgment jurisdiction and established minimum contacts. Judge Newman, stating the decision was "guided by precedent," concluded that as the source of the minimum contacts, the burden fell on PET to make a "compelling case" that exercising jurisdiction was unreasonable and unfair. Because PET did not argue that jurisdiction in the Northern District was "inconvenient or unreasonable or unfair," Judge Newman found PET did not meet its burden.

Importantly, the court emphasized that PET's sole business was enforcing its intellectual property. The court also noted that PET was subject to general jurisdiction in Texas and was registered to do business throughout the state. Judge Newman maintained that precedent did not establish "the generalization that letter charging infringement can never provide specific jurisdiction."

Judge Kara Farnandez Stoll, joined by Judge Evan Wallach, concurred in the judgment but explicitly acknowledged the bright-line rule and argued the court should revisit it. The concurrence reasoned it was inappropriate to apply "unique" policy considerations to the patent context. In their view, "[o]nce 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.'"[9]

Judge Newman's decision appears to animate her position in Avocent that a single commercial-type contact with the forum, plus an accusatory letter to the plaintiff in the forum, is sufficient for personal jurisdiction. Although letters accusing infringement and offering to license patents are not generally considered commercial-type contacts, when an entity's sole business is attempting to commercialize its patents, demand letters look much closer to a commercial-type contact.

The U.S. Supreme Court's recent opinion regarding venue in patent suits in TC Heartland LLC v. Kraft Foods Group Brands LLC, signaled a policy change against allowing patentees to forum shop.[10] Allowing a nonpracticing entity to manipulate venue through calculated strikes from its forum unfairly impacts accused infringers and tilts the field in favor of nonpracticing entities by allowing them to forum shop under the guise they are not "conducting business." In fact, their accusatory actions are the sole business they conduct.

Jack Henry seems broadly consistent with recent Supreme Court cases overturning bright-line rules. [11]

### **Practice Tips After Jack Henry**

Jack Henry's abandonment of the bright-line rule favors a fairness inquiry. While the court's statement that a due process analysis involves a "diversity of facts" suggests that infringement letters should merely be considered when assessing whether the plaintiff met its burden of proof, the decision appears to shift the burden to the patentee to make a "compelling case" why exercising jurisdiction over it is not reasonable or fair.

A declaratory judgment plaintiff, seeking to support the exercise of personal jurisdiction in its home forum, should emphasize the breadth and detail of infringement letters sent into the forum. Under the court's precedent, this should satisfy the plaintiff's burden to show minimum contacts. Under Jack Henry, this shifts the burden to the patentee. The patentee should emphasize the inconvenience, unreasonableness, or unfairness resulting from the court exercising personal jurisdiction over it.

interlocutory appeal. Mandamus is a rare occurrence, and district courts certify interlocutory appeals even less often. It is likely that declaratory plaintiffs should succeed more often in maintaining suit in the forum where they were accused of infringement. This is especially true for plaintiffs bringing declaratory judgment actions against nonpracticing entities and/or against patentees located in the same state (but different district) as the plaintiff.

*Correction: A previous version of this article misspelled the name of the defendant in footnote 10. The error has been corrected.*

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*Karen Boyd is a partner and Joshua Rayes is an associate at Turner Boyd LLP.*

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[1] [Jack Henry & Associates, Inc. v. Plano Encryption Technologies](#), 910 F.3d 1199 (Fed. Cir. Dec. 7, 2018).

[2] [Burger King Corp. v. Rudzewicz](#), 471 U.S. 462, 476 (1985) (internal quotations and citations omitted).

[3] See, e.g., [Red Wing Shoe Co., Inc. v. Hockerson-Halberstadt, Inc.](#), 148 F.3d 1355, 1360 (Fed. Cir. 1998); [Genetic Implant Sys., Inc. v. Core-Vent Corp.](#), 123 F.3d 1455, 1458 (Fed. Cir. 1997) (“We have held that sending infringement letters, without more activity in a forum state, is not sufficient to satisfy the requirements of due process.”); [Akro Corp. v. Luker](#), 45 F.3d 1541, 1543 (Fed. Cir. 1995) (“[W]arning letters from and negotiations for a license with an out-of-state patentee cannot, without more, support personal jurisdiction in an action for a declaratory judgment of patent invalidity and noninfringement.”).

[4] [Red Wing Shoe Co.](#), 148 F.3d at 1356.

[5] [Inamed Corp. v. Kuzmak](#), 249 F.3d 1356, 1361 (Fed. Cir. 2001).

[6] [Avocent Huntsville Corp. v. Aten Intern Co., Ltd.](#), 552 F.3d 1324, 1333 (Fed. Cir. 2008).

[7] [Avocent](#), 552 F.3d at 1343 (citing [Campbell Pet Co. v. Miale](#), 542 F.3d 879 (Fed. Cir. 2008)).

[8] [Jack Henry & Associates, Inc. v. Plano Encryption Technologies](#), 910 F.3d at 1201-03.

[9] *Id.* at 1207.

[10] [TC Heartland LLC v. Kraft Foods Group Brands LLC](#), 137 S. Ct. 1514 (2017).

[11] See, e.g., [Halo Elects., Inc. v. Pulse Elecs., Inc.](#), 136 S. Ct. 1923, 1932 (2016) (abandoning an “unduly rigid” enhanced damages test); [Octane Fitness, LLC v. ICON Health & Fitness, Inc.](#), 572 U.S. 545, 553 (2014) (abandoning an “unduly rigid” exceptional case test); [KSR Intern. Co. v. Teleflex, Inc.](#), 550 U.S. 398, 415 (2007) (rejecting a “rigid approach” to obviousness determinations for a more “expansive and flexible approach”).

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