

Foreign Patentees, Heed Fed. Circ. Jurisdiction Ruling

By **Daniel Melman and Sarah Benowich** (September 18, 2019)

In a decision with significant implications for foreign patent owners and licensees, the U.S. Court of Appeals for the Federal Circuit recently ruled that foreign patentees and licensees — otherwise not subject to personal jurisdiction in any U.S. state's courts of general jurisdiction — may be subject to specific personal jurisdiction in the federal courts in actions regarding efforts to enforce U.S. patent rights.

In *Genetic Veterinary Sciences Inc. v. Laboklin GMBH & Ko. KG*,^[1] the Federal Circuit held that a German lab and its Swiss university licensor were both subject to specific personal jurisdiction in the United States based on the license agreement's language, the parties' roles in sending a cease-and-desist letter to a U.S. entity to enforce a U.S. patent and the lab's two sublicensing agreements in the U.S. This case has significant implications for both foreign and domestic entities engaged in patent licensing and for foreign defendants involved in claims arising under federal law more generally.

Factual Background

In 2013, the University of Bern, located in Switzerland, and an agent or instrumentality of the Swiss Confederation granted the German company Laboklin, J.A. 1091 an exclusive license of its U.S. Patent No. 9,157,114, which generally relates to specific methods for genotyping Labrador Retrievers to identify whether the dog might be a genetic carrier of a particular disease.^[2]

Two key components of the license agreement ultimately supported the Federal Circuit's finding of personal jurisdiction over Laboklin for this dispute:

1. Laboklin was required to commercialize the invention in North America within a specific time period of the agreement's effective date; and
2. Both parties were required to obtain the other's consent before sending any cease-and-desist letters to a potential infringer.

First, Laboklin successfully commercialized the invention through two sublicense agreements in California and Michigan. Second, Laboklin obtained the university's consent to send — and ultimately did send — Paw Print Genetics a cease-and-desist letter to PPG's headquarters in Spokane, Washington, seeking to enforce Laboklin's rights in its U.S. and related European and German patents. PPG is a Washington state-based U.S. company that offers lab services for testing for genetic variations and mutations known to cause certain diseases in dogs.

After receiving Laboklin's cease-and-desist letter, PPG sued both Laboklin and the university, requesting a declaratory judgment that the asserted claims of the '114 patent are ineligible under 35 U.S.C. Section 101 for failing to claim patent-eligible subject matter and thus that PPG cannot be liable for infringing the asserted patent claims.

Holding



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The Federal Circuit affirmed the district court's finding of specific personal jurisdiction over Laboklin and the university and holding that the asserted claims of the '114 patent were related to patent-ineligible subject matter.

Personal Jurisdiction Over Laboklin

The Federal Circuit relied on a lesser-known and sometimes overlooked jurisdictional provision: Federal Rule of Civil Procedure 4(k)(2). Tucked within the FRCP's rule related to issuing summonses, Rule 4(k)(2) provides that federal courts may exercise personal jurisdiction over a foreign defendant via service of a summons or a waiver of service if two conditions are met: "[1] the defendant is not subject to jurisdiction in any state's courts of general jurisdiction; and [2] exercising jurisdiction is consistent with the United States Constitution and laws." [3]

In short, a foreign defendant, otherwise not subject to jurisdiction in any state, may still be subject to personal jurisdiction in federal court where its contacts in any one state are insufficient, exercising jurisdiction over the defendant in the particular case would be "reasonable and fair," and the plaintiff's claim arises under federal law. [4] Here, the parties agreed that the plaintiff's claim for patent infringement arose under federal law and that Laboklin's contacts were insufficient in any single state to support personal jurisdiction.

The only remaining question for the Federal Circuit then, was whether Laboklin's conduct, related to the United States generally, could support jurisdiction. Looking directly to the license agreement's language, and Laboklin's behavior in upholding its related obligations and enforcing its patent rights, the court held that asserting specific personal jurisdiction — meaning, jurisdiction over Laboklin only as to the plaintiff's claim here, and not for any or all of its actions within the United States — was reasonable and fair and comported with the Constitution's due process requirement.

By obtaining rights to a U.S. patent, seeking to enforce it by sending a cease-and-desist letter to a U.S. company and threatening legal action in the U.S., and commercializing the invention within the U.S., Laboklin had "purposefully availed itself of the benefits and protections of U.S. laws" and market. [5] This was particularly true for Laboklin because, as the district court ruled, Laboklin was "not merely a remote patentee assisting a U.S. company with enforcement, but instead, it is the U.S. enforcer." [6]

The court went further and, without drawing a bright line as to what conduct alone would support exercising jurisdiction over a foreign defendant, held: "where a defendant's activities are shielded by the benefits and protections of the forum's laws it is presumptively not unreasonable to require him to submit to the burdens of litigation in that forum as well." [7]

Personal Jurisdiction Over the University

The Federal Circuit also affirmed the district court's exercise of specific personal jurisdiction over the university under a domestic commercial activity exception to the Foreign Sovereign Immunities Act. [8] A defendant's activities "certainly" constitute domestic "commercial activity" where "a defendant's acts of (1) obtaining a United States patent and then (2) enforcing its patent so it could reap the profits thereof — whether by threatening litigation or by proffering licenses to putative infringers." [9]

By consenting to Laboklin's sending of a cease-and-desist to enforce the '114 patent, the

university had “engaged in commercial activity sufficient to trigger [the § 1605(a)(2) exception] as it had ‘obtained a [U.S.] patent and then threatened PPG by proxy with litigation.’”[10] Thus, even acting “by proxy” can constitute commercial activity sufficient to lose FSIA protections.

Practical Implications

This decision is immediately relevant to foreign entities with patent assets. Such entities should pay careful attention to their license agreements and the collective nature of their enforcement and commercial activities within the U.S. In *Paw Prints*, consenting to another party’s sending of a cease-and-desist letter was sufficient to provide jurisdiction over the foreign consenting party.

In addition, a foreign party that has commercialized a patent within the U.S. and has directed efforts to enforce the patent should expect to be subject to specific personal jurisdiction for claims arising out of those actions. Thus, foreign entities looking to license and enforce U.S. patents should be aware that those very efforts may subject them to personal jurisdiction in U.S. federal courts.

Rule 4(k)(2)’s grasp in *Paw Prints* is powerful, providing federal court jurisdiction where there otherwise would be none. One way for foreign entities to avoid the “trap” of Rule 4(k)(2) jurisdiction is through advance planning. For example, parties often choose to include forum selection and choice of law provisions in contracts, and license agreements should be no exception to this.

Foreign entities can also try to focus their U.S. contacts to a particular state by, for example, entering into a distribution or commercialization agreement with a local affiliate or business partner in the chosen state or by establishing a physical presence in the state.

Such advance planning can ensure that the foreign entity has sufficient jurisdictional contacts with at least one state in the U.S. such that it can at least reasonably anticipate where it might be sued — and thereby minimize the risk of being sued in an inconvenient or otherwise unfavorable forum.


Not only does *Paw Prints* underscore Rule 4(k)(2)’s reach, but it also warns that foreign entities — including foreign public universities — can lose FSIA protection if they engage in commercial activity, which may include enforcing U.S. patents either by engaging in licensing agreements or threatening litigation.

For many government instrumentalities, like universities, obtaining U.S. patents and monetizing them through licensing agreements is an important revenue-driver. Such entities should be cautious when engaging or consenting to enforcement efforts, even by partners. Instead, parties should only engage in enforcement efforts after carefully assessing their litigation risks and contractual obligations.

Finally, parties should be aware that although *Paw Prints*’s exercise of jurisdiction may seem broad, it only applies to specific jurisdiction, meaning jurisdiction over the party only for the purpose of adjudicating a particular claim arising from the party’s contacts within the U.S. Thus, when faced with a claim entirely unrelated to a party’s license agreement or intellectual property enforcement activities, a defending party should still be prepared to raise jurisdictional defenses where appropriate.

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[1] Genetic Veterinary Sciences v. Laboklin GMBH & Ko. KG , 2018-2056 (Fed. Cir. Aug. 9, 2019) (Slip Op.) (hereinafter "Paw Prints at__")

[2] See Paw Prints, at 3, 18.

[3] See Fed. R. Civ. P. 4(k)(2)(A)-(B).


[4] See Paw Prints, at 10.

[5] See id.

[6] See id., at 11.

[7] See id. (citing Burger King, 471 U.S. 462, 476 (1985)).

[8] 28 U.S.C. § 1605(a)(2).

[9] See Paw Prints, at 13 (quoting Intel Corp. v. Commonwealth Sci. and Indus. Research Org. , 455 F.3d 1364, 1370 (Fed. Cir. 2006)); 28 U.S.C. § 1603(d) (defining "commercial activity" as "either a regular course of commercial conduct or a particular commercial transaction or act.").

[10] See Paw Prints, at 14.