

## PATENT LITIGATION, PERSONAL JURISDICTION, AND THE PUBLIC GOOD

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### INTRODUCTION

The patent system in the United States is intended to promote innovation by rewarding inventors who introduce new technologies into the public domain with the exclusive right to those inventions for a limited period of time.<sup>1</sup> Despite this nation's aversion to monopolistic power and anticompetitive conduct, our patent system has persisted because of its importance to our social and economic welfare.<sup>2</sup> Yet, because free market values are sacrificed with each patent issued, only those inventions that demonstrate high standards of patentability should be protected.<sup>3</sup> In recent years, these standards have been compromised, and as a result there are "bad" patents everywhere.<sup>4</sup>

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<sup>1</sup> U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their respective . . . Discoveries . . .").

<sup>2</sup> See *infra* Part I.A (explaining the role patents play with respect to economic development).

<sup>3</sup> See Letter from Thomas Jefferson to Isaac McPherson (Aug. 13, 1813) [hereinafter Jefferson Letter], in 13 THE WRITINGS OF THOMAS JEFFERSON 326, 335 (Andrew A. Lipscomb & Albert Ellery Bergh eds., 1903) ("Considering the exclusive right to invention as given not of natural right, but for the benefit of society, I know well the difficulty of drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not."); see also *American Innovation at Risk: The Case for Patent Reform: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 110th Cong. 26 (2007) (prepared statement of Suzanne Michel, Chief Intellectual Property Counsel & Deputy Assistant Director for Policy Coordination, Federal Trade Commission) [hereinafter Michel Prepared Testimony], available at <http://judiciary.house.gov/hearings/printers/110th/33315.pdf> (noting "the importance of patent quality in maintaining the alignment between patent and competition policy"); EXEC. OFFICE OF THE PRESIDENT, NAT'L ECON. COUNCIL, OFFICE OF SCI. & TECH. POLICY, A STRATEGY FOR AMERICAN INNOVATION: DRIVING TOWARDS SUSTAINABLE GROWTH AND QUALITY JOBS 15 (2009) [hereinafter STRATEGY FOR AMERICAN INNOVATION], <http://www.whitehouse.gov/sites/default/files/microsites/20090920-innovation-whitepaper.pdf> (affirming the administration's commitment to high-quality patents).

<sup>4</sup> Mark Lemley, Doug Lichtman & Bhaven Sampat, *What to Do About Bad Patents?*, REG., Winter 2005, at 10, 10-13. By "bad" patents, this Article is referring to patents that should not have been granted by the Patent Office because they do not meet the minimum requirements for patentability. See

While patents continue to play a vital role in the American economy and legal system, this proliferation of bad patents threatens that system by distorting the marketplace and undermining the public's confidence in *all* patents (even those "good" patents that were properly issued and should be enforced).<sup>5</sup> This bad patent problem is not a new phenomenon, however. Scholars and policymakers alike have been proposing various solutions to the problem for years, including the adoption of new post-grant opposition rules that would allow bad patents to be challenged quickly and inexpensively via an administrative proceeding.<sup>6</sup>

Yet little attention has been paid to the question of why our current litigation system—specifically with respect to declaratory judgment suits—has not more effectively addressed this bad patent problem. Nor has there been significant exploration or discussion of proposed modifications to our declaratory relief system that would make it easier for alleged patent infringers to obtain a declaration from a federal court that a patent is "bad" or invalid. This Article seeks to fill that void.

Under our current system, litigation is the primary gatekeeper of patent quality.<sup>7</sup> Patent quality is almost always at issue in patent infringement suits because accused infringers regularly defend on the ground that the patent is invalid.<sup>8</sup> If the factfinder agrees, the patent will be held invalid as to the entire world, and the previously protected intellectual property will enter

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Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L.J. 763, 766 n.6 (2002); Eric Williams, *Remembering the Public's Interest in the Patent System—A Post-Grant Opposition Designed to Benefit the Public*, B.C. INTELL. PROP. & TECH. F., 2 (Nov. 7, 2006), [http://bcip.tf.org/index2.php?option=com\\_content&do\\_pdf=1&id=29](http://bcip.tf.org/index2.php?option=com_content&do_pdf=1&id=29) ("Labels describing bad patents range from 'poor quality,' 'improvidently granted,' 'questionable,' 'trash,' and all the way to 'absurd' . . . . [T]hese labels share the same general meaning (they refer to patents that never should have been granted) . . . ." (footnotes omitted)).

<sup>5</sup> See *infra* Part I.A (describing the effect of bad patents).

<sup>6</sup> See sources cited *infra* note 56 (describing various patent reform measures that have been proposed).

<sup>7</sup> Ranganath Sudarshan, *Nuisance-Value Patent Suits: An Economic Model and Proposal*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 170 (2008); see also Joseph Farrell & Robert P. Merges, *Incentives To Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKLEY TECH. L.J. 943, 946-47 (2004) (acknowledging that litigation is the primary mechanism for eradicating bad patents and proposing new administrative review procedures to assist in the effort); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1510 (2001) (stating that "society ought to resign itself to the fact that bad patents will issue, and attempt to deal with the problem *ex post*, if the patent is asserted in litigation").

<sup>8</sup> See Lisa A. Dolak, *Power or Prudence: Toward a Better Standard for Evaluating Patent Litigants' Access to the Declaratory Judgment Remedy*, 41 U.S.F. L. REV. 407, 410 (2007) ("A patent infringement defendant typically asserts one or more declaratory judgment counterclaims in response to the patentee's claim(s) for patent infringement. Most commonly, infringement defendants request judgment on the ground that the patent at issue is invalid, unenforceable, and/or not infringed." (footnotes omitted)); Farrell & Merges, *supra* note 7, at 946-47 (noting that invalidity is available as a defense to patent infringement claims).

the public domain.<sup>9</sup> A successful validity challenge thus creates a “public good” to be shared not only by other potential infringers, but also by society as a whole.<sup>10</sup>

Even more important to the fight against bad patents are declaratory judgment actions, whereby an alleged infringer sues a patent holder under the Declaratory Judgment Act and asks a federal court to declare the patent at issue invalid.<sup>11</sup> Declaratory judgment actions can be particularly effective because the alleged infringer chooses the forum and controls the timing of the suit, and these tactical advantages substantially increase the alleged infringer’s chances of proving the patent invalid.<sup>12</sup> For years, the Supreme Court has acknowledged the public function served by patent declaratory relief actions, and it has consistently adopted legal standards to facilitate such lawsuits.<sup>13</sup>

Yet despite the significant benefits afforded to alleged infringers who seek declaratory relief, and despite the Supreme Court’s efforts to make declaratory relief readily available to this group of litigants, only a small percentage of the patent cases filed annually are declaratory judgment actions.<sup>14</sup> This, of course, invites the obvious question: Why aren’t alleged infringers playing a more proactive role in the battle against bad patents by filing more declaratory judgment actions?

There are a number of reasons why a party contemplating litigation of any type might ultimately opt not to file suit—litigation can be extraordinarily expensive, the process is lengthy, and the results are often unpredictable.<sup>15</sup> This is particularly true with respect to patent litigation, which has

<sup>9</sup> See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that once a patent is invalidated, non-mutual collateral estoppel prevents the patent owner from ever asserting it again).

<sup>10</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (“Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”); Farrell & Merges, *supra* note 7, at 952 (explaining that the decision in *Blonder-Tongue* “makes successful challenge a ‘public good’ among multiple infringers” (quoting *Blonder-Tongue*, 402 U.S. at 350)); Joseph E. Stiglitz, *Economic Foundations of Intellectual Property Rights*, 57 DUKE L.J. 1693, 1715 (2008) (“[W]hen a firm challenges a patent, it creates a public good, because if it successfully challenges a patent, that piece of knowledge enters the public domain, where anybody can use it.”).

<sup>11</sup> 28 U.S.C. § 2201 (2006).

<sup>12</sup> See *infra* Part I.B and sources cited note 72 (citing studies demonstrating that alleged infringers improve their chances of prevailing on validity by seeking declaratory relief).

<sup>13</sup> See, e.g., *Blonder-Tongue*, 402 U.S. at 345-46 (discussing line of Supreme Court cases that “eliminate[d] obstacles to suit by those disposed to challenge the validity of a patent”); *Lear*, 395 U.S. at 670 (explaining the importance of validity challenges in light of the “public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain”).

<sup>14</sup> See *infra* note 59 (stating that only about 10 percent of all patent cases filed annually are declaratory judgment actions).

<sup>15</sup> See, e.g., Gwendolyn G. Ball & Jay P. Kesan, *Transaction Costs and Trolls: Strategic Behavior by Individual Inventors, Small Firms and Entrepreneurs in Patent Litigation* 5 (Univ. of Ill. Pub. Law &

been referred to as “the sport of kings.”<sup>16</sup> Parties considering patent litigation are faced with some daunting statistics: the suit will likely cost between \$500,000 and \$3 million;<sup>17</sup> the average patent action takes twenty-two months to resolve in district court;<sup>18</sup> and even if a party is successful in the trial court, there is a good chance the Federal Circuit will reverse.<sup>19</sup> Surely, these factors play a significant role in dissuading many alleged infringers from seeking declaratory relief.

With respect to alleged patent infringers, however, there are also certain jurisdictional hurdles that must be overcome before declaratory relief may be sought. The first of these jurisdictional hurdles requires the alleged infringer to establish that an actual case or controversy exists between the parties.<sup>20</sup> Although traditionally this was a difficult burden to overcome, and it often precluded alleged infringers from seeking declaratory relief, the landscape changed when the Supreme Court relaxed the standard in *MedImmune, Inc. v. Genentech, Inc.*<sup>21</sup> But the other jurisdictional hurdle—personal jurisdiction—remains a significant obstacle for alleged infringers wishing to challenge bad patents via declaratory relief.<sup>22</sup>

As already noted, an important advantage of filing a declaratory judgment action is that the alleged infringer is able to choose the forum. The “choice forum” for most alleged infringers is at home, meaning the state

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Legal Theory Research Paper Series, Paper No. 08-21, Univ. of Ill. Law & Econ. Research Paper Series, Paper No. LE09-005, 2009), available at <http://papers.ssrn.com/abstract=1337166> (“Patent suits are generally considered to be a form of complex litigation and there is general agreement that the transaction costs associated with pursuing a patent lawsuit are high.” (internal quotation marks omitted)).

<sup>16</sup> James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 2 (2005).

<sup>17</sup> Ball & Kesan, *supra* note 15, at 5.

<sup>18</sup> Robert Greene Sterne, Jon E. Wright & Lori A. Gordon, *Reexamination Practice with Concurrent District Court Litigation or Section 337 USITC Investigations*, 10 SEDONA CONF. J. 115, 149 (2009).

<sup>19</sup> David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 226 (2008) (discussing the Federal Circuit’s high reversal rate on claim construction and noting the inconsistency and unpredictability that it brings to the patent system).

<sup>20</sup> See *infra* note 79 (explaining that plaintiff may only seek declaratory relief if there is a justiciable controversy under Article III).

<sup>21</sup> 549 U.S. 118, 132 n.11 (2007) (questioning the Federal Circuit’s reasonable apprehension of suit standard for declaratory judgment jurisdiction in patent cases).

<sup>22</sup> See, e.g., *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1332 n.2 (Fed. Cir. 2008) (“While the Supreme Court recently altered the subject matter jurisdiction landscape by rejecting the ‘reasonable apprehension of suit’ test, the independent requirement of personal jurisdiction over the defendant remains an important and independent limit on the power of the federal courts.” (citations omitted)), *cert. denied*, 129 S. Ct. 2796 (2009). Indeed, several recent decisions by the Federal Circuit suggest that it has actually heightened the standard for establishing personal jurisdiction in patent declaratory judgment cases, thus averting the impact of *MedImmune*.

where an alleged infringer's principal place of business is located.<sup>23</sup> However, the alleged infringer cannot file at home unless the patent holder is subject to personal jurisdiction there. And while the question of whether a patent holder is subject to personal jurisdiction in a particular forum will depend on the facts of the case, alleged infringers seeking declaratory relief often have a similar story to tell: the alleged infringer receives a cease-and-desist letter from the patent holder at its home office; the letter accuses the alleged infringer of infringement and offers a license; after studying the asserted patent, the alleged infringer files a declaratory judgment action in federal court in its home state seeking a declaration that the patent is invalid and not infringed.<sup>24</sup>

For years, many courts were willing to exercise personal jurisdiction over patent holders under these circumstances.<sup>25</sup> They reasoned that federal due process standards were satisfied because the patent holder had established the requisite minimum contacts with the forum state by sending the cease-and-desist letter and because the forum state had a significant interest in providing its resident with a convenient court in which to seek redress.<sup>26</sup>

Despite the soundness of this reasoning, the law has unfortunately been taken in a completely different direction. In a long line of cases, the United States Court of Appeals for the Federal Circuit has held that patent holders will not be subject to personal jurisdiction in declaratory judgment actions based solely on the sending of cease-and-desist letters to the forum state.<sup>27</sup> Importantly, in crafting this rule, the Federal Circuit has acknowledged that a patent holder in this situation would likely have the requisite minimum contacts with the forum state.<sup>28</sup> Nonetheless, because of fairness considerations, the court has concluded that cease-and-desist letters alone should not give rise to personal jurisdiction.<sup>29</sup> More explicitly, the court held that exercising personal jurisdiction under these circumstances would not comport with traditional notions of fair play and substantial justice be-

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<sup>23</sup> See, e.g., *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 255-56 (1981) ("When the home forum has been chosen, it is reasonable to assume that this choice is convenient."); *Marschke v. Barry-Wehmiller Cos.*, No. 09-cv-398-bbc, 2009 WL 3379356, slip op. at \*4 (W.D. Wis. Oct. 16, 2009) ("A plaintiff typically chooses a home forum for convenience.").

<sup>24</sup> See, e.g., *Asymetrix Corp. v. Lex Computer & Mgmt. Corp.*, No. C94-588Z, 1995 WL 843059, at \*3 (W.D. Wash. Jan. 24, 1995) (describing a typical fact pattern in a patent declaratory judgment action); Adam D. Kline, *Any Given Forum: A Proposed Solution to the Inequitable Economic Advantage that Arises When Non-Practicing Patent Holding Organizations Predetermine Forum*, 48 IDEA 247, 267-68 (2008) (same).

<sup>25</sup> See *infra* Part IV.B.1 and accompanying notes (summarizing decisions permitting the exercise of jurisdiction based on cease-and-desist letters).

<sup>26</sup> See *supra* text accompanying note 25.

<sup>27</sup> *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360-61 (Fed. Cir. 1998); see also *Avocent*, 552 F.3d at 1334; *Campbell Pet Co. v. Miale*, 542 F.3d 879, 883-84 (Fed. Cir. 2008); *Akro Corp. v. Luker*, 45 F.3d 1541, 1548 (Fed. Cir. 1995).

<sup>28</sup> *Red Wing Shoe*, 148 F.3d at 1359-60.

<sup>29</sup> *Id.* at 1360-61.

cause it would discourage the settlement of patent disputes—a policy the Federal Circuit considered to be “manifest.”<sup>30</sup> Thus, for the past decade, this bright-line rule that cease-and-desist letters will not create personal jurisdiction has been followed with surprisingly few questions from either the academic or judicial communities.

This Article critically examines this longstanding categorical approach to personal jurisdiction in patent declaratory relief actions and concludes that it is not only contrary to *International Shoe Co. v. Washington*<sup>31</sup> and its progeny, but also unsound from a policy perspective. Part I of this Article discusses the current bad patent problem in this country and explains how declaratory judgment actions can be used to invalidate such patents. Part II addresses the jurisdictional hurdles faced by alleged infringers seeking declaratory relief and contends that, even though it is easier now to establish the requisite case or controversy, alleged infringers are still not seeking declaratory relief in large numbers because a convenient forum is often not available.

In Part III, this Article turns to personal jurisdiction and provides an overview of the relevant law. Part IV then considers the application of personal jurisdiction principles in patent declaratory relief actions and analyzes the Federal Circuit’s definitive rule that cease-and-desist letters alone cannot create personal jurisdiction.

After examining the Federal Circuit’s rationale, this Article argues in Part V that this rule contradicts Supreme Court precedent, which provides that defendants with sufficient minimum contacts may only avoid personal jurisdiction on fairness grounds by making a “compelling case” that the exercise of personal jurisdiction would offend traditional notions of fair play and substantial justice.<sup>32</sup> Under the Federal Circuit’s categorical approach, however, defendants are not required to satisfy this heavy burden; rather, courts simply presume in all cases that the exercise of personal jurisdiction—when based exclusively on cease-and-desist letters—would be so unfair as to violate due process. This rule, which diverges from mainstream jurisdictional doctrine, is exactly the type of special rule for patent cases that the Supreme Court has recently eschewed.<sup>33</sup>

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<sup>30</sup> *Id.* at 1361.

<sup>31</sup> 326 U.S. 310 (1945).

<sup>32</sup> *See infra* Part V.B.

<sup>33</sup> *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (holding that the Federal Circuit’s “reasonable apprehension of suit” test contradicted Supreme Court precedent that requires courts to consider all the circumstances in deciding whether an actual case or controversy exists); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (rejecting the Federal Circuit’s general rule “that courts will issue permanent injunctions against patent infringement absent exceptional circumstances” because such categorical grants of relief are erroneous, and holding instead that the Federal Circuit should apply the traditional test for injunctive relief “[a]ccording to well-established principles of equity” (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006)) (internal quotation marks omitted)); *see also* S. Jay Plager &

Finally, Part VI concludes that in order for the Declaratory Judgment Act to realize its potential as a potent tool in the effort to eradicate bad patents, this categorical approach to personal jurisdiction must be reconsidered.<sup>34</sup> This Article instead proposes that the Federal Circuit evaluate personal jurisdiction in patent declaratory relief actions as the Supreme Court has mandated: on a case-by-case basis.<sup>35</sup> This Article then explores the implications of this proposed approach and concludes that empowering alleged infringers with more robust declaratory judgment rights<sup>36</sup> would ameliorate our bad patent problem and, consequently, strengthen the U.S. patent system.

## I. THE PROBLEM OF BAD PATENTS<sup>37</sup> AND THE DECLARATORY RELIEF SOLUTION

### A. *The Problem of Bad Patents*

A patent represents a bargain between society and the inventor: in return for a limited period of exclusivity, the inventor introduces a new technology, discloses in detail the know-how behind that technology, and then

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Lynne E. Pettigrew, *Rethinking Patent Law's Uniformity Principle: A Response to Nard and Duffy*, 101 NW. U. L. REV. 1735, 1757 (2007) (noting that when the Federal Circuit has applied "special rules for patents at the expense of basic legal practices, the Supreme Court has not been reluctant in recent times to provide a corrective").

<sup>34</sup> See *infra* Part VI.A (proposing a case-by-case approach to this jurisdictional issue).

<sup>35</sup> See *Shaffer v. Heitner*, 433 U.S. 186, 204 (1977) ("Mechanical or quantitative evaluations of the defendant's activities in the forum could not resolve the question of reasonableness . . ."); Leslie W. Abramson, *Clarifying "Fair Play and Substantial Justice": How the Courts Apply the Supreme Court Standard for Personal Jurisdiction*, 18 HASTINGS CONST. L.Q. 441, 446 (1991) ("The judicial determination of reasonableness is not an abstract exercise but is intended to be flexible by focusing on the circumstances of each case."); Christopher D. Cameron & Kevin R. Johnson, *Death of a Salesman? Forum Shopping and Outcome Determination Under International Shoe*, 28 U.C. DAVIS L. REV. 769, 834 (1995) (stating that—with respect to personal jurisdiction—the Supreme Court "has eschewed the opportunity to create definitive rules" and "has mandated case-by-case, fact-specific inquiry").

<sup>36</sup> The use of the phrase "declaratory judgment rights" refers to the right of alleged infringers to bring declaratory judgment actions. While this Article does not suggest that the Declaratory Judgment Act creates substantive rights, there is some support for that argument in the scholarly literature. See Donald L. Doernberg & Michael B. Mushlin, *The Trojan Horse: How the Declaratory Judgment Act Created a Cause of Action and Expanded Federal Jurisdiction While the Supreme Court Wasn't Looking*, 36 UCLA L. REV. 529, 547 (1989) ("The history of the Declaratory Judgment Act demonstrates that Justice Frankfurter was not correct in interpreting it as 'procedural only' merely 'enlarg[ing] the range of remedies available in the federal courts.'" (alteration in original) (footnote omitted) (quoting *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 671 (1950))). *But see* *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 509 (1959) (stating that the Declaratory Judgment Act "leav[es] substantive rights unchanged"); *Aetna Life Ins. Co. of Hartford, Conn. v. Haworth*, 300 U.S. 227, 240 (1937) ("[T]he operation of the Declaratory Judgment Act is procedural only.").

<sup>37</sup> Lemley, Lichtman & Sampat, *supra* note 4, at 10-13.

donates the technology to the public once the patent expires.<sup>38</sup> Patents are vitally important to our economic and social welfare for at least three reasons.

First and foremost, patents “promote the Progress of Science and useful Arts”<sup>39</sup> by stimulating inventive activity, a practice that has played a key role in improving our citizens’ quality of life and ensuring our nation’s economic success.<sup>40</sup> Patents are also important because they encourage commercialization of inventions: “[p]atents get inventions put to use.”<sup>41</sup> Finally, patents assist in the dissemination of technical information.<sup>42</sup> That information, or “know-how,” becomes part of the public domain, allowing others to improve upon or design around the patented invention.

Notwithstanding the benefits that patents afford, in recent years we have seen a groundswell of dissatisfaction with our patent system. Although the patent system has been criticized for an array of reasons, one primary concern is the proliferation of bad patents.<sup>43</sup> Bad patents are patents that should not have been granted by the Patent Office because they do not meet the requirements for patentability.<sup>44</sup> If, for example, an inventor were allowed to patent a technology that was already within the public domain, or if the inventor failed to disclose sufficient detail to allow others to practice the invention, then society would not be getting what it bargained for.<sup>45</sup> This

<sup>38</sup> ROBERT P. MERGES, PETER S. MENNELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 29, 128-29 (5th ed. 2010).

<sup>39</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>40</sup> See STRATEGY FOR AMERICAN INNOVATION, *supra* note 3, at 4 (“Innovation is the key to global competitiveness, new and better jobs, a resilient economy, and the attainment of essential national goals.”); MERGES, MENNELL & LEMLEY, *supra* note 38, at 127 (“Although the overall contribution of the patent system to the Industrial Revolution has been a matter of debate in historical circles, it seems no coincidence that the patent system matured alongside the early industrial technologies.”); Stephen M. McJohn, *Patents: Hiding from History*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 961, 965 (2008) (“Influential figures often credited the patent system for the widespread technological advances in the United States, along with its economic benefits.”); Arti K. Rai, *Growing Pains in the Administrative State: The Patent Office’s Troubled Quest for Managerial Control*, 157 U. PA. L. REV. 2051, 2058 (2009) (noting that “startup-driven innovation will be an important component of any plan to move the U.S. economy out of severe recession”).

<sup>41</sup> Andrew Beckerman-Rodau et al., *eBay v. MercExchange and Quanta Computer v. LG Electronics*, 4 J. BUS. & TECH. L. 5, 14 (2009) (statement of Professor Kieff); see also Giles S. Rich, *The Relation Between Patent Practices and the Anti-Monopoly Laws*, 24 J. PAT. OFF. SOC’Y 159, 177 (1942) (arguing that patent law should provide an “inducement to risk an attempt to commercialize [an] invention”).

<sup>42</sup> MERGES, MENNELL & LEMLEY, *supra* note 38, at 29.

<sup>43</sup> See, e.g., Farrell & Merges, *supra* note 7, at 944-45 (discussing the “standard litany of concerns about patent quality”); Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J. L. SCI. & TECH. 1, 1-2 (2007) (noting the widespread dissatisfaction with the current patent system).

<sup>44</sup> See *supra* note 4 (defining “bad” patents).

<sup>45</sup> See Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 MINN. L. REV. 101, 115 (2006) (“The invalid patent suppresses competition without enhancing innovation.”); Allan N. Littman, *Restoring the Balance of Our Patent System*, 37 IDEA 545, 556 (1997) (“Invalid

would not, in Thomas Jefferson's words, be the type of invention that is "worth to the public the embarrassment of an exclusive patent."<sup>46</sup>

Bad patents pose threats on many fronts. When bad patents are enforced, a company's funds may be diverted from research and development to litigation costs.<sup>47</sup> These increased litigation costs, in turn, may lead to higher consumer prices.<sup>48</sup>

But even when unenforced, bad patents may distort the marketplace by discouraging or delaying potential competitors' entrance into a market.<sup>49</sup> For example, bad patents often force competitors to take certain steps to avoid litigation that ultimately harm the consuming public.<sup>50</sup> Rather than risk an infringement suit, a competitor faced with a bad patent might pursue an alternative research area, thus allowing the owner of the suspect patent to dominate the market and keep prices high.<sup>51</sup> Alternatively, competitors sometimes decide to license patents of questionable validity because the cost of potential litigation outweighs the cost of the license.<sup>52</sup>

And finally, but perhaps most importantly, the existence of bad patents calls into question the legitimacy of *all* patents (even those "good" patents that were properly issued and that should be enforced). This phenomenon reduces the overall value of patent protection and undermines the public's confidence in the patent system at large.<sup>53</sup>

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patents lack any semblance of constitutional, statutory or policy justification. Contrary to the basic policy of the patent law they obviously impede technical innovation and competition, as well as increase prices.").

<sup>46</sup> Jefferson Letter, *supra* note 3, at 335; *see also* Leslie, *supra* note 45, at 115; Littman, *supra* note 45, at 556-57.

<sup>47</sup> *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 5-6 (2003) [hereinafter TO PROMOTE INNOVATION], available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

<sup>48</sup> Farrell & Merges, *supra* note 7, at 945 ("[A] patent will normally increase prices to consumers."); TO PROMOTE INNOVATION, *supra* note 47, at 5-6 (acknowledging that faulty or "questionable" patents have increased litigation and consumer costs).

<sup>49</sup> Michel Prepared Testimony, *supra* note 3, at 26; Christopher R. Leslie, *Patents of Damocles*, 83 IND. L.J. 133, 136 (2008) ("The patent system is currently ill-equipped to prevent invalid patents from issuing and potentially distorting competitive markets.").

<sup>50</sup> *See* Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive To Innovate*, 72 VA. L. REV. 677, 755 (1986) ("The existence of the patent—and the fear of an infringement action—may deter some potential rivals from competing with the patentee and his licensees."); Lemley, *supra* note 7, at 1515-20 (considering the social costs of issuing bad patents).

<sup>51</sup> Michel Prepared Testimony, *supra* note 3, at 26; Leslie, *supra* note 45, at 117 ("Cost-benefit analysis shows how an invalid patent can deter a competitor's entry.").

<sup>52</sup> Leslie, *supra* note 45, at 120; Sudarshan, *supra* note 7, at 159 (explaining that patent holding entities approach companies with allegations of patent infringement, inviting them "to participate in a 'licensing program'" in exchange for a nuisance payment set "below the cost of defending against an infringement suit").

<sup>53</sup> *See* Shubha Ghosh & Jay Kesan, *What Do Patents Purchase? In Search of Optimal Ignorance in the Patent Office*, 40 HOUS. L. REV. 1219, 1228 (2004) (acknowledging the "diminution in public

While there may be some disagreement as to the cause,<sup>54</sup> it is beyond dispute that we have a bad patent problem in this country.<sup>55</sup> So the question now is what can we do to address it? The scholarly literature is replete with discussion of our broken patent system and proposals for change.<sup>56</sup> Indeed, many of these proposals have been considered by Congress, which has been working on comprehensive patent reform legislation since 2005.<sup>57</sup> Yet, as is

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confidence about the integrity of an administrative system that issues bad patents”); Sag & Rohde, *supra* note 43, at 1 (“The United States patent system is facing a crisis of confidence.”).

<sup>54</sup> Various theories have been postulated to explain our bad patent problem. Some blame the rising number of patent applications and the limited resources of the U.S. Patent and Trademark Office (“PTO”). See Kesan, *supra* note 4, at 765-66; Mark A. Lemley & Bhaven Sampat, *Is the Patent Office a Rubber Stamp?*, 58 EMORY L.J. 181, 181-82 (2008); Leslie, *supra* note 49, at 136. Others argue that the PTO is a captive agency whose examiners are incentivized to grant as many applications as possible. See Lemley & Sampat, *supra*, at 181; Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 590 (1999); *The Sedona Conference: Introduction to the Legal and Economic Issues at the Intersection of the Patent and Antitrust Laws*, 8 SEDONA CONF. J. 57, 59 (2007) [hereinafter *Sedona Conference*] (stating that PTO’s declared mission is to “help[] our customers get patents” (quoting Lemley, *supra* note 7, at 1496 n.3) (internal quotation marks omitted)). Finally, the expanding scope of patentable subject matter and the lack of technological expertise among patent examiners have also been identified as potential causes of the proliferation of invalid patents. See Kesan, *supra* note 4, at 766; John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 324.

<sup>55</sup> See *Bilski v. Kappos*, 130 S. Ct. 3218, 3259 (2010) (Breyer, J., concurring) (acknowledging that patents have been granted that “‘range[] from the somewhat ridiculous to the truly absurd” (quoting *In re Bilski*, 545 F.3d 943, 1004 (Fed. Cir. 2008) (Mayer, J., dissenting)); TO PROMOTE INNOVATION, *supra* note 47, at 5 (“A poor quality or questionable patent is one that is likely invalid or contains claims that are likely overly broad. Hearings participants raised concerns about the number of questionable patents issued.”); Kesan, *supra* note 4, at 765 (“It is widely suggested that the Patent Office issues patents that are . . . broader than the actual innovation disclosed in the patent application. [The] problem[] result[s] from the Patent Office’s inability to accurately determine . . . the relevant prior art . . .”); Lemley, Lichtman & Sampat, *supra* note 4, at 10 (“Bad patents are everywhere: covering obvious inventions like the crustless peanut butter and jelly sandwich, ridiculous ideas like a method of exercising a cat with a laser pointer, and impossible concepts like traveling faster than the speed of light.”); Lemley & Sampat, *supra* note 54, at 181 (“A growing chorus of voices is sounding a common refrain: the U.S. Patent and Trademark Office . . . is issuing far too many bad patents.”); Merges, *supra* note 54, at 589 (“There are persistent reports that patents in the software area, and perhaps especially, patents for ‘business methods’ implemented in software, are of extremely poor quality.”); Dennis Crouch, *Barack Obama’s Patent Reform Initiatives*, PATENTLY-O (Nov. 14, 2007, 4:45 PM), <http://www.patentlyo.com/patent/2007/11/barak-obamas-pa.html> (stating that then-candidate Obama recognizes the importance of patent quality and the problems posed by “dubious patents”).

<sup>56</sup> See Farrell & Merges, *supra* note 7, at 960-64 (proposing ways to fix the examination procedure to reduce the number of invalid patents issued); Kesan, *supra* note 4, at 769-70; Lemley, Lichtman & Sampat, *supra* note 4, at 10-13; Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 65-66 (2004); Merges, *supra* note 54, at 589; Thomas, *supra* note 54, at 322-40 (canvassing the prevailing patent reform proposals).

<sup>57</sup> See Patent Reform Act of 2010, S. 515, 111th Cong. (2010); Patent Reform Act of 2009, S. 515, 111th Cong. (2009); Patent Reform Act of 2009, S. 610, 111th Cong. (2009); Patent Reform Act of 2009, H.R. 1260, 111th Cong. (2009); Patent Reform Act of 2007, S. 1145, 110th Cong. (2007);

often the case with the legislative approach to reform, persistent opposition to certain provisions of the legislation has derailed Congress's efforts time and again.<sup>58</sup> Thus, litigation remains the primary gatekeeper of patent quality. Accordingly, the next Section discusses how litigation, and declaratory relief actions in particular, can and should be used to address the problem of bad patents.

### B. *Declaratory Relief Actions: A Solution to Bad Patents?*

The vast majority of patent cases are brought by patent holders who seek damages or equitable relief for infringement of their patents ("Standard Patent Infringement Suits").<sup>59</sup> In some situations, however, alleged infringers may sue patent holders under the Declaratory Judgment Act seeking a declaration that the patents at issue are invalid and not infringed by plaintiff's products ("Patent Declaratory Relief Actions").<sup>60</sup>

The Declaratory Judgment Act, enacted in 1934, provides that "[i]n a case of actual controversy within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration."<sup>61</sup> The Act further provides that "[a]ny such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such."<sup>62</sup>

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Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); Patent Reform Act of 2006, S. 3818, 109th Cong. (2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005); *see also* 2010 Patent Law Reform Update, FISH & RICHARDSON, <http://www.fr.com/news/articleDetail.cfm?articleid=490> (last visited Oct. 1, 2010) (providing a timeline of patent law reform over the past several years).

<sup>58</sup> John Timmer, *Patent Reform Act Suffers Serious Setback, Stalled in Senate*, ARS TECHNICA (May 5, 2008, 6:05 AM), <http://arstechnica.com/tech-policy/news/2008/05/patent-reform-act-suffers-serious-setback-stalled-in-senate.ars>.

<sup>59</sup> *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 918, 921 (2001) (stating that patent holders filed 86 percent of the 1,209 patent cases that were tried between 1995 and 1999); ARON LEVKO, VINCENT TORRES & JOSEPH TEELUCKSINGH, A CLOSER LOOK: 2008 PATENT LITIGATION STUDY: DAMAGES AWARDS, SUCCESS RATES AND TIME-TO-TRIAL 10 (2008), *available at* [http://www.pwc.com/en\\_US/us/forensic-services/assets/2008\\_patent\\_litigation\\_study.pdf](http://www.pwc.com/en_US/us/forensic-services/assets/2008_patent_litigation_study.pdf) (indicating that 91 percent of the patent cases identified were brought by patent holders, while only 9 percent were filed as declaratory judgment actions by the alleged infringers).

<sup>60</sup> *See* 28 U.S.C. § 2201 (2006). In Standard Patent Infringement Suits, the defendant (i.e., the alleged infringer) typically responds with various affirmative defenses, including the defense that the asserted patents are invalid and therefore not infringed. Similarly, the defendant in a Patent Declaratory Relief Action will almost always counterclaim for patent infringement. Thus, Standard Patent Infringement Suits and Patent Declaratory Relief Actions are often "mirror image[s]" of each other, with the only difference being who the plaintiff and defendant are in each suit. *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1583 (Fed. Cir. 1990).

<sup>61</sup> 28 U.S.C. § 2201.

<sup>62</sup> *Id.*

Congress passed the Declaratory Judgment Act to provide parties whose legal rights and business relations were uncertain with the ability to have those disputes resolved in federal court.<sup>63</sup> Congress was particularly concerned with the rights of alleged patent infringers who had been threatened with suit but were unable to ask a court to determine their rights.<sup>64</sup> Professor Edson R. Sunderland, a proponent of the Declaratory Judgment Act, attempted to persuade Congress by describing the plight of alleged patent infringers:

I assert that I have a right to use a certain patent. . . . What am I going to do about it? There is no way that I can litigate my right, which I claim, to use that device, except by going ahead and using it, and you [the patent holder] can sit back as long as you please and let me run up just as high a bill of damages as you wish to have me run up, and then you may sue me for the damages, and I am ruined, having acted all the time in good faith and on my best judgment, but having no way in the world to find out whether I had a right to use that device or not.<sup>65</sup>

This scenario has been described alternatively as a patent owner's use of a "scarecrow" patent<sup>66</sup> or a patent owner's engagement in "a *danse macabre*, brandishing a Damoclean threat with a sheathed sword."<sup>67</sup>

Since its enactment, courts have consistently recognized the importance of the Declaratory Judgment Act in patent cases, both because it protects alleged infringers from this *danse macabre* and because of the vital

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<sup>63</sup> Although there were no debates in Congress regarding the Declaratory Judgment Act in 1934—the year that it ultimately passed—legislation proposing a federal declaratory relief remedy had been introduced in Congress every year between 1919 and 1932. Dolak, *supra* note 8, at 408 & n.6. The legislative history from these prior Congressional sessions demonstrates that the primary goal of the Act was to eliminate uncertainty. *See, e.g., Declaratory Judgments: Hearings on H.R. 5623 Before a Subcomm. of the S. Comm. on the Judiciary*, 70th Cong. 16 (1928) [hereinafter *1928 Senate Hearings*] (statement of Professor Edwin Borcharde) (stating that the declaratory judgment remedy was "a useful expedient to litigants who would otherwise have acted at their peril, or at best would have been exposed to harrowing delay"); *Legislation Recommended by the American Bar Association: Hearing on H.R. 5030, H.R. 10141, H.R. 10142, H.R. 10143 Before the H. Comm. on the Judiciary*, 67th Cong. 16 (1922) (statement of Rep. Hatton Sumners, Member, H. Comm. on the Judiciary) (noting that the purpose of the declaratory judgment statute is "[t]o remove uncertainty").

<sup>64</sup> *1928 Senate Hearings*, *supra* note 63, at 35 (statement of E.R. Sunderland); Lorelei Ritchie De Larena, *Re-Evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes*, 83 *IND. L.J.* 957, 965 (2008) ("[P]atents were specifically mentioned at the early congressional hearings as a prime example of the injustice reaped when a party could sit on its rights and allow the alleged infringer to accrue liability for damages without a reciprocal right to sue.")

<sup>65</sup> *1928 Senate Hearings*, *supra* note 63, at 35 (statement of E.R. Sunderland).

<sup>66</sup> *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96 & n.18 (1993) (internal quotation marks omitted) (noting that this was the phrase used by Learned Hand in *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943), to describe this unfortunate situation between a patentee and an alleged infringer).

<sup>67</sup> *Id.* at 95-96 (quoting *Arrowhead Indus. Water, Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 734-35 (Fed. Cir. 1988)).

role the Act plays in the effort to eradicate bad patents.<sup>68</sup> An accused infringer who is threatened with a patent of questionable validity has the power to file suit in federal court seeking a declaration that the patent is invalid.<sup>69</sup> If the court agrees and declares the patent invalid, then that patent is invalid against the entire world (including competitors other than the alleged infringer) and consequently becomes worthless to the owner.<sup>70</sup>

There are certain perceived tactical advantages of pursuing declaratory relief in patent cases, namely that it allows the accused infringer to choose the forum and to control the timing of the suit.<sup>71</sup> Empirical evidence confirms these perceptions. Studies show, for example, that accused infringers who assert validity challenges in declaratory relief actions have a much higher chance of success on the merits.<sup>72</sup>

More specifically, one study conducted by then-Professor (now Judge) Kimberly Moore determined that in Standard Patent Infringement Suits, alleged infringers win on the issue of validity only 24 percent of the time, while in Patent Declaratory Relief Actions, they have a 60 percent win rate

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<sup>68</sup> See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (explaining the importance of validity challenges in light of the “public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain”); *Bus. Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 75 (7th Cir. 1971) (emphasizing “the public interest in a judicial determination of the invalidity of a worthless patent” (quoting *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483, 485 (2d Cir. 1946)) (internal quotation marks omitted)); see also Lisa A. Dolak, *Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer*, 38 B.C. L. REV. 903, 911 (1997) (“In providing a route for an alleged infringer to challenge the applicability and validity of a patent, the Act also serves the policies underlying the patent laws.”); Gregory Gerald Kenyon, Note, *Patent Law: The Res Judicata Effect of Consent Decrees in Patent Litigation—Lear, Inc. v. Adkins Takes a Back Seat—Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (*Fed. Cir.* 1991), 18 U. DAYTON L. REV. 139, 140 (1992) (“Throughout the development of American patent law, federal courts have recognized the desirability of subjecting invalid patents to judicial scrutiny.” (footnote omitted)).

<sup>69</sup> See 28 U.S.C. § 2201(a) (2006); Dolak, *supra* note 8, at 410-11 (“[A] patent challenger may, in appropriate circumstances, institute patent litigation in federal court by filing a complaint requesting a declaration of patent invalidity, unenforceability, or noninfringement.” (footnotes omitted)).

<sup>70</sup> See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 349-50 (1971).

<sup>71</sup> Moore, *supra* note 59, at 920; D. Peter Harvey & Seth I. Appel, *The Declaratory Judgment Response to a Cease And Desist Letter: “First-To-File” or “Procedural Fencing”?*, 96 TRADEMARK REP. 639, 640 (2006) (“In addition to precipitating a resolution of a dispute, the party filing a declaratory action gains the advantage of selecting the forum.”); Lawrence M. Sung, *License To Sue? The Availability of Declaratory Judgment Actions to Patent Licensees After MedImmune, Inc. v. Genentech, Inc.*, INTELL. PROP. TODAY, Jan. 2007, at 8, 9, available at <http://www.iptoday.com/pdf/2007/1/Sung-Jan2007.pdf> (noting that choice of forum is an advantage for declaratory judgment plaintiffs).

<sup>72</sup> See Moore, *supra* note 59, at 920 & n.100 (explaining that empirical evidence shows that an alleged infringer is much more likely to win on the issue of validity when it brings a declaratory judgment action); Kimberly A. Moore, *Judges, Juries & Patent Cases—An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365, 404-07 (2000); LEVKO, TORRES & TEELUCKSINGH, *supra* note 59, at 10 (stating that alleged infringers improve their chance of success when they are plaintiffs in declaratory judgment actions rather than defendants in infringement suits).

on validity.<sup>73</sup> In other words, an alleged infringer increases its chance of proving a patent invalid by 36 percent by initiating a declaratory judgment action instead of simply waiting to be sued for patent infringement.<sup>74</sup> Judge Moore found that accused infringers who filed declaratory judgment actions enjoyed similar advantages with respect to the issues of patent enforceability<sup>75</sup> and infringement.<sup>76</sup> Based on her research, Judge Moore concludes that “[t]he most likely explanation for the declaratory judgment effect is that forum and timing really do matter.”<sup>77</sup>

In light of this evidence, it can be said with some confidence that declaratory relief is a powerful and effective tool for alleged infringers. Yet, of the thousands of patent cases filed in this country each year, declaratory judgment actions represent only a small percentage.<sup>78</sup> So why are alleged infringers not filing more Patent Declaratory Relief Actions? The next Part

<sup>73</sup> Moore, *supra* note 72, at 404-07 & fig.13; Moore, *supra* note 59, at 921 fig.4.

<sup>74</sup> Moore, *supra* note 72, at 406 fig.13; *see also* Moore, *supra* note 59, at 920 n.100.

<sup>75</sup> Moore, *supra* note 72, at 406 & fig.13 (concluding that patent holders won on the issue of enforceability 82 percent of the time when they filed the suit, but only 45 percent of the time when defending against a declaratory judgment action). Unenforceability, like invalidity, is an affirmative defense to patent infringement. *Id.* at 391. The defense may be raised, for example, if the patent applicant or his representative engaged in inequitable conduct before the PTO. *See Impax Labs., Inc. v. Aventis Pharm. Inc.*, 468 F.3d 1366, 1374 (Fed. Cir. 2006) (“To prove that a patent is unenforceable due to inequitable conduct, the alleged infringer must provide clear and convincing evidence of (1) affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false material information and (2) an intent to deceive.”).

<sup>76</sup> Moore, *supra* note 72, at 406 & fig.13 (concluding that patent holders won on the issue of infringement in 75 percent of Standard Patent Infringement Suits, but only won on infringement in 47 percent of Patent Declaratory Relief Actions). Interestingly, the procedural posture of the case does not appear to impact a patent holder’s chance of success on the question of willfulness. Moore, *supra* note 59, at 921 & fig.4.

<sup>77</sup> Moore, *supra* note 59, at 921-22; *see also* Kevin M. Clermont & Theodore Eisenberg, *Exorcising the Evil of Forum-Shopping*, 80 CORNELL L. REV. 1507, 1511-12 (1995) (concluding that in civil actions, there is generally a statistically significant difference in plaintiff win rate when the suit proceeds in a forum selected by the plaintiff (58 percent) compared to when the suit is transferred to a forum preferred by the defendant (29 percent)). Some might question this and wonder whether the declaratory judgment effect might instead be explained by a difference in the quality or strength of the patents challenged via declaratory relief. In other words, perhaps this higher rate of success is attributable to the fact that alleged infringers tend to seek declaratory judgments with respect to weaker and more vulnerable patents. However, Judge Moore considered this theory and was able to dismiss it. *See* Moore, *supra* note 59, at 922 (“Economic theory suggests that it is not likely that the difference in win rate in *tried* cases may be attributable solely to declaratory judgments being stronger cases for the infringer. This element would be factored into litigation strategy and would impact the selection of cases for trial. Hence, the difference in win rate is not likely to be attributable to a factor that can be predicted by the parties as part of their outcome estimations.”). Judge Moore also determined that this declaratory judgment effect occurs only in cases before a jury, not a judge, which further undermines the theory that the strength of the patent alone explains alleged infringers’ greater success rate in declaratory relief actions. *See* Moore, *supra* note 72, at 405.

<sup>78</sup> LEVKO, TORRES & TEELUCKSINGH, *supra* note 59 (explaining that only about 10 percent of patent cases filed annually are declaratory judgment actions).

of this Article discusses certain jurisdictional hurdles to declaratory relief and explores whether they might explain why alleged infringers are not taking a more proactive role in the fight against bad patents.

## II. JURISDICTIONAL HURDLES IN PATENT DECLARATORY RELIEF ACTIONS

Before an alleged patent infringer may seek declaratory relief in federal court, it must overcome two jurisdictional hurdles: it must first prove that there is declaratory judgment jurisdiction—meaning that there is a justiciable case or controversy<sup>79</sup>—and it must then show that the defendant patent holder is subject to personal jurisdiction wherever the suit was filed.<sup>80</sup> While the courts have recently eased the first of these jurisdictional hurdles,<sup>81</sup> the second hurdle remains a major obstacle for alleged infringers seeking to challenge bad patents.

### A. *Declaratory Judgment Jurisdiction: A Better Standard for Alleged Infringers*

It has long been established that “[t]he mere existence of a potentially adverse patent” is insufficient for an alleged patent infringer to bring a de-

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<sup>79</sup> *Aetna Life Ins. Co. of Hartford, Conn. v. Haworth*, 300 U.S. 227, 239-41 (1937) (holding that a court may only hear a declaratory judgment action when there is a justiciable case or controversy under Article III).

<sup>80</sup> *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 583-84 (1999) (distinguishing between the “two jurisdictional bedrocks” of subject matter jurisdiction and personal jurisdiction, rejecting the notion that “subject-matter jurisdiction is ever and always the more ‘fundamental,’” and clarifying that “[p]ersonal jurisdiction, too, is ‘an essential element of the jurisdiction of a district . . . court,’ without which the court is ‘powerless to proceed to an adjudication.’” (second alteration in original) (quoting *Emp’rs Reinsurance Corp. v. Bryant*, 299 U.S. 374, 382 (1937))); *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1332 n.2 (Fed. Cir. 2008) (“[T]he independent requirement of personal jurisdiction over the defendant remains an important and independent limit on the power of the federal courts.”), *cert. denied*, 129 S. Ct. 2796 (2009).

<sup>81</sup> *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (noting that the Federal Circuit’s reasonable-apprehension-of-suit test conflicts with Supreme Court precedent); *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380 (Fed. Cir. 2007) (“The Supreme Court’s opinion in *MedImmune* represents a rejection of our reasonable apprehension of suit test.”); *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1339 (Fed. Cir. 2007) (“[B]ecause the Supreme Court in *MedImmune* cautioned that our declaratory judgment ‘reasonable-apprehension-of-suit’ test ‘contradict[s]’ and ‘conflicts’ with its precedent, these Federal Circuit tests have been ‘overruled by . . . an intervening . . . Supreme Court decision.’” (second alteration in original) (quoting *Tex. Am. Oil Corp. v. U.S. Dep’t of Energy*, 44 F.3d 1557, 1561 (1995))).

claratory judgment action.<sup>82</sup> Instead, there must be an actual case or controversy before declaratory relief may be sought.<sup>83</sup> This requirement, referred to as declaratory judgment jurisdiction, precludes federal courts from issuing the type of advisory opinions forbidden by Article III of the Constitution.<sup>84</sup>

For years, alleged patent infringers were required to satisfy a two-part test to prove that a case or controversy existed to support a declaratory relief action: (1) the alleged infringer must have had a reasonable apprehension of suit at the time it filed the action; and (2) the alleged infringer must have produced or have been prepared to produce an allegedly infringing product.<sup>85</sup> The “reasonable apprehension” prong of this test often posed an obstacle to declaratory relief because it required alleged infringers to show either an “explicit threat” or some other conduct by the patent holder that created an objectively reasonable apprehension of an infringement suit.<sup>86</sup> Under this standard, patent holders were often able to avoid creating declaratory judgment jurisdiction by choosing their words carefully when communicating with alleged infringers.<sup>87</sup>

In *Gen-Probe, Inc. v. Vysis, Inc.*,<sup>88</sup> the Federal Circuit applied the reasonable apprehension standard to hold that a non-repudiating licensee could not sue for declaratory relief because there was no actual case or controversy.<sup>89</sup> The court reasoned that a licensee in good standing does not have a reasonable apprehension of suit because the patent holder *cannot* sue the

<sup>82</sup> *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1338 (Fed. Cir. 2008); *see also* *Capo, Inc. v. Dioptics Med. Prods., Inc.*, 387 F.3d 1352, 1355 (Fed. Cir. 2004) (“More is needed than knowledge of . . . an adversely held patent.”).

<sup>83</sup> *See* 28 U.S.C. § 2201 (2006). The standard for determining whether there is a case of actual controversy under the Declaratory Judgment Act parallels the Supreme Court’s Article III ripeness analysis. *See Teva*, 482 F.3d at 1337 (“Under the declaratory judgment standard, ‘all the circumstances’ must demonstrate the Article III justiciability requirement that the case be ripe for judicial review.”).

<sup>84</sup> *See* *U.S. Nat’l Bank of Or. v. Indep. Ins. Agents of Am., Inc.*, 508 U.S. 439, 446 (1993) (“‘The exercise of judicial power under Art. III of the Constitution depends on the existence of a case or controversy,’ and ‘a federal court [lacks] the power to render advisory opinions.’” (alteration in original) (quoting *Preiser v. Newkirk*, 422 U.S. 395, 401 (1975))); *Bos. Firefighters Union, Local 718 v. Bos. Chapter, NAACP, Inc.*, 468 U.S. 1206, 1210 (1984) (Blackmun, J., dissenting) (“The federal courts are forbidden by Article III of the Constitution from giving advisory opinions.” (quoting *Bos. Chapter, NAACP v. Beecher*, 716 F.2d 931, 933 (1st Cir. 1983), *vacated sub nom.* *Bos. Firefighters Union, Local 718 v. Bos. Chapter, NAACP, Inc.*, 468 U.S. 1206 (1984)) (internal quotation marks omitted)).

<sup>85</sup> *See, e.g., Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887 n.2 (Fed. Cir. 1992).

<sup>86</sup> *Gen-Probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1380 (Fed. Cir. 2004) (quoting *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993)) (internal quotation marks omitted), *abrogated by* *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

<sup>87</sup> *See Shell Oil*, 970 F.2d at 889 (holding that oblique charges of infringement, or “jawboning,” were not sufficient grounds to create a reasonable apprehension of suit (internal quotation marks omitted)).

<sup>88</sup> 359 F.3d 1376 (Fed. Cir. 2004).

<sup>89</sup> *Id.* at 1381-82.

licensee for infringement because the conduct is permitted under the license.<sup>90</sup> It also considered the policy implications of allowing licensees in Gen-Probe's position to sue for declaratory relief:

[P]ermitting Gen-Probe to pursue a lawsuit without materially breaching its license agreement yields undesirable results. Vysis voluntarily relinquished its statutory right to exclude by granting Gen-Probe a nonexclusive license. In so doing, Vysis chose to avoid litigation as an avenue of enforcing its rights. Allowing this action to proceed would effectively defeat those contractual covenants and discourage [patent holders] from granting licenses. In other words, in this situation, the licensor would bear all the risk, while licensee would benefit from the license's effective cap on damages or royalties in the event its challenge to the patent's scope or validity fails.<sup>91</sup>

Thus, after *Gen-Probe*, in order for a licensee in good standing to seek declaratory relief, it needed to breach the license agreement (e.g., by ceasing royalty payments), so as to create a reasonable apprehension of suit.

The *Gen-Probe* rule reached the Supreme Court a few years later in *MedImmune, Inc. v. Genentech, Inc.*<sup>92</sup> In an 8-to-1 decision, the Court reversed the Federal Circuit and held that—as far as Article III is concerned—a non-repudiating licensee is not required to terminate or breach its license agreement before seeking a declaratory judgment.<sup>93</sup> The licensee should not have to “bet the farm, so to speak, by taking the violative action.”<sup>94</sup> Instead, the Court instructed, the question of whether a justiciable controversy exists will be determined on a case-by-case basis in light of all the circumstances.<sup>95</sup> Applying this standard, the Court concluded that there was indeed a sufficient case or controversy to support MedImmune's request for declaratory relief.<sup>96</sup>

Importantly, in reaching this decision, the Supreme Court criticized the reasonable apprehension prong of the Federal Circuit's test, stating that it appeared to conflict with Supreme Court precedent.<sup>97</sup> The Federal Circuit

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<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 1382.

<sup>92</sup> See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

<sup>93</sup> *Id.* at 137.

<sup>94</sup> *Id.* at 129.

<sup>95</sup> See *id.*

<sup>96</sup> *Id.* at 137.

<sup>97</sup> *Id.* at 132 n.11. Specifically, the Supreme Court said:

Even if *Altvater* could be distinguished as an “injunction” case, it would still contradict the Federal Circuit's “reasonable apprehension of suit” test (or, in its evolved form, the “reasonable apprehension of *imminent* suit” test). A licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a licensee who pays royalties for fear of treble damages and an injunction fatal to his business. The reasonable-apprehension-of-suit test also conflicts with our decisions in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, where jurisdiction obtained even though the collision-victim defendant could not have sued the declaratory-judgment plaintiff-insurer without first obtaining a judgment against the insured; and *Aetna Life Ins. Co. v. Haworth*, where jurisdiction obtained even though the very reason the insurer sought declaratory relief was that the insured had given no indication that he would file suit. It is also in tension with *Cardinal Chemical*

quickly responded to *MedImmune* by abandoning the reasonable apprehension prong<sup>98</sup> and announcing that it would use the “all the circumstances” test generally applied in cases brought under the Declaratory Judgment Act.<sup>99</sup> That test asks “whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”<sup>100</sup>

While the parameters of this “all the circumstances” test for declaratory judgment jurisdiction in patent cases continue to develop and evolve,<sup>101</sup> there is a clear consensus that the *MedImmune* standard for establishing a case or controversy is much more lenient and favorable to alleged patent infringers.<sup>102</sup> Indeed, many predicted that this relaxation of the standard would lead to a significant rise in the number of declaratory relief actions filed.<sup>103</sup> So far, though, these predictions have not proved accurate.<sup>104</sup> Per-

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*Co. v. Morton Int'l, Inc.*, which held that appellate affirmance of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.

*Id.* at 132 n.11 (citations omitted).

<sup>98</sup> *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380 (Fed. Cir. 2007); *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1339 (Fed. Cir. 2007).

<sup>99</sup> *Teva*, 482 F.3d at 1339 (internal quotation marks omitted).

<sup>100</sup> *MedImmune*, 549 U.S. at 127 (quoting *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)) (internal quotation marks omitted).

<sup>101</sup> In *SanDisk*, the Federal Circuit rejected the reasonable apprehension test and held that “Article III jurisdiction may be met where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do.” 480 F.3d at 1381. The court now appears to be backtracking from this position a bit. *See Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1336 (Fed. Cir. 2008) (“[P]roving a reasonable apprehension of suit is one of multiple ways that a declaratory judgment plaintiff can satisfy the more general all-the-circumstances test to establish that an action presents a justiciable Article III controversy.”).

<sup>102</sup> Ronald A. Bleeker & Michael V. O’Shaughnessy, *One Year After MedImmune—The Impact on Patent Licensing and Negotiation*, 17 FED. CIR. B.J. 401, 435 (2008) (stating that “[t]he new standard . . . make[s] it easier for accused infringers to bring . . . declaratory judgment action[s]”).

<sup>103</sup> *See, e.g.*, 1 ECKSTROM’S LICENSING IN FOREIGN AND DOMESTIC OPERATIONS § 8C:14 (2009) (“In a decision likely to lead to an increase in litigation, the Supreme Court in *MedImmune* held that the licensee need not terminate or be in breach of its license agreement before it can seek such a declaratory judgment.”); Philip Nelson & Paul Conover, *Patent Notice Letters After the Supreme Court’s MedImmune Decision: Prelude to a Deal, or a License To Sue?*, ORANGE COUNTY LAW., Aug. 2007, at 38, 42 (“An amendment to the declaratory judgment statute by Congress or further clarification from the Supreme Court may also be needed to avoid an expensive and unnecessary increase in pre-emptive litigation that will likely result from the *MedImmune* decision.”); Jennifer L. Collins & Michael A. Cicero, *The Impact of MedImmune upon Both Licensing & Litigation*, 89 J. PAT. & TRADEMARK OFF. SOC’Y 748, 756 (2007) (“This increased likelihood of declaratory judgment actions by licensees may have a chilling effect on licensors’ desire to license patents—particularly on the licensors’ desire to license future patents.”); Charles S. Barquist & Jason A. Crotty, ‘*MedImmune v. Genentech*’: *The Supreme Court Upends the Federal Circuit’s Declaratory Judgment Jurisprudence*, LAW.COM (Jan. 29, 2007), <http://www.law.com/jsp/article.jsp?id=1169806049217> (“The decision may also increase the number of

haps this can be explained in part by the fact that alleged infringers still must overcome the second jurisdictional hurdle: personal jurisdiction.

B. *Personal Jurisdiction: Why Can Alleged Infringers Not Sue at Home?*

The primary advantage of filing a declaratory judgment action is that, as the plaintiff, the alleged infringer chooses the forum where the validity and infringement of the patent will be determined.<sup>105</sup> In most instances, an alleged infringer would prefer to file a declaratory judgment action in its home state (i.e., where the alleged infringer's principal place of business is located).<sup>106</sup> While there may be some tactical advantages to filing on one's "home turf," there are also less insidious reasons for choosing such a forum, such as convenience, cost, and familiarity with the court's local rules.<sup>107</sup> However, an alleged infringer may seek declaratory relief at home only if the patent holder is subject to personal jurisdiction there.

The question of whether a patent holder will be subject to personal jurisdiction in the alleged infringer's home state will depend, of course, on the facts of each case. That said, the circumstances leading to declaratory judgment actions often follow the same pattern: the patent holder identifies a potential infringer; the patent holder sends a cease-and-desist letter to the alleged infringer's principal place of business; the alleged infringer studies the patent and believes it is invalid; the alleged infringer files a declaratory relief action in federal court in its home state; and the patent holder moves to dismiss for lack of personal jurisdiction.<sup>108</sup>

Anyone with even a rudimentary understanding of personal jurisdiction would probably expect such a motion to dismiss to be denied because the cause of action arose from the patent holder's contact with the forum

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declaratory judgment actions challenging the validity of patents, particularly in areas such as biotechnology where patents may be particularly vulnerable to written description and enablement challenges . . .").

<sup>104</sup> See, e.g., Michael A. Ladra & Lillian Ewing, *Declaratory Judgment Practices After SanDisk v. STMicroelectronics*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 185, 198 (2007) ("An expansion of the class of potential declaratory judgment plaintiffs has not, somewhat surprisingly, coincided with an actual increase in the number of filings.").

<sup>105</sup> See *supra* note 12 and accompanying text (discussing tactical advantages of declaratory judgment actions).

<sup>106</sup> See *infra* note 277 (canvassing declaratory judgment cases to show that alleged infringers almost always sue at home).

<sup>107</sup> Gil Seinfeld, *The Federal Courts as a Franchise: Rethinking the Justifications for Federal Question Jurisdiction*, 97 CALIF. L. REV. 95, 138 n.136 (2009).

<sup>108</sup> See, e.g., *Asymetrix Corp. v. Lex Computer & Mgmt. Corp.*, No. C94-588Z, 1995 WL 843059, at \*3 (W.D. Wash. Jan. 24, 1995); Sudarshan, *supra* note 7, at 160 ("The pattern is familiar. Corporations receive a letter in the mail from a patent holding company inviting a 'discussion' regarding the company's patent portfolio. The corporation allegedly infringes this portfolio, and the holding company invites it to participate in a 'licensing program.'").

state (i.e., the sending of the cease-and-desist letter), and such circumstances usually support the exercise of specific jurisdiction.<sup>109</sup> Yet, in a long line of cases, the Federal Circuit has held that patent holders in this situation should *not* be subject to personal jurisdiction.<sup>110</sup> Consequently, for many alleged infringers contemplating declaratory relief, the only “choice” is to file suit in an inconvenient and potentially unfriendly forum, such as where the patent holder is incorporated or headquartered. In other words, the Federal Circuit’s rule largely eliminates the primary advantage of declaratory relief—choice of forum—and this, in turn, causes alleged infringers to forego declaratory relief and allows many bad patents to go unchallenged.

If the Declaratory Judgment Act is to become an effective weapon in the fight against bad patents, then the time has come to take a hard look at this rule. Questions concerning the legal and policy justifications for this rule are explored in detail in Parts IV and V. Before addressing them, however, the next Part provides some basic background information regarding the law of personal jurisdiction.

### III. THE FUNDAMENTALS OF PERSONAL JURISDICTION

The doctrine of personal jurisdiction, which can be traced at least as far back as the Supreme Court’s decision in *Pennoyer v. Neff*,<sup>111</sup> limits a court’s ability to bind a particular defendant to the judgment of the court.<sup>112</sup> Notions of due process and state sovereignty comprise the theoretical foundation for the personal jurisdiction doctrine.<sup>113</sup> More specifically, the jurisdiction of courts considering state law cases is constrained by the Four-

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<sup>109</sup> See *infra* Part III (explaining the requirements of specific jurisdiction); see also *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1333 (Fed. Cir. 2008) (stating that cease-and-desist letters “might be expected to support an assertion of specific jurisdiction over the patentee because the letters are purposefully directed at the forum and the declaratory judgment action arises out of the letters” (quoting *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1202 (Fed. Cir. 2003)) (internal quotation marks omitted)), *cert. denied*, 129 S. Ct. 2796 (2009).

<sup>110</sup> See *supra* note 27 (setting forth the Federal Circuit cases establishing this rule).

<sup>111</sup> 95 U.S. 714 (1877), *overruled in part by* *Shaffer v. Heitner*, 433 U.S. 186 (1977); see also Patrick J. Borchers, *The Death of the Constitutional Law of Personal Jurisdiction: From Pennoyer to Burnham and Back Again*, 24 U.C. DAVIS L. REV. 19, 25 (1990) (“Supreme Court intervention in state court assertions of personal jurisdiction did not, as one may sometimes gather, begin with *Pennoyer*.”).

<sup>112</sup> *Pennoyer*, 95 U.S. at 733 (stating that “[s]ince the adoption of the Fourteenth Amendment . . . [the] enforcement [of judgments may be] resisted, on the ground that . . . [the] court has no jurisdiction”).

<sup>113</sup> See *infra* note 227 (discussing inconsistencies in Supreme Court precedent as to whether the personal jurisdiction analysis implicates matters of state sovereignty).

teenth Amendment,<sup>114</sup> while the Fifth Amendment limits jurisdiction in patent and other federal question cases.<sup>115</sup> Notwithstanding this distinction, the test for personal jurisdiction usually applies across the board—to state and federal claims alike in both state and federal courts.<sup>116</sup>

The test for personal jurisdiction involves a two-step inquiry: Does the forum state's long-arm statute permit service of process, and would the exercise of personal jurisdiction be inconsistent with due process?<sup>117</sup> Because the long-arm statutes of most states authorize the exercise of personal jurisdiction over nonresidents to the full extent permitted by due process,<sup>118</sup>

<sup>114</sup> See, e.g., *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 293-94 (1980); *Pennoyer*, 95 U.S. at 733. But see Borchers, *supra* note 111, at 25 (arguing that the Fourteenth Amendment does not limit the jurisdictional reach of state courts).

<sup>115</sup> See, e.g., *Peay v. Bellsouth Med. Assistance Plan*, 205 F.3d 1206, 1210 (10th Cir. 2000) (“[I]n federal question cases, personal jurisdiction flows from the Due Process Clause of the Fifth Amendment.”); *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1358 n.\* (Fed. Cir. 1998) (“This court has stated that the Due Process Clause at issue for personal jurisdiction in a patent case is that of the Fifth Amendment, and not the Fourteenth.”); *Republic of Panama v. BCCI Holdings (Lux.) S.A.*, 119 F.3d 935, 942 (11th Cir. 1997) (“It is well established that when, as here, a federal statute provides the basis for jurisdiction, the constitutional limits of due process derive from the Fifth, rather than the Fourteenth, Amendment.”). Most courts and commentators have assumed that the limits imposed by the Fifth Amendment with respect to personal jurisdiction are comparable to those imposed on the states by the Fourteenth Amendment. In a recent article, however, Professor Wendy Purdue critically examines that assumption and concludes that purposeful availment should not be a factor in the Fifth Amendment jurisdictional analysis and that jurisdiction under the Fifth Amendment should be assessed based on the effects in the United States as a whole. See Wendy Purdue, *Aliens, the Internet, and “Purposeful Availment”: A Reassessment of Fifth Amendment Limits on Personal Jurisdiction*, 98 NW. U. L. REV. 455, 470 (2004).

<sup>116</sup> See FED. R. CIV. P. 4(k)(1)(A); see also A. Benjamin Spencer, *Jurisdiction To Adjudicate: A Revised Analysis*, 73 U. CHI. L. REV. 617, 624 (2006) (“Congress has determined that the general rule is that the personal jurisdiction of federal courts is limited to that of courts of the states in which the federal courts are located.”). There are some exceptions to this rule where Congress has provided for nationwide jurisdiction in certain types of cases. See, e.g., *Busch v. Buchman, Buchman & O'Brien, Law Firm*, 11 F.3d 1255, 1258 (5th Cir. 1994) (stating that nationwide jurisdiction exists when claims are brought under the federal securities laws); *Ferree v. Life Ins. Co. of N. Am.*, No. 1:05-cv-2266-WSD, 2006 WL 2025012, at \*9 (N.D. Ga. July 17, 2006) (stating that “ERISA provides for nationwide jurisdiction”). In those cases, federal courts assess jurisdiction based on the defendant's contacts with the United States as a whole, not with a particular state. See *Kline*, *supra* note 24, at 285. No such provision has been made for patent cases, however, and the general principles for determining personal jurisdiction therefore apply. *Id.* at 283-84 (proposing that Congress enact legislation providing for nationwide jurisdiction in all patent-related cases).

<sup>117</sup> *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 319 (1945).

<sup>118</sup> See *Burnham v. Superior Court of Cal.*, 495 U.S. 604, 639 n.14 (1990) (Brennan, J., concurring) (“That States are more likely to expand their jurisdiction is illustrated by the adoption by many States of long-arm statutes extending the reach of personal jurisdiction to the limits established by the Federal Constitution.”); Jeffrey A. Van Detta & Shiv K. Kapoor, *Extraterritorial Personal Jurisdiction for the Twenty-First Century: A Case Study Reconceptualizing the Typical Long-Arm Statute To Codify and Refine International Shoe After Its First Sixty Years*, 3 SETON HALL CIR. REV. 339, 345 (2007) (“The trend of the states is unquestionably towards construing and/or changing the long-arm statutes to reach to the limits of due process, thus showing the desire of most states to have personal jurisdiction

this two-step inquiry often collapses into one question: Would the court offend due process by exercising personal jurisdiction over the defendant?<sup>119</sup> This Article does not address any particular state's long-arm statute, but instead focuses exclusively on the question of whether the exercise of personal jurisdiction comports with federal due process.

In its landmark *International Shoe Co. v. Washington* decision, the Supreme Court held that due process allows defendants to be sued only where they are subject to personal jurisdiction—that is, where they have meaningful “contacts, ties, or relations” with the forum state and thus could reasonably anticipate being haled into court there.<sup>120</sup> In other words, a court cannot force a defendant to defend a lawsuit in a state unless the defendant has the requisite “minimum contacts” with that state.<sup>121</sup> Courts use various tests to determine whether, in any given case, there have been sufficient contacts between the defendant and the forum state for the exercise of personal jurisdiction.

Personal jurisdiction is often categorized as either general jurisdiction or specific jurisdiction.<sup>122</sup> The nature of conduct required to meet the “minimum contacts” requirement depends on whether a plaintiff asserts a general or specific jurisdiction theory. In order to be subject to a court's general jurisdiction, the defendant must have “continuous and systematic”

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over nonresidents coterminous with due process.”); Jeffrey J. Utermohle, *Maryland's Diminished Long-Arm Jurisdiction in the Wake of Zavian v. Foudy*, 31 U. BALT. L. REV. 1, 6-7 (2001) (“[N]ot all long-arm statutes are created equal: the overwhelming majority of states . . . extend personal jurisdiction to the full extent permitted by the due process decisions of the Supreme Court.”).

<sup>119</sup> See, e.g., *Trintec Indus., Inc. v. Pedre Promotional Prods., Inc.*, 395 F.3d 1275, 1279 (Fed. Cir. 2005) (“Sometimes these two inquiries coalesce into one because the reach of the state long-arm statute is the same as the limits of the due process clause, so that the state limitation collapses into the due process requirement.” (internal quotation marks omitted)).

<sup>120</sup> *Id.* at 319; *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980).

<sup>121</sup> *Int'l Shoe*, 326 U.S. at 316.

<sup>122</sup> See, e.g., *Helicopteros Nacionales de Colom., S.A. v. Hall*, 466 U.S. 408, 414-15 (1984). This personal jurisdiction framework was first proposed in a 1966 article published in the *Harvard Law Review*. See Arthur T. von Mehren & Donald T. Trautman, *Jurisdiction To Adjudicate: A Suggested Analysis*, 79 HARV. L. REV. 1121 (1966). In that article, Professors von Mehren and Trautman coined the term “specific jurisdiction” to refer to “the power to adjudicate with respect to issues deriving from, or connected with, the very controversy that establishes jurisdiction to adjudicate,” while they called the “exercise [of] power to adjudicate any kind of controversy when jurisdiction is based on relationships, direct or indirect, between the forum and the person or persons whose legal rights are to be affected . . . general jurisdiction.” *Id.* at 1136. A more recent proposal is that general and specific jurisdiction can be distinguished by “whether the relationship of defendant's contacts to the dispute impacts the court's analysis of the requisite constitutional connection for jurisdiction.” Charles W. “Rocky” Rhodes, *Clarifying General Jurisdiction*, 34 SETON HALL L. REV. 807, 819 (2004). Others argue that there are not actually separate categories of jurisdiction, but rather that general and specific jurisdiction represent two ends of a continuous spectrum. See, e.g., William M. Richman, *Review Essay*, 72 CALIF. L. REV. 1328, 1345 (1984) (book review).

contacts with the forum state.<sup>123</sup> Assuming such contacts exist, courts may exercise personal jurisdiction over the defendant with respect to any type of lawsuit, even if the action is not related to the defendant's contacts with the forum state.<sup>124</sup>

Specific jurisdiction, on the other hand, requires less pervasive contacts between the defendant and the forum state. But under this doctrine, courts are only permitted to exercise personal jurisdiction over a defendant if the lawsuit arises out of or is related to the defendant's contacts with the forum state.<sup>125</sup> In this situation, the “relationship among the defendant, the forum, and the litigation,” is the essential foundation of *in personam* jurisdiction.<sup>126</sup>

In assessing whether this relationship among the defendant, the forum state, and the litigation supports the exercise of specific jurisdiction, courts consider whether the defendant “purposefully avail[ed] itself of the privilege of conducting activities within the forum State, thus invoking the benefits and protections of its laws.”<sup>127</sup> This purposeful availment requirement ensures that parties will not have to defend against lawsuits in different states based solely on “random, fortuitous, or attenuated contacts”<sup>128</sup> or the “unilateral activity” of a third party.<sup>129</sup> Yet even a single contact may be sufficient for specific jurisdiction if it is directly and substantially related to the plaintiff's claims.<sup>130</sup>

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<sup>123</sup> *Helicopteros*, 466 U.S. at 415 (quoting *Perkins v. Benguet Consol. Mining Co.*, 342 U.S. 437, 438 (1952)).

<sup>124</sup> *Id.* at 414.

<sup>125</sup> *Id.* at 414 n.8. While the Supreme Court has been clear that specific jurisdiction confers narrower jurisdictional power than general jurisdiction, because it has failed to define specific personal jurisdiction precisely, there is significant inconsistency among lower courts regarding the scope of the specific jurisdiction doctrine. See Linda Sandstrom Simard, *Exploring the Limits of Specific Personal Jurisdiction*, 62 OHIO ST. L.J. 1619, 1619-20 (2001).

<sup>126</sup> *Helicopteros*, 466 U.S. at 414 (quoting *Shaffer v. Heitner*, 433 U.S. 186, 204 (1977)).

<sup>127</sup> *Hanson v. Denckla*, 357 U.S. 235, 253 (1958).

<sup>128</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985) (quoting *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 774 (1984)) (internal quotation marks omitted).

<sup>129</sup> *Id.* at 475 (quoting *Helicopteros*, 466 U.S. at 417). There appears to be some debate as to whether purposeful availment is a prerequisite for general jurisdiction as well. Compare *Glencore Grain Rotterdam B.V. v. Shivnath Rai Harnarain Co.*, 284 F.3d 1114, 1123 (9th Cir. 2002) (“Whether dealing with specific or general jurisdiction, the touchstone remains ‘purposeful availment.’”), and Charles W. “Rocky” Rhodes, *The Predictability Principle in Personal Jurisdiction Doctrine: A Case Study on the Effects of a “Generally” Too Broad, but “Specifically” Too Narrow Approach to Minimum Contacts*, 57 BAYLOR L. REV. 135, 230 (2005) (arguing that if each individual contact could not satisfy the purposeful availment prong for specific jurisdiction, then “quantity alone cannot somehow magically create general jurisdiction”), with *Merlino v. Harrah's Entm't, Inc.*, No. 05 CV 6660, 2006 WL 401847, at \*3 (E.D. Pa. Feb. 17, 2006) (“Plaintiffs’ argument seems to improperly conflate purposeful availment—a specific jurisdiction concept—with general jurisdiction to argue that once a defendant makes use of the Commonwealth’s court system it has opened itself to being sued in the Commonwealth on any claim.”).

<sup>130</sup> *McGee v. Int'l Life Ins. Co.*, 355 U.S. 220, 222-23 (1957).

Due process also mandates that the exercise of specific jurisdiction be fair and reasonable, which means that it must comport with “traditional notions of fair play and substantial justice.”<sup>131</sup> Various factors are considered in this “fairness” analysis, including: (1) “the burden on the defendant;” (2) “the interests of the forum state;” (3) “the plaintiff’s interest in obtaining relief;” (4) “the interstate judicial system’s interest in obtaining the most efficient resolution of controversies;” and (5) the states’ “shared interest . . . in furthering fundamental substantive social policies.”<sup>132</sup> This list is not exhaustive, however, and the ultimate decision as to whether specific jurisdiction exists is based on the totality of the circumstances.<sup>133</sup> That said, assuming the plaintiff establishes that the defendant has the requisite minimum contacts with the forum state, the defendant would have to make a “compelling case” to defeat personal jurisdiction on fairness grounds.<sup>134</sup>

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<sup>131</sup> *Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102, 113 (1987) (quoting *Int’l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945)) (internal quotation marks omitted). There is also disagreement about whether the fairness factors apply to general jurisdiction as well. *See Metro. Life Ins. Co. v. Robertson-Ceco Corp.*, 84 F.3d 560, 573 (2d Cir. 1996) (“[E]very circuit that has considered the question has held, implicitly or explicitly, that the reasonableness inquiry is applicable to *all* questions of personal jurisdiction, general or specific.”); Rhodes, *supra* note 122, at 901 (arguing that the fairness factors “should be incorporated into the general jurisdiction calculus”). *But see Metro. Life*, 84 F.3d at 576 (Walker, J., dissenting) (“The majority’s adoption of a bifurcated personal jurisdiction test, which extends to the general jurisdiction context the Supreme Court’s holdings in the specific jurisdiction cases of *World-Wide Volkswagen* . . . and *Asahi* . . . erodes the doctrinal foundation established in *International Shoe* . . . .”); Pierre Riou, Note, *General Jurisdiction over Foreign Corporations: All That Glitters Is Not Gold Issue Mining*, 14 REV. LITIG. 741, 771 (1995) (arguing that “the inquiry whether a foreign corporation is amenable to general jurisdiction should begin and end with continuous and systematic contacts analysis, and the *Volkswagen* fair and reasonable factors should play no role”).

<sup>132</sup> *Asahi*, 480 U.S. at 113 (quoting *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980)) (internal quotation marks omitted).

<sup>133</sup> *World-Wide Volkswagen*, 444 U.S. at 292.

<sup>134</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477 (1985). The Supreme Court has articulated alternative specific jurisdiction theories, including the stream of commerce and effects test. *See Calder v. Jones*, 465 U.S. 783, 789 (1984); *World-Wide Volkswagen*, 444 U.S. at 297-98. Under the stream of commerce theory, a forum state may assert personal jurisdiction over an entity that “delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State.” *Id.* at 297-98. Thus, corporate defendants, many of whom distribute goods on a national (if not international) scale, may be subject to personal jurisdiction under this stream of commerce theory in states where they have no physical presence or significant operations.

The parameters of the stream of commerce doctrine, however, have not been well defined by the Supreme Court. In *Asahi*, a majority of the Court could not agree as to the requirements for personal jurisdiction under a stream of commerce theory. One opinion, authored by Justice O’Connor, found that “[t]he placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State” and that the requisite something “more” might be marketing, advertising, service, or design done with the forum in mind. *Asahi*, 480 U.S. at 112. Justice Brennan opined, by contrast, that placing a product in the stream of commerce with an awareness “that the final product is being marketed in the forum State” is all that is necessary to subject a defendant to jurisdiction. *Id.* at 117 (Brennan, J., concurring). Despite this lack of clarity, many lower courts have adopted some permutation of the stream of commerce test for personal jurisdiction. *Compare Dehmlow v. Aus-*

These basic tenets of personal jurisdiction generally apply to cases across the board, including patent litigation.<sup>135</sup> Sometimes, though, conduct that amounts to purposeful contact sufficient for personal jurisdiction in one context may fall short in another. Questions about what happens when these general principles of personal jurisdiction are applied to patent cases are taken up in Part IV.

#### IV. PERSONAL JURISDICTION IN PATENT CASES

In both Standard Patent Infringement Suits and Patent Declaratory Relief Actions, the defendant must, of course, be subject to personal jurisdiction in the state where the lawsuit has been filed.<sup>136</sup> Defendants in patent

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tin Fireworks, 963 F.2d 941, 947 (7th Cir. 1992) (adopting Justice Brennan's test), and *Barone v. Rich Bros. Interstate Display Fireworks Co.*, 25 F.3d 610, 613-15 (8th Cir. 1994), with *Bridgeport Music, Inc. v. Still N The Water Publ'g*, 327 F.3d 472, 479-80 (6th Cir. 2003) (adopting Justice O'Connor's test), *Lesnick v. Hollingsworth & Vose Co.*, 35 F.3d 939, 945-46 (4th Cir. 1994), and *Boit v. Gar-Tec Prods., Inc.*, 967 F.2d 671, 682-83 (1st Cir. 1992). Other courts, including the Federal Circuit, have avoided adopting either test and instead analyze stream of commerce questions on a case-by-case basis. See *Pennzoil Prods. Co. v. Colelli & Assocs., Inc.*, 149 F.3d 197, 205 (3d Cir. 1998); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994); *Irving v. Owens-Corning Fiberglas Corp.*, 864 F.2d 383, 386 (5th Cir. 1989).

The "effects test" theory of personal jurisdiction, as the name suggests, focuses on the effects of a defendant's intentional conduct toward a particular plaintiff in the plaintiff's home state. See *Calder*, 465 U.S. at 789. The Supreme Court first proposed this test in *Calder*, a case in which Shirley Jones, a well-known entertainer, brought a defamation action in California state court against the Florida-based *National Enquirer*, the editor of the magazine, and the author of the allegedly defamatory article. *Id.* at 784-85. The individual defendants, both of whom were Florida residents with no relevant contacts in California, moved to dismiss for lack of personal jurisdiction. *Id.* The Court held that the defendants were subject to personal jurisdiction because they expressly aimed their actions at California, and they knew the article would have a potentially devastating impact on Ms. Jones, who lived in California. *Id.* at 789-90. As the Court explained, "[a]n individual injured in California need not go to Florida to seek redress from persons who, though remaining in Florida, knowingly cause injury in California." *Id.* at 790. In other words, under the "effects test" theory of personal jurisdiction, defendants should reasonably anticipate being haled into court in states where they intentionally cause injury. *Id.* at 789-90.

<sup>135</sup> See Richard K. Greenstein, *The Nature of Legal Argument: The Personal Jurisdiction Paradigm*, 38 HASTINGS L.J. 855, 856 (1987) ("The doctrine of personal jurisdiction, as historically articulated by the Supreme Court, is consistent and coherent—although it may not yield a single test that will determine the answer to jurisdictional questions in all cases, it defines the constitutional dimensions of jurisdiction over persons as comprising a group of specific, intertwined, but irreconcilable themes and attendant principles.").

<sup>136</sup> See *supra* note 80 (discussing the personal jurisdiction requirement in patent cases). In patent cases, Federal Circuit law governs substantive patent law issues, while the law of the regional circuits generally applies to procedural questions. *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1272 (Fed. Cir. 2001). The Federal Circuit has fashioned an exception, however, when the procedural question is "intimately involved in the substance of enforcement of the patent right." *Id.* (quoting *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365 (Fed. Cir. 2001)) (internal quotation marks omitted). Because the Federal Circuit has determined that questions of personal jurisdiction fall within these parameters, its law is

cases may be subject to personal jurisdiction under a general jurisdiction theory if the defendant has continuous and systematic contacts with the forum state.<sup>137</sup> More often, however, the assertion of personal jurisdiction in Standard Patent Infringement Suits and Patent Declaratory Relief Actions is grounded in a theory of specific jurisdiction, so the remainder of the discussion in this Part focuses on that jurisdictional theory as applied to patent cases.

The test for specific personal jurisdiction in both Standard Patent Infringement Suits and Patent Declaratory Relief Actions is identical: (1) whether the defendant purposefully directed its activities at residents of the forum state;<sup>138</sup> (2) “whether the claim arises out of or relates to the defendant’s activities within the forum [state;] and [(3)] whether [the] assertion of personal jurisdiction is reasonable and fair.”<sup>139</sup> Assuming the first two requirements—which this Article will refer to as the “contacts portion” of the test—are satisfied, a defendant may only challenge personal jurisdiction based on the “fairness factor” if it can make a “*compelling case*” that some other consideration would render the exercise of that jurisdiction unreasonable.<sup>140</sup> In other words, “such defeats of otherwise constitutional personal jurisdiction ‘are limited to the rare situation in which the plaintiff’s interest and the state’s interest in adjudicating the dispute in the forum are so attenuated that they are clearly outweighed by the burden of subjecting the defendant to litigation within the forum.’”<sup>141</sup>

Although the same jurisdictional test is used in both Standard Patent Infringement Suits and Patent Declaratory Relief Actions, the results are quite different when the test is applied to each type of suit. As discussed in

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controlling. *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1201 (Fed. Cir. 2003). One recent article argues that the Federal Circuit should abandon this choice-of-law framework and instead adopt a rule where the law of the Federal Circuit is always applied to procedural issues in patent cases. Ted. L. Field, *Improving the Federal Circuit’s Approach to Choice of Law for Procedural Matters in Patent Cases*, 16 GEO. MASON L. REV. 643, 646 (2009).

<sup>137</sup> See, e.g., *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1331-32 (Fed. Cir. 2008) (“[I]n the context of patent infringement litigation . . . an assertion of *general* jurisdiction requires that the defendant have continuous and systematic contacts with the forum state . . .” (quoting *Silent Drive*, 326 F.3d at 1200) (internal quotation marks omitted)), *cert. denied*, 129 S. Ct. 2796 (2009).

<sup>138</sup> In patent cases, courts sometimes rely on the stream of commerce or effects test theories of personal jurisdiction discussed above. See sources cited *supra* note 134; see also, e.g., *Beverly Hills Fan*, 21 F.3d at 1566 (applying stream of commerce theory to hold that the defendant was subject to personal jurisdiction in Virginia); *Northbrook Digital LLC v. Vendio Servs., Inc.*, No. 07-2250 (PJS/JJG), 2008 WL 2390740, at \*11 (D. Minn. Apr. 4, 2008) (noting that the Federal Circuit sometimes uses the effects test in patent declaratory judgment actions).

<sup>139</sup> *Dainippon Screen Mfg. Co. v. CFMT, Inc.*, 142 F.3d 1266, 1270 n.2 (Fed. Cir. 1998) (quoting *Akro Corp. v. Luker*, 45 F.3d 1541, 1546-49 (Fed. Cir. 1995)).

<sup>140</sup> *Akro*, 45 F.3d at 1549 (emphasis added); see also *Dole Food Co. v. Watts*, 303 F.3d 1104, 1117 (9th Cir. 2002) (“A number of our cases emphasize the heavy burden on both domestic and foreign defendants in proving a ‘compelling case’ of unreasonableness to defeat jurisdiction.”).

<sup>141</sup> *Akro*, 45 F.3d at 1549 (quoting *Beverly Hills Fan*, 21 F.3d at 1568).

the following Sections, patent holders tend to have a much easier time proving that defendants are subject to personal jurisdiction in Standard Patent Infringement Suits than alleged infringers do in Patent Declaratory Relief Actions.

A. *Personal Jurisdiction in Patent Infringement Suits: “Anything Goes”*<sup>142</sup>

Generally, patent holders may file infringement suits in any federal district court where the personal jurisdiction and venue requirements are satisfied. While these are technically separate requirements, the patent venue statute provides that “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides,”<sup>143</sup> and a corporation “resides” in any judicial district where personal jurisdiction is proper.<sup>144</sup> Thus, in the usual patent case where the alleged infringer is a corporation, the venue and personal jurisdiction inquiries collapse into a single determination.<sup>145</sup>

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<sup>142</sup> Moore, *supra* note 59, at 894.

<sup>143</sup> 28 U.S.C. § 1400(b) (2006).

<sup>144</sup> *Id.* § 1391(c) (“[A] defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced.”). Notably, the Federal Circuit has held that the general venue statute, 28 U.S.C. § 1391, governs patent declaratory judgment actions, rather than 28 U.S.C. § 1400(b), which governs patent infringement actions. *See* VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1583-84 (Fed. Cir. 1990). For the purposes of this Article, however, this is a distinction without a difference because the general venue statute also permits suit to be brought in any judicial district where the defendant “resides,” meaning anywhere that the defendant is subject to personal jurisdiction.

<sup>145</sup> *See* Moore, *supra* note 59, at 897. Of course, even if venue is proper, the defendant may move to transfer the case to a more convenient forum. *See* 28 U.S.C. § 1404(a). In deciding whether to transfer a case for convenience purposes, courts consider several public and private factors, such as the forum’s interest in the controversy, the relative ease of access to evidence, and the ability to compel attendance of witnesses at trial. *See* RICHARD D. FREER, CIVIL PROCEDURE 255, 262 (2d ed. 2009). While, traditionally, the odds of prevailing on such a motion were slim, that trend may be shifting as evidenced by two recent federal mandamus decisions regarding venue transfers. *See In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008); *In re Volkswagen of Am., Inc.*, 545 F.3d 304 (5th Cir. 2008) (en banc), *cert. denied*, 129 S. Ct. 1336 (2009). In *In re Volkswagen of America, Inc.*, a products liability action filed in the Eastern District of Texas, the defendant moved to transfer the case to another district in Texas. 545 F.3d at 307. That motion was denied, the Fifth Circuit granted mandamus, and an en banc court ordered the case transferred on convenience grounds. *Id.* In so holding, the court explained that district courts should transfer a case when the proposed venue is “clearly more convenient” than the current venue. *Id.* at 315.

Shortly thereafter, the Federal Circuit granted a writ of mandamus in *In re TS Tech USA, Corp.*—a patent infringement action also filed in the Eastern District of Texas in which the defendant’s motion to transfer was denied. 551 F.3d at 1317-18. Since transfer decisions under § 1404 are considered procedural, the Federal Circuit applied the law of the regional circuit, meaning the “clearly more convenient” standard from *In re Volkswagen*. *Id.* at 1319 (quoting *In re Volkswagen*, 545 F.3d at 305)

Applying the three-part specific jurisdiction test, this means that alleged infringers—most of whom are corporations that engage in interstate and international commerce—are frequently subject to personal jurisdiction in practically any federal court in the country because: (1) the alleged infringer purposefully directs its activities at residents of the forum state by selling or offering to sell the accused product there;<sup>146</sup> (2) the claim—patent infringement—arises out of or relates to the defendant’s activities within the forum state; and (3) the assertion of personal jurisdiction is reasonable and fair.<sup>147</sup> Consequently, as Judge Moore has explained, “anything goes” for personal jurisdiction in patent infringement cases, which means that patent holders often have the freedom to select from several convenient and friendly forums.<sup>148</sup>

This expansive choice-of-forum right bestows on patent holders certain benefits in infringement litigation.<sup>149</sup> It permits patent holders to select a convenient forum, which usually means filing the lawsuit in the patent holder’s home state.<sup>150</sup> It also enables patent holders to file suit in courts

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(internal quotation marks omitted). Under this standard, the Federal Circuit held that that the district court’s denial was “patently erroneous” and ordered the case transferred to the Southern District of Ohio, where the defendants were headquartered. *Id.* at 1321-22.

Although the *In re Volkswagen* and *In re TS Tech USA* decisions apply only to cases originating in the Fifth Circuit, their impact in the patent arena is potentially far-reaching. First, the Eastern District of Texas has been one of the most popular venues for patent infringement suits for the past several years, and this standard directly affects those cases. *See, e.g.*, Paul M. Janicke, *Venue Transfers from the Eastern District of Texas: Case by Case or an Endemic Problem?*, LANDSLIDE, March/April 2010, at 16, 16. Moreover, the current patent reform bill includes the Fifth Circuit’s “clearly more convenient” standard for transfer motions. *See* Patent Reform Act of 2010, S. 515, 111th Cong. § 8 (2010) (“For the convenience of parties and witnesses, in the interest of justice, a district court shall transfer any civil action arising under any Act of Congress relating to patents upon a showing that the transferee venue is clearly more convenient than the venue in which the civil action is pending.”). If enacted, this standard would of course apply to all patent cases, not just those arising in the Fifth Circuit.

<sup>146</sup> The alleged infringer might purposefully avail itself by selling its products directly in the forum or indirectly under the stream of commerce theory. *See supra* note 134 (discussing stream of commerce theory of personal jurisdiction).

<sup>147</sup> *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1332 (Fed. Cir. 2008) (explaining that specific jurisdiction is “easily discerned” in Standard Patent Infringement suits because “the claim both ‘arises out of’ and ‘relates to’ the defendant’s alleged manufacturing, using, or selling of the claimed invention”), *cert. denied*, 129 S. Ct. 2796 (2009); *see also* Moore, *supra* note 59, at 895 (“Personal jurisdiction requirements are usually met if the defendant sells, offers to sell, or licenses others to sell products to residents of the forum.”).

<sup>148</sup> Moore, *supra* note 59, at 894.

<sup>149</sup> Seinfeld, *supra* note 107, at 138 (“The literature on forum choice strongly suggests that attorneys seriously consider the advantage of litigating on familiar procedural turf and that the commonality of procedural rules across the federal system supplies a meaningful benefit to attorneys called upon to litigate in different courts across the country.”).

<sup>150</sup> R. Scott Weide, *Patent Enforcement Deterrence: Liberal Assertions of Personal Jurisdiction in Declaratory Judgment Actions*, 65 UMKC L. REV. 177, 179 (1996).

that, for one reason or another, are considered “friendly.”<sup>151</sup> In short, patent holders get to forum shop; and putting aside the question of whether forum shopping is essentially good or bad for our litigation system,<sup>152</sup> there is no question that choice of forum is a significant advantage for plaintiffs. As explored below, however, the Federal Circuit has deprived many alleged infringers of the same advantage with its misguided rule regarding personal jurisdiction in Patent Declaratory Relief Actions.

### B. *Personal Jurisdiction in Declaratory Relief Actions*

The three-part test for specific jurisdiction that applies in Standard Patent Infringement Suits applies in Patent Declaratory Relief Actions as well. Yet the jurisdictional analysis used in these two types of cases diverges due to the nature of the legal claim involved. Unlike the claim in Standard Patent Infringement Suits, the claim in a Patent Declaratory Relief Action does not relate to infringement, but concerns the “wrongful restraint [by the patentee] on the free exploitation of non-infringing goods[,] . . . [such as] the threat of an infringement suit.”<sup>153</sup> Simply put, “the nature of the claim in a declaratory judgment action is ‘to clear the air of infringement charges.’”<sup>154</sup>

Thus, in analyzing specific jurisdiction in Patent Declaratory Relief Actions, the Federal Circuit has held that the manufacture, use, or sale of the patented product in the forum state is not relevant because that conduct did not give rise to the claim.<sup>155</sup> Rather, the pertinent inquiry is (1) whether

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<sup>151</sup> Courts may be considered friendly to patent holders for a variety of reasons, including because cases move to trial quickly, juries tend to grant large damage awards, or the court is unlikely to grant summary judgment. See Moore, *supra* note 59, at 897.

<sup>152</sup> Compare Kimberly Jade Norwood, *Shopping for a Venue: The Need for More Limits on Choice*, 50 U. MIAMI L. REV. 267, 329-30 (1996) (arguing that forum shopping is a sanctionable offense), with Debra Lyn Bassett, *The Forum Game*, 84 N.C. L. REV. 333, 335-36 (2006) (arguing that “forum shopping . . . is not an example of . . . ‘cheating’” by those who refuse to play by the rules, and “playing by the rules includes the ability of plaintiff’s counsel to select *which* set of rules” will govern the litigation “game” “and the ability of defense counsel to try to counter that choice”).

<sup>153</sup> *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1332 (Fed. Cir. 2008) (alterations in original) (quoting *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360 (Fed. Cir. 1998)) (internal quotation marks omitted), *cert. denied*, 129 S. Ct. 2796 (2009).

<sup>154</sup> *Id.* (quoting *Red Wing Shoe*, 148 F.3d at 1360).

<sup>155</sup> *Autogenomics, Inc. v. Oxford Gene Tech. Ltd.*, 566 F.3d 1012, 1019-20 (Fed. Cir. 2009); *Avocent*, 552 F.3d at 1335. In these two recent cases, the Federal Circuit announced that “only enforcement or defense efforts related to the patent rather than the patentee’s own commercialization efforts are to be considered for establishing specific personal jurisdiction in a declaratory judgment action against the patentee.” *Autogenomics*, 566 F.3d at 1020. This “enforcement activities” test is a significant departure from the approach to specific jurisdiction that the Federal Circuit has taken in the past. See *supra* note 22. Moreover, the effect of this new test is that it sometimes permits patent holders to circumvent

the defendant patent owner has engaged in enforcement activities with respect to the patent (or patents) in suit, (2) whether those activities have been purposefully directed at residents of the forum state, and (3) the extent to which the claim for declaratory relief “arises out of or relates to those activities.”<sup>156</sup>

This naturally invites the question of what is meant by “enforcement activities.” Consider a hypothetical case in which the patent holder (a resident of State X) filed an infringement suit in State Y against the alleged infringer (a resident of State Y) regarding U.S. Patent No. 1,234,567 (“the ‘567 patent”). Assume that the alleged infringer was served with the complaint, but that the patent holder voluntarily dismissed the suit without prejudice before the defendant answered. Based on the allegations of the complaint, the defendant knows the patent holder believes it is infringing and is concerned the patent holder will sue it again in the future. Under these circumstances, the alleged infringer could sue for declaratory relief in State Y because the patent holder engaged in enforcement activities regarding the ‘567 patent (i.e., filing the prior lawsuit), those activities were directed at a resident of State Y, and the claim for declaratory relief “arises out of” or is “related to” those activities.

But in the usual circumstances, patent holders want to avoid litigation by resolving potential infringement disputes out of court. It is therefore “[s]tandard operating procedure” for patent holders who believe that their patents are being infringed to send a cease-and-desist letter to the alleged infringer.<sup>157</sup> Traditionally, these letters would describe the relevant patent (or patents), accuse the recipient of infringement, and threaten a lawsuit (either explicitly or implicitly) if the allegedly infringing activity did not stop.

In recent years, though, many patent holders (non-practicing entities in particular) have been using cease-and-desist letters to coerce alleged infringers into license agreements rather than to inform others of their patent rights or to urge the cessation of allegedly infringing activity.<sup>158</sup> Unlike typical patent owners who are concerned with market exclusivity, non-practicing entities “obtain patents, not to make, use, or sell new products, but solely to force third parties to purchase licenses.”<sup>159</sup> In order for such a

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*MedImmune*, which was intended to facilitate—not impede—declaratory relief actions that challenge potentially invalid patents.

<sup>156</sup> *Avocent*, 552 F.3d at 1332-33 (quoting *Breckenridge Pharm., Inc. v. Metabolite Labs., Inc.*, 444 F.3d 1356, 1363 (Fed. Cir. 2006)) (internal quotation marks omitted).

<sup>157</sup> Weide, *supra* note 150, at 179.

<sup>158</sup> *See, e.g.*, *Open LCR.com, Inc. v. Rates Tech., Inc.*, 112 F. Supp. 2d 1223, 1228 (D. Colo. 2000) (stating that the patent holder “was more interested in negotiating a license agreement than enforcing its patent rights”); Sudarshan, *supra* note 7, at 160 (describing how patent holders “contact[] dozens of potential defendants . . . offering preferable licensing fees to companies who settle early”).

<sup>159</sup> Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 1 (2005); *see also* Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy Against*

business model to succeed, these patent holders often send out hundreds of cease-and-desist letters in hopes that at least a few of the recipients will acquiesce to their demands and take a license agreement in order to avert litigation.<sup>160</sup> Patent holders are willing to engage in this practice of indiscriminately issuing licensing letters because they know that such conduct—even mailing hundreds of letters to the same forum state—will not subject them to personal jurisdiction there.<sup>161</sup>

While this practice of sending out cease-and-desist letters to force alleged infringers into licensing agreements has grown recently, the question of whether it would offend due process to exercise personal jurisdiction based exclusively on a cease-and-desist letter is not new.<sup>162</sup> For years before the Federal Circuit even existed,<sup>163</sup> district court judges grappled with this question and, not surprisingly, often disagreed as to the answer.

### 1. Early Cases

Since Congress passed the first Patent Act in 1790, the strength of the patent right in this country has ebbed and flowed over time.<sup>164</sup> The 1970s, for example, marked a period of weak patent enforcement in which courts commonly held patents invalid, thereby precluding recovery for infringement.<sup>165</sup> Perhaps in times like these—when patent protection is weak—alleged infringers file more Patent Declaratory Relief Actions because their chances of success are significantly higher.<sup>166</sup> This, in turn, might explain why in the 1970s we see for the first time several reported decisions in pat-

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*Patent Threats*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 164 (2006) (“[A] patent troll acquires patents for the sole purpose of using them to obtain a revenue stream from a firm that engages in activities arguably falling within the scope of the patent.”).

<sup>160</sup> 151 CONG. REC. E1160 (daily ed. June 8, 2005) (statement of Rep. Howard Berman) (expressing concern over the practice of indiscriminately issuing licensing letters and explaining how proposed reforms would address that problem).

<sup>161</sup> *Id.*

<sup>162</sup> For a discussion of early cases that addressed this jurisdictional question, see *infra* Part IV.B.1.

<sup>163</sup> The Federal Circuit was created pursuant to the Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.).

<sup>164</sup> John H. Barton, *Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation*, 65 ANTITRUST L.J. 449, 449 (1997) (“We have replaced the 1970s pattern of weak patent law and strong antitrust law with a 1990s pattern of strong patent law and weak antitrust law.”); see Michael S. Mireles, Jr., *The United States Patent Reform Quagmire: A Balanced Proposal*, 6 MINN. J. L. SCI. & TECH. 709, 713-14 (2005) (book review); see also Pauline Newman, *The Federal Circuit—A Reminiscence*, 14 GEO. MASON L. REV. 513, 515 (1992) (stating that in the late 1960s, “the value of the patent grant had diminished in the United States”).

<sup>165</sup> John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 206 (1998) (reporting that in the 1970s, only about 35 percent of litigated patents were held valid, while in the 1990s, the figure increased to about 65 percent); Barton, *supra* note 164, at 449.

<sup>166</sup> See Allison & Lemley, *supra* note 165, at 206.

ent declaratory judgment cases addressing the question of whether cease-and-desist letters can give rise to personal jurisdiction. As discussed below, these early cases evolved along two contrary lines.

a. *The Chromium Line of Cases*

The first line of cases, beginning with *Chromium Industries, Inc. v. Mirror Polishing & Plating Co.*,<sup>167</sup> held that the exercise of personal jurisdiction over patent owners in states where cease-and-desist letters are received comports with due process.<sup>168</sup> The district courts deciding these cases reasoned that the contacts portion of the specific jurisdiction test was satisfied, either because the cause of action arose from the patent holder's contact with the forum state (i.e., sending the cease-and-desist letter)<sup>169</sup> or because of the "effects"<sup>170</sup> the patent holder's conduct had on the plaintiff in the forum state.<sup>171</sup>

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<sup>167</sup> No. 75 C 3131, 1976 WL 21049 (N.D. Ill. May 4, 1976).

<sup>168</sup> *Id.* at \*4 ("This court has *in personam* jurisdiction over the defendant . . . by reason of defendant's notification to the plaintiff of infringement of the Letendre Patent No. 3,341,348 in this jurisdiction, and defendant's threats to proceed with 'coercive litigation' in the event that the plaintiff refused to comply with the notification."); *see also* *Asymetrix Corp. v. Lex Computer & Mgmt. Corp.*, No. C94-588Z, 1995 WL 843059, at \*3 (W.D. Wash. Jan. 24, 1995) ("District courts in this circuit, when confronted with similar facts to those here, i.e., when defendant's contacts with the forum state have been limited to sending letters charging patent infringement and threatening litigation, have uniformly held that the exercise of personal jurisdiction over the defendants is proper."); *Burbank Aeronautical Corp. II v. Aeronautical Dev. Corp.*, No. CV 89-6244-WMB, 1990 WL 261395, at \*4 (C.D. Cal. May 23, 1990) (holding that the exercise of jurisdiction over a defendant that sent cease-and-desist letters to California comported with due process); *Concord Labs, Inc. v. Ballard Med. Prods.*, 701 F. Supp. 272, 276 (D.N.H. 1988) (holding that defendant was subject to personal jurisdiction in New Hampshire because it sent letters charging patent infringement and threatening enforcement to plaintiff in that state); *Velcro Grp. Corp. v. Billarant*, 692 F. Supp. 1443, 1448 (D.N.H. 1988) (holding that plaintiff "VELCRO has made a prima facie showing that defendants, by warning VELCRO and its customers . . . that fastening tapes sold by VELCRO infringe the '921 patent, purposefully directed its activities at VELCRO, a New Hampshire corporation"); *Dolco Packaging Corp. v. Creative Indus., Inc.*, No. 86-3078 WMB (Bx), 1986 WL 84366, at \*2 (C.D. Cal. Oct. 10, 1986) ("The gravamen of Dolco's claim for declaratory relief is the sending into California by Creative of a letter threatening Creative with litigation for patent infringement and thus posing a threat to Dolco's activities and sales in California. This forum related activity is sufficient to satisfy due process requirements for the exercise of 'limited' personal jurisdiction . . ."); *Chamfer Eng'g, Inc. v. Tapco Int'l, Inc.*, 82 F.R.D. 33, 35 (D. Minn. 1979) ("The sending of such a letter into Minnesota is sufficient to satisfy due process and establish jurisdiction over the sender.").

<sup>169</sup> *See, e.g., Burbank*, 1990 WL 261395, at \*2 ("This complaint appears to have been filed as a direct result of the letters sent by defendants to plaintiff. Therefore, this claim is the result of defendants' patent-protecting activities, which were directed to California residents.").

<sup>170</sup> *See supra* note 134 (discussing the "effects test" theory of personal jurisdiction).

<sup>171</sup> *See, e.g., Concord*, 701 F. Supp. at 276 ("Since the brunt of the harm would be felt in New Hampshire at the plaintiff's principal place of business, jurisdiction is proper in New Hampshire based on the effects of the defendants out-of-state-conduct." (quoting *Lex Computer & Mgmt. Corp. v. Eslin-*

Having determined that defendants had purposefully availed themselves of the forum state, these district courts then considered whether they should refuse to exercise personal jurisdiction on fairness grounds:

[T]his court finds that [defendant] has purposefully directed acts at a forum resident with the intent of having an effect in [the forum state] and thereby purposefully availed itself of the privilege of conducting activities in this forum. As a result, . . . there is a presumption of reasonableness in the exercise of jurisdiction . . . [and] [d]efendant has not satisfied its burden of overcoming that presumption by presenting a *compelling case* that jurisdiction would be unreasonable.<sup>172</sup>

Thus, the *Chromium* line of cases concluded that exercising personal jurisdiction based on cease-and-desist letters comports with due process.

#### b. *The Conwed Line of Cases*

The courts in the second line of cases, including *Conwed Corp. v. Nortene, S.A.*,<sup>173</sup> considered the same jurisdictional question but reached the opposite conclusion: personal jurisdiction based exclusively on a threatening cease-and-desist letter violates due process. Notably, however, the rationale used by the *Conwed* courts varied.

Some of these courts held that it was the contacts portion of the specific jurisdiction test that was not satisfied because the cause of action did not arise out of the defendant's activities in the forum state.<sup>174</sup> In so holding,

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ger & Pelton, P.C., 676 F. Supp. 399, 404 (D.N.H. 1987)) (internal quotation marks omitted); *Velcro*, 692 F. Supp. at 1448 (“[J]urisdiction is proper in New Hampshire because the ‘effects’ of defendants’ out-of-state conduct make it reasonable and fair to require them to conduct their defense in New Hampshire.”); *Dolco*, 1986 WL 84366, at \*2 (“[T]his Court finds that Creative has purposefully directed acts at a forum resident with the intent of having an effect in California and thereby purposefully availed itself of the privilege of conducting activities in this forum.”).

<sup>172</sup> *Dolco*, 1986 WL 84366, at \*2 (emphasis added); see also *Asymetrix*, 1995 WL 843059, at \*3 (“[T]here is a presumption here that the exercise of jurisdiction is reasonable because the plaintiff has shown that [defendant] purposefully directed its threatening telephone calls and other communications to the plaintiff in the forum state. Defendant has failed to overcome this presumption by presenting a compelling case that jurisdiction would be unreasonable. Therefore, the Court denies the defendant’s motion to dismiss for lack of jurisdiction.”); *Burbank*, 1990 WL 261395, at \*3 (“[T]here is a presumption of reasonableness because it is not disputed that defendants purposefully directed the letters threatening suit to California residents. Defendants have not presented a compelling reason why jurisdiction would be unreasonable. . . . Therefore, the Court finds that jurisdiction over defendants would not be unreasonable under the circumstances.”).

<sup>173</sup> 404 F. Supp. 497 (D. Minn. 1975).

<sup>174</sup> *Ryobi Am. Corp. v. Peters*, 815 F. Supp. 172, 176 (D.S.C. 1993) (“[T]his declaratory judgment action did not arise out of [defendant’s] mailing a letter to [plaintiff] concerning the design of one of their products.”); *KVH Indus., Inc. v. Moore*, 789 F. Supp. 69, 71 (D.R.I. 1992) (“[This] action is unrelated to defendant’s Rhode Island activities . . . .”); *Starline Optical Corp. v. Caldwell*, 598 F. Supp.

these courts first assumed that the defendant's contact was the cease-and-desist letter and that the cause of action was patent infringement and then concluded that there was no specific jurisdiction because the letter did not cause the alleged patent infringement.<sup>175</sup> This view never gained much traction, however, as will be discussed further in the next Section.

The other decisions in the *Conwed* group of cases presumed that defendant's contacts with the forum state were sufficient but held that there was no personal jurisdiction on fairness grounds.<sup>176</sup> According to these courts, exercising personal jurisdiction based on cease-and-desist letters would be unconstitutionally unfair because it would discourage the settlement of lawsuits and because "such a rule would unjustifiably treat the victim as the wrongdoer."<sup>177</sup> Ultimately, it was the reasoning in this latter line

1023, 1026 (D.N.J. 1984) (concluding that defendant's contacts with New Jersey were unrelated to plaintiff's cause of action).

<sup>175</sup> As the *Ryobi* court explained:

[T]his declaratory judgment action did not arise out of [defendant's] mailing a letter to [plaintiff] concerning the design of one of their products. The letter did not cause any alleged patent infringement. The essential transaction here is the granting of a patent in Washington, D.C. and [plaintiff's] subsequent manufacture of an allegedly infringing product. The letter did not create any cause of action on [plaintiff's] part.

815 F. Supp. at 176; *see also KVH*, 789 F. Supp. at 71 ("The Court can certainly understand that the communications between [plaintiff and defendant] sparked this lawsuit . . . . However, the communications did not cause the patent infringement."); *Starline*, 598 F. Supp. at 1026 (noting that the "relationship among the defendant, the forum, and the litigation" required for specific jurisdiction must look to the "whole transaction" and that the "transaction at issue here is essentially the granting [of a patent] in Washington, D.C." (quoting *Shaffer v. Heitner*, 433 U.S. 186, 204 (1977)) (internal quotation marks omitted)).

<sup>176</sup> *Classic Golf Co. v. Karsten Mfg. Co.*, No. 86 C 906, 1986 WL 8953, at \*3 (N.D. Ill. Aug. 8, 1986); *Rheodyne Inc. v. Ramin*, No. C 77-1804 CFP, 1978 WL 21392, at \*3 (N.D. Cal. Dec. 21, 1978); *Harley-Davidson Motor Co. v. Strada*, 78 F.R.D. 521, 524-25 (E.D. Wis. 1978); *Conwed*, 404 F. Supp. at 507.

<sup>177</sup> *Conwed*, 404 F. Supp. at 506 n.8. The *Conwed* court's rationale, as set forth below, was cited and followed by the *Rheodyne*, *Harley-Davidson*, and *Classic Golf* courts:

It is not the rule, nor has it ever been the rule so far as this Court is aware, that a plaintiff cannot demand recourse from a wrongdoer without submitting to the jurisdiction of the wrongdoer's forum. Such a rule would leave the victim only three options; he could forego his rights entirely; he could attempt to settle the dispute without litigation, but at the price of submitting to the jurisdiction of a distant forum; or he could sue without any warning—the blitzkrieg nature of the attack being necessary to avoid vulnerability to foreign jurisdiction.

A rule foreclosing options in this manner would be improper for two reasons. First, it would positively discourage the settlement of disputes, in direct conflict with other rules of law. As noted earlier in this opinion, settlement conferences are protected and encouraged. Since such conferences cannot take place unless some kind of demand has been made by the potential plaintiff, the initial demand must also be protected and even encouraged.

Second, such a rule would unjustifiably treat the victim as the wrongdoer. It is undoubtedly true that some threats of infringement action are made in bad faith for the purpose of engaging in unfair competition. But to base a generally applicable jurisdictional rule on this occasional practice would be extreme. . . . It would offend "traditional notions of substantial justice and fair play" to hold that the written notice of infringement necessary to commence the running of damages submits the patentee to the foreign jurisdiction of the infringer.

*Id.*

of cases that the Federal Circuit adopted and that continues to control today.<sup>178</sup>

## 2. Federal Circuit Cases

In the late 1970s, federal courts were sharply divided on many important patent law issues. Congress responded in 1982 by creating the Federal Circuit to bring uniformity and consistency to our patent system.<sup>179</sup> As discussed above, one such division related to the question of whether cease-and-desist letters alone could create personal jurisdiction. So, it is not surprising that the Federal Circuit was eventually called upon to resolve this split.

### a. Akro Corp. v. Luker

In *Akro Corp. v. Luker*,<sup>180</sup> plaintiff Akro Corporation (“Akro”) filed a declaratory judgment action in its home state of Ohio, seeking a declaration that U.S. Patent No. 4,871,602 (“the ‘602 patent”) was invalid and not infringed.<sup>181</sup> The ‘602 patent was owned by defendant Ken Luker, a California resident. Before Akro filed the action, Luker had sent several cease-and-desist letters to Akro in Ohio and entered into an exclusive license agreement regarding the ‘602 patent with Akro’s primary competitor in Ohio.<sup>182</sup>

Luker moved to dismiss for lack of personal jurisdiction on the ground that he had never been to Ohio.<sup>183</sup> Luker argued that “warning letters from . . . an out-of-state patentee cannot, without more, support personal jurisdiction in an action for a declaratory judgment of patent invalidity and non-infringement.”<sup>184</sup> In other words, Luker advanced the position taken by the courts in the *Conwed* line of cases.

In response to this argument, the Federal Circuit noted that while Luker had accurately described the holding in the *Conwed* line of cases, they were inapposite.<sup>185</sup> Specifically, the court explained, the defendant had contact with the forum state other than the cease-and-desist letter: an exclu-

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<sup>178</sup> *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360-61 (Fed. Cir. 1998) (holding that permitting jurisdiction to be grounded on cease-and-desist letters alone “would not comport with principles of fairness”).

<sup>179</sup> Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.).

<sup>180</sup> 45 F.3d 1541 (Fed. Cir. 1995).

<sup>181</sup> *Id.* at 1542.

<sup>182</sup> *Id.* at 1542-43.

<sup>183</sup> *Id.* at 1542.

<sup>184</sup> *Id.* at 1548.

<sup>185</sup> *Id.* at 1548-49.

sive licensing agreement with one of the plaintiff's local competitors.<sup>186</sup> Thus, the *Akro* court neither accepted nor rejected the *Conwed* reasoning, but left that question to be decided at a later time.

b. Genetic Implant Systems, Inc. v. Core-Vent Corp.

Approximately two years after *Akro*, the Federal Circuit revisited the question of personal jurisdiction in Patent Declaratory Relief Actions in *Genetic Implant Systems, Inc. v. Core-Vent Corp.*<sup>187</sup> There, as in *Akro*, the court concluded there were sufficient contacts with the forum state for personal jurisdiction because the defendant “did more than send cease-and-desist letters to [the plaintiff] in Washington.”<sup>188</sup>

While the holding of *Genetic Implant* is not remarkable, the court made the following important comment:

We have held that sending infringement letters, without more activity in a forum state, is not sufficient to satisfy the requirements of due process. Other activities are required in order for a [patent holder] to be subject to personal jurisdiction in the forum.<sup>189</sup>

Although this statement is dicta, it is noteworthy for at least two reasons. First, the only case the Federal Circuit cited in support of this statement was *Akro*, which, as explained above, did *not* decide the question of whether cease-and-desist letters could create personal jurisdiction.<sup>190</sup> Second, the Federal Circuit relied on this dictum when it finally addressed this jurisdictional question head-on in *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*<sup>191</sup>

c. Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.

The parties involved in this case were Red Wing Shoe Company (“Red Wing Shoe”), a footwear manufacturer that was incorporated and headquartered in Minnesota, and Hockerson-Halberstadt, Inc. (“Hockerson”), a pat-

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<sup>186</sup> The court said:

The cases Luker cites on this particular point, however accurately described, are simply inapposite. The case at bar involves an additional activity aimed at the forum state—namely, the patentee’s exclusive licensing of one of the accused infringer’s competitors within the forum state. Luker’s exclusive license agreement with *Akro*’s local competitor Pretty Products undoubtedly relates to *Akro*’s challenge to the validity and enforceability of the ’602 patent.

*Akro*, 45 F.3d at 1548-49.

<sup>187</sup> 123 F.3d 1455 (Fed. Cir. 1997).

<sup>188</sup> *Id.* at 1458.

<sup>189</sup> *Id.* (citing *Akro*, 45 F.3d at 1548-49).

<sup>190</sup> *Id.*; see also *supra* Part IV.B.2.a (summarizing the Federal Circuit’s decision in *Akro*).

<sup>191</sup> 148 F.3d 1355 (Fed. Cir. 1998).

ent-holding company that was incorporated in Louisiana with its principal place of business in New Mexico.<sup>192</sup> Hockerson was the holder of U.S. Patent No. 4,322,895 (“the ‘895 patent”), which claims an athletic shoe that provides additional support and stability for the wearer’s heel.<sup>193</sup>

In the mid-1990s, Red Wing Shoe received multiple letters at its headquarters in Minnesota from Hockerson alleging that Red Wing Shoe’s products infringed the ‘895 patent.<sup>194</sup> The letters offered Red Wing Shoe a license to the ‘895 patent and threatened to sue for infringement if such a license was not taken.<sup>195</sup>

Believing its products did not infringe, Red Wing Shoe sued Hockerson in federal court in Minnesota, seeking a declaration that the ‘895 patent was not infringed and that it was invalid and unenforceable.<sup>196</sup> Hockerson moved to dismiss on the grounds that it was not subject to personal jurisdiction in Minnesota simply because it sent cease-and-desist letters there.<sup>197</sup> The district court granted Hockerson’s motion to dismiss for lack of personal jurisdiction, and Red Wing Shoe appealed.<sup>198</sup>

On appeal, the Federal Circuit first determined that the Minnesota long-arm statute is coextensive with the Fourteenth Amendment and then turned to the constitutional question of whether basing personal jurisdiction exclusively on cease-and-desist letters violates due process.<sup>199</sup> The Federal Circuit began its analysis with the statement from *Genetic Implant* that “without more, such letters are not sufficient to satisfy the requirements of Due Process in declaratory judgment actions.”<sup>200</sup> Yet, realizing that its conclusory dictum was insufficient, the court sought to provide an explanation for this rule.<sup>201</sup>

The court began with the contacts portion of the specific jurisdiction test and considered whether the defendant’s contacts with Minnesota gave rise to the cause of action.<sup>202</sup> There was no dispute about the nature of the defendant’s contacts, which were limited to the warning letters sent to Red Wing Shoe.<sup>203</sup> There was a question, however, about how to characterize the cause of action.<sup>204</sup>

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<sup>192</sup> *Id.* at 1357.

<sup>193</sup> *Id.*

<sup>194</sup> *Id.*

<sup>195</sup> *Id.*

<sup>196</sup> *Id.*

<sup>197</sup> *See Red Wing Shoe*, 148 F.3d at 1357.

<sup>198</sup> *Id.* at 1357-58.

<sup>199</sup> *Id.* at 1358.

<sup>200</sup> *Id.* at 1360 (citing *Genetic Implant Sys., Inc. v. Core-Vent Corp.*, 123 F.3d 1455, 1458 (Fed. Cir. 1997)).

<sup>201</sup> *Id.*

<sup>202</sup> *Id.* at 1359-60.

<sup>203</sup> *See Red Wing Shoe*, 148 F.3d at 1361-62.

<sup>204</sup> *Id.* at 1360.

The Federal Circuit acknowledged that some lower courts viewed the cause of action in declaratory judgment suits as a patent infringement claim.<sup>205</sup> As a result, those courts concluded that the cause of action “does not arise out of cease-and-desist letters, which bear only a tangential relationship” to the claim.<sup>206</sup> After considering this rationale, the Federal Circuit rejected it because the cause of action is *not* a claim for patent infringement.<sup>207</sup>

Instead, the court characterized the cause of action as a request for declaratory relief and explained that “[t]he injury of which a declaratory judgment plaintiff complains . . . is a wrongful restraint on the free exploitation of non-infringing goods.”<sup>208</sup> One such restraint, the court posited, is the “threat of an infringement suit, as communicated in a cease-and-desist letter.”<sup>209</sup> Thus, under these circumstances, the cease-and-desist letter does in fact give rise to the plaintiff’s cause of action, which means the contacts portion of the test is satisfied and dismissal for lack of personal jurisdiction is not justified on these grounds.<sup>210</sup>

The *Red Wing Shoe* court then considered the fairness prong of the due process test and concluded that it was a “better explanation” for the court’s rule that cease-and-desist letters alone are not sufficient to create personal jurisdiction:

Principles of fair play and substantial justice afford a [patent holder] sufficient latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum. A [patent holder] should not subject itself to personal jurisdiction in a forum solely by informing a party who happens to be located there of suspected infringement. Grounding personal jurisdiction on such contacts alone would not comport with principles of fairness . . . [because it] would . . . provid[e] disincentives for the initiation of settlement negotiations.<sup>211</sup>

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<sup>205</sup> *Id.*

<sup>206</sup> *Id.*; see also *supra* note 174 and accompanying text (identifying several cases where courts dismissed for lack of personal jurisdiction based on a finding that a defendant’s contacts did not give rise to the cause of action).

<sup>207</sup> As the court explained:

[T]his mode of analysis overlooks the genuine purpose of declaratory judgment actions. In the event a patentee casts its net of cease-and-desist letters too widely and entangles some non-infringing products, a plaintiff may have little recourse other than a declaratory judgment action to disentangle its non-infringing business. In those instances, the cease-and-desist letters are the cause of the entanglement and at least partially give rise to the plaintiff’s action.

*Red Wing Shoe*, 148 F.3d at 1360.

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.* (“[C]ease-and-desist letters alone are often substantially related to the cause of action (thus providing minimum contacts) . . . .”); see also *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1202 (Fed. Cir. 2003) (acknowledging that cease-and-desist letters “are purposefully directed at the forum and [that] the declaratory judgment action arises out of the letters” (internal quotation marks omitted)).

<sup>211</sup> *Red Wing Shoe*, 148 F.3d at 1360-61.

The court believed, in other words, that permitting personal jurisdiction under these circumstances would discourage settlement of patent disputes. And because the policy favoring settlement was deemed “manifest” by the court, it was crucial to adopt a jurisdictional rule that would promote, rather than hinder, such a policy.<sup>212</sup> Moreover, the court reasoned, a contrary rule would undermine the interstate judicial system’s interest in obtaining the most efficient resolution of controversies<sup>213</sup>—one of the five fairness factors delineated by the Supreme Court in *World Wide Volkswagen Corp. v. Woodson*<sup>214</sup> and *Burger King Corp. v. Rudzewicz*.<sup>215</sup> So, even though “the sending of infringement letters would satisfy the minimum contacts requirement of due process,” the Federal Circuit concluded that “policy considerations unique to the patent context”<sup>216</sup>—namely, the need to promote out-of-court settlements of patent disputes—warrant a blanket rule that fairness considerations preclude personal jurisdiction based exclusively on cease-and-desist letters.<sup>217</sup>

Since *Red Wing Shoe*, the Federal Circuit has reiterated time and again that cease-and-desist letters are insufficient for personal jurisdiction.<sup>218</sup> And while a few lower courts have questioned the soundness of this rule,<sup>219</sup> it has gone largely unchallenged until now. The remainder of this Article demonstrates why it is time to reevaluate this misguided jurisdictional rule and explains how empowering alleged infringers with more robust declaratory judgment rights will help to alleviate our current bad patent problem.

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<sup>212</sup> *Id.* at 1361.

<sup>213</sup> *Id.*

<sup>214</sup> 444 U.S. 286, 292 (1980).

<sup>215</sup> 471 U.S. 462, 476-77 (1985).

<sup>216</sup> *Silent Drive*, 326 F.3d at 1206.

<sup>217</sup> *Id.*

<sup>218</sup> *See, e.g.*, *Campbell Pet Co. v. Miale*, 542 F.3d 879, 885 (Fed. Cir. 2008) (reiterating the holding of *Red Wing Shoe*); *Silent Drive*, 326 F.3d at 1202 (“We have decided that under the [fairness test] the sending of letters threatening infringement litigation is not sufficient to confer personal jurisdiction.”); *Inamed Corp. v. Kuzmak*, 249 F.3d 1356, 1361 (Fed. Cir. 2001) (citing cases holding that cease-and-desist letters are insufficient for personal jurisdiction).

<sup>219</sup> *See, e.g.*, *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1223 (D. Utah 2005) (“[T]he [p]rinciples of fair play and substantial justice [that] afford a patentee sufficient latitude to inform others of its patent rights without subjecting itself to the jurisdiction in a foreign forum also might suggest that it is fair and reasonable to subject patent trolls to personal jurisdiction in the fora in which they attempt to club alleged infringers into signing license agreements.” (second and third alterations in original) (footnote omitted) (quoting *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360-61 (Fed. Cir. 1998)) (internal quotation marks omitted)), *aff’d*, 191 F. App’x 959 (Fed. Cir. 2006); *Open LCR.com, Inc. v. Rates Tech., Inc.*, 112 F. Supp. 2d 1223, 1229 (D. Colo. 2000) (“It does not seem at all unreasonable that a patentee who knowingly attempts to force license agreements in a distant forum based on invalid patents should foresee being hailed into court in that forum.”).

## V. CEASE-AND-DESIST LETTERS: A PROPER JURISDICTIONAL ANALYSIS

Federal courts in Patent Declaratory Relief Actions categorically prohibit the exercise of personal jurisdiction based on cease-and-desist letters. The theory is that permitting personal jurisdiction under such circumstances would discourage the settlement of patent disputes and, therefore, offend traditional notions of fair play and substantial justice. Yet a close examination of this rule reveals that it not only contradicts Supreme Court personal jurisdiction jurisprudence, but is unsound from a policy perspective as well.

In a typical scenario in which an alleged infringer sues for declaratory relief after receiving a cease-and-desist letter, the contacts portion of the test is met.<sup>220</sup> Assume, for example, that a corporate patent owner residing in Texas sends a cease-and-desist letter to the Los Angeles headquarters of a California corporation, and that the alleged infringer files a declaratory judgment action in federal court in Los Angeles. If the defendant challenges personal jurisdiction, the plaintiff will be able to satisfy the contacts portion of the test because the patent holder purposefully directed its activities at a California resident (i.e., by mailing the cease-and-desist letter there) and the claim for declaratory relief arises out of those activities in California.<sup>221</sup> Because the Federal Circuit would rely exclusively on the fairness prong in refusing to exercise personal jurisdiction in such a case, however, that prong will be the focus of the analysis in this Part.

### A. *The Fairness Inquiry*

The Supreme Court announced in *International Shoe* that the exercise of personal jurisdiction must comport with “traditional notions of fair play and substantial justice,”<sup>222</sup> and it reiterated this requirement in numerous cases that followed.<sup>223</sup> For years, however, this was merely an abstract and undefined concept.<sup>224</sup> It was not until the Court decided *World-Wide Volks-*

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<sup>220</sup> See, e.g., *Silent Drive*, 326 F.3d at 1206; *Red Wing Shoe*, 148 F.3d at 1360.

<sup>221</sup> See *Red Wing Shoe*, 148 F.3d at 1360; see also *Avocent Huntsville Corp. v. Aten Int’l Co.*, 552 F.3d 1324, 1333 (Fed. Cir. 2008) (stating that cease-and-desist letters “might be expected to support an assertion of specific jurisdiction over the patentee because the letters are purposefully directed at the forum and the declaratory judgment action arises out of the letters” (quoting *Silent Drive*, 326 F.3d at 1202) (internal quotation marks omitted)), *cert. denied*, 129 S. Ct. 2796 (2009).

<sup>222</sup> *Int’l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945) (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1940)) (internal quotation marks omitted).

<sup>223</sup> See, e.g., *Shaffer v. Heitner*, 433 U.S. 186, 203 (1977); *Hanson v. Denckla*, 357 U.S. 235, 259 (1958); *McGee v. Int’l Life Ins. Co.*, 355 U.S. 220, 222 (1957).

<sup>224</sup> See *Ins. Corp. of Ir. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 714 (1982) (Powell, J., concurring) (calling notions of fair play “abstract”); Allyson W. Haynes, *The Short Arm of the Law: Simplifying Personal Jurisdiction over Virtually Present Defendants*, 64 U. MIAMI L. REV. 133, 145 (2009) (explaining that in *Asahi*, “all but one member of the Court found that *International Shoe*’s

wagen that this abstract notion of fairness was instantiated in any meaningful way.

In *World-Wide Volkswagen*, the plaintiffs were New York residents who purchased an automobile in New York and then drove it to Oklahoma, where they were injured in an accident.<sup>225</sup> Plaintiffs filed suit in Oklahoma against the retailer and wholesaler of the automobile, but because both of these defendants were incorporated in New York and conducted no business in Oklahoma, the Court dismissed the suit for lack of personal jurisdiction, given the plaintiffs' inability to satisfy the contacts portion of the test.<sup>226</sup>

More relevant to this Article, though, is the Court's commentary regarding the fairness inquiry. The Court explained that the question of whether personal jurisdiction is constitutionally fair implicates two separate interests: the individual defendant's liberty interest and an interest in interstate federalism.<sup>227</sup> With respect to the former, due process protects out-of-state defendants from the burden of litigating in distant or inconvenient forums.<sup>228</sup> As for the latter, the Due Process Clause acts "as an instrument of interstate federalism,"<sup>229</sup> ensuring that "[s]tates through their courts[] do

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fairness prong, previously given little virility, would not allow jurisdiction over foreign manufacturers where the litigation itself had little connection to the forum").

<sup>225</sup> *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 288 (1980).

<sup>226</sup> *Id.* at 288-89, 299.

<sup>227</sup> *Id.* at 291-92; see also *Perdue*, *supra* note 115, at 468 ("In *World-Wide Volkswagen*, the Court observes that the limitations on personal jurisdiction perform two distinct functions. One is allocating sovereignty among the states of our federal system . . . . The other is protect[ing] the defendant against the burdens of litigating in a distant or inconvenient forum." (second alteration in original) (internal quotation marks omitted)). Yet there has been significant commentary since *World-Wide Volkswagen* criticizing the Court's claim that the personal jurisdiction analysis implicates matters of state sovereignty. See, e.g., Martin H. Redish, *Due Process, Federalism, and Personal Jurisdiction: A Theoretical Evaluation*, 75 NW. U. L. REV. 1112, 1120 (1981). Indeed, at times, the Court itself has called *World-Wide Volkswagen* into question. See *Compagnie des Bauxites*, 456 U.S. at 702 ("The requirement that a court have personal jurisdiction flows not from Art. III, but from the Due Process Clause. The personal jurisdiction requirement recognizes and protects an individual liberty interest. It represents a restriction on judicial power not as a matter of sovereignty, but as a matter of individual liberty."); see also *Spencer*, *supra* note 116, at 623 ("Regarding the relationship between state sovereignty, interstate federalism, and personal jurisdiction doctrine, the Court has vacillated between endorsement and rejection of the relevance of these two concepts, giving varying degrees of weight or no weight to sovereignty and federalism as legitimate underpinnings of the law of personal jurisdiction." (footnotes omitted)).

<sup>228</sup> *World-Wide Volkswagen*, 444 U.S. at 291-92; see *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 317 (1945) (explaining that, in conducting the due process analysis for personal jurisdiction, "[a]n estimate of the inconveniences which would result to the corporation from a trial away from its home or principal place of business is relevant" (quoting *Hutchinson v. Chase & Gilbert, Inc.*, 45 F.2d 139, 141 (2d Cir. 1930)) (internal quotation marks omitted)); see also Redish, *supra* note 227, at 1133 (referring to this interest as "litigation inconvenience" and explaining that it includes "the imposition of significant burdens and expense, resulting from the need to travel to the forum in question and to transport evidence and witnesses long distances").

<sup>229</sup> *World-Wide Volkswagen*, 444 U.S. at 294.

not reach out beyond the limits imposed on them by their status as coequal sovereigns in a federal system.”<sup>230</sup> Thus, even if it would not be burdensome for an out-of-state defendant to litigate in the forum, there might still be a due process violation if exercising personal jurisdiction would cause the forum state to exceed its sovereign adjudicative powers.<sup>231</sup>

In light of these two distinct interests, the Court then delineated five factors to consider in evaluating whether the exercise of personal jurisdiction would be fair and reasonable: (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 states’ shared interest “in furthering fundamental substantive social policies.”<sup>232</sup> The first of these factors, which is “always a primary concern,”<sup>233</sup> relates to the individual defendant’s liberty interest, while the others concern interstate federalism.<sup>234</sup> Although this is not an exhaustive list of what may be considered in a personal jurisdiction analysis, these five factors have become the bedrock of the due process fairness inquiry.

Soon after *World Wide-Volkswagen*, the Supreme Court decided *Burger King Corp. v. Rudzewicz* and *Asahi Metal Industry Co. v. Superior Court of California*,<sup>235</sup> which further refined the fairness analysis for personal jurisdiction.<sup>236</sup> The Court clarified, for example, that none of the fairness factors is determinative and that courts deciding personal jurisdiction

<sup>230</sup> *Id.* at 292; see also *Hanson v. Denckla*, 357 U.S. 235, 251 (1958) (“Those restrictions [on personal jurisdiction] are more than a guarantee of immunity from inconvenient or distant litigation. They are a consequence of territorial limitations on the power of the respective States.”).

<sup>231</sup> *World-Wide Volkswagen*, 444 U.S. at 294; see also Danielle Keats Citron, *Minimum Contacts in a Borderless World: Voice over Internet Protocol and the Coming Implosion of Personal Jurisdiction Theory*, 39 U.C. DAVIS L. REV. 1481, 1510 (2006) (“[T]he Due Process Clause limits a state’s sovereign adjudicative powers and . . . such limits cannot be satisfied by showing that it would not be inconvenient for the nonresident to defend itself in the forum.”).

<sup>232</sup> *World-Wide Volkswagen*, 444 U.S. at 292; see also James Weinstein, *The Federal Common Law Origins of Judicial Jurisdiction: Implications for Modern Doctrine*, 90 VA. L. REV. 169, 227 (2004) (“Although the defendant’s contacts with the forum state are the touchstone of modern personal jurisdiction doctrine, Supreme Court decisions have identified several ‘second stage balancing’ factors as relevant to determining whether a state court’s assertion of jurisdiction complies with the Due Process Clause of the Fourteenth Amendment.” (footnote omitted)).

<sup>233</sup> *World-Wide Volkswagen*, 444 U.S. at 292.

<sup>234</sup> Scott Fruehwald, *The Boundary of Personal Jurisdiction: The “Effects Test” and the Protection of Crazy Horse’s Name*, 38 J. MARSHALL L. REV. 381, 420-21 (2004) (“The last four factors have nothing to do with protecting the defendant from overreaching by the state . . . .”); Spencer, *supra* note 116, at 627 (explaining that “inconvenience to defendants [is] a central concern of the Due Process Clause within the doctrine of personal jurisdiction” and thus the burden on the defendant is “[f]irst among the . . . reasonableness factors”); Weinstein, *supra* note 232, at 228 (arguing that the factors other than the burden on defendant “are much more readily explicable as deriving from interstate federalism concerns than from protection of individual liberty interests”).

<sup>235</sup> 480 U.S. 102 (1987).

<sup>236</sup> *Id.* at 113-14; *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 476-77 (1985).

must consider the totality of the circumstances in each individual case.<sup>237</sup> Moreover, the Court held that “where a defendant who purposefully has directed his activities at forum residents seeks to defeat jurisdiction, he must present a *compelling case* that the presence of some other considerations would render jurisdiction unreasonable.”<sup>238</sup> Stated otherwise, once the plaintiff has satisfied the contacts portion of the specific jurisdiction test, the burden shifts to the defendant, who must then overcome a presumption that the exercise of personal jurisdiction would be fair and reasonable. And as the Federal Circuit itself has acknowledged, defendants will only be able to overcome this presumption “in the rare situation in which the plaintiff’s interest and the state’s interest in adjudicating the dispute in the forum are so attenuated that they are clearly outweighed by the burden of subjecting the defendant to litigation within the forum.”<sup>239</sup>

So, with these standards in mind, this Article now returns to the question of whether exercising personal jurisdiction over an out-of-state defendant based exclusively on cease-and-desist letters is, in fact, unconstitutionally unfair, as the Federal Circuit has proclaimed.

#### B. *Personal Jurisdiction Based on Cease-and-Desist Letters: Fair and Reasonable in Many Circumstances*

Since *Red Wing Shoe* was decided more than a decade ago, federal courts have reflexively refused to exercise personal jurisdiction based on cease-and-desist letters.<sup>240</sup> Indeed, some courts have even applied this rule to defendants who sent multiple cease-and-desist letters to different alleged infringers within the forum state.<sup>241</sup> Furthermore, this rule has been extended outside the patent context to preclude the exercise of personal jurisdiction in copyright and trademark cases as well.<sup>242</sup>

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<sup>237</sup> *Asahi*, 480 U.S. at 113-15 (discussing factors to be considered in the fairness analysis); *Burger King*, 471 U.S. at 476-77 (same).

<sup>238</sup> *Burger King*, 471 U.S. at 477 (emphasis added); *see also Asahi*, 480 U.S. at 114 (“When minimum contacts have been established, often the interests of the plaintiff and the forum in the exercise of jurisdiction will justify even the serious burdens placed on the alien defendant.”).

<sup>239</sup> *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1568 (Fed. Cir. 1994).

<sup>240</sup> *See supra* note 218 (listing cases reasserting the holding of *Red Wing Shoe*).

<sup>241</sup> *See, e.g.*, *Big Lots Stores, Inc. v. Sorensen Research & Dev. Trust*, No. 2:08-cv-00506, 2009 WL 4547599, slip op. at \*5 (S.D. Ohio Dec. 2, 2009) (holding that defendant was not subject to personal jurisdiction in Ohio despite sending multiple cease-and-desist letters to plaintiff in the forum); *Overstock.com, Inc. v. Furnace Brook, LLC*, 420 F. Supp. 2d 1217, 1221-22 (D. Utah 2005) (reluctantly following the rule of *Red Wing Shoe* to hold that out-of-state defendant who sent multiple cease-and-desist letters to plaintiff in Utah was not subject to personal jurisdiction there).

<sup>242</sup> *See, e.g.*, *Lab. Corp. of Am. Holdings v. Schumann*, 474 F. Supp. 2d 758, 762 (M.D.N.C. 2006); *see also Big Lots Stores, Inc.*, 2009 WL 4547599, slip op. at \*5.

From a macro perspective, one must question this “cookie cutter” approach to personal jurisdiction as antithetical to the Supreme Court’s admonition that personal jurisdiction should be decided case-by-case based on the “relationship among the defendant, the forum, and the litigation.”<sup>243</sup> The personal jurisdiction analysis is supposed to be a fact-intensive one;<sup>244</sup> yet the Federal Circuit’s categorical rule takes most facts out of the equation. Courts applying this rule do not consider other factors essential to the fairness inquiry: the burden on the defendant; the forum state’s interest in adjudicating the dispute; the plaintiff’s interest in obtaining convenient and effective relief; and the states’ shared interest in furthering fundamental, substantive social policies.<sup>245</sup> Nor do these courts require defendants to make a “compelling case” that the exercise of personal jurisdiction would be unfair.<sup>246</sup> If courts were to conduct the proper jurisdictional analysis, they would conclude that in many circumstances, the exercise of personal jurisdiction based on cease-and-desist letters is fair and reasonable.

### 1. The Promotion of Settlement Justification

The Federal Circuit’s jurisdictional rule regarding cease-and-desist letters has been justified on one ground only: the promotion of out-of-court settlements of patent disputes.<sup>247</sup> This rationale is critically flawed.

First and foremost, the “promotion of settlement” justification for this categorical approach to personal jurisdiction is flawed because it is premised on a faulty assumption—that it is necessarily in society’s best interest

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<sup>243</sup> *Calder v. Jones*, 465 U.S. 783, 788-90 (1984) (quoting *Shaffer v. Heitner*, 433 U.S. 186, 204 (1977)) (internal quotation marks omitted); *see also Gordy v. Daily News, L.P.*, 95 F.3d 829, 835 (9th Cir. 1996) (“There is no mechanical or quantitative test for jurisdiction under the *International Shoe* reasonableness standard . . .” (quoting *Ins. Co. of N. Am. v. Marina Salina Cruz*, 649 F.2d 1266, 1270 (9th Cir. 1981)) (internal quotation marks omitted)); *Core-Vent Corp. v. Nobel Indus. AB*, 11 F.3d 1482, 1487 (9th Cir. 1993) (“[T]he personal jurisdiction inquiry cannot be answered through the application of a mechanical test but instead must focus on the relationship among the defendant, the forum, and the litigation within the particular factual context of each case.”); *Cameron & Johnson*, *supra* note 35, at 834 (stating that, with respect to personal jurisdiction, the Supreme Court “has eschewed the opportunity to create definitive rules” and “has mandated case-by-case, fact-specific inquiry”).

<sup>244</sup> *See, e.g., McFadin v. Gerber*, 587 F.3d 753, 759 (5th Cir. 2009) (“The ‘minimum contacts’ inquiry is fact intensive and no one element is decisive . . .”); *Iowa State Univ. Research Found., Inc. v. Greater Continents, Inc.*, 81 F. App’x 344, 349 (Fed. Cir. 2003) (“[A] determination of personal jurisdiction is a fact-intensive inquiry . . .”).

<sup>245</sup> *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980).

<sup>246</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477 (1985).

<sup>247</sup> *See Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360-61 (Fed. Cir. 1998); *see also Baig v. Coca-Cola Co.*, No. 08 C 4206, 2009 WL 1470176, at \*4 (N.D. Ill. May 27, 2009) (“The courts have long recognized strong policy reasons for encouraging parties to settle disputes by letter before initiating litigation. Invoking personal jurisdiction on the basis of such settlement efforts would chill these policy goals.”).

to settle patent disputes. Of course, there are important benefits to out-of-court settlements, including reduced costs and expediency.<sup>248</sup> Sometimes, though, settlement is contrary to the public interest,<sup>249</sup> particularly in the patent context.

In both Standard Patent Infringement Suits and Patent Declaratory Relief Actions, the validity of the patent is almost always at issue. When either of these types of cases is settled, the alleged infringer often enters into a license agreement, thereby depriving the public of the opportunity to have a court decide the question of patent validity.<sup>250</sup> Under these circumstances, the patent holder is permitted to continue to enforce the patent, exclude competition, and keep consumer prices high, even though that patent may very well be invalid.

In sharp contrast, when a case is litigated to judgment and the patent is held invalid, that decision is binding not only on the parties before the court, but also on future litigants.<sup>251</sup> When an alleged infringer successfully

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<sup>248</sup> See, e.g., *Schering-Plough Corp. v. FTC*, 402 F.3d 1056, 1075 (11th Cir. 2005) (“There is no question that settlements provide a number of private and social benefits as opposed to the inveterate and costly effects of litigation.”).

<sup>249</sup> Michael L. Seigel, *Pragmatism Applied: Imagining a Solution to the Problem of Court Congestion*, 22 HOFSTRA L. REV. 567, 619-20 (1994). As Professor Seigel explains:

Settlement can also be contrary to the public interest. In some cases a litigant settles precisely because he seeks to avoid a public airing of the dispute. Sometimes, of course, a party legitimately wishes to protect its privacy. But often, the avoidance of the formal and public fact finding of a trial is intended to keep the public in the dark about potential harms caused by a party’s activity or product. The private disposition of a case is especially deleterious to other litigants who may remain ignorant about potential discovery material and even evidence as a result of being unable to make use of work done and information gathered by their predecessors. In most instances, settlement also circumvents the entry of judgment, thereby denying future litigants the benefits of collateral estoppel or *res judicata*.

Settlement also eliminates the formal resolution of many legal issues that would have provided guidance for future conduct by individuals facing similar situations. Indeed, settlement permits parties to circumvent the law, thereby generally weakening the rule of law. In addition, it permits a party to resolve a case without having to take any blame; to pay money without having to admit liability. If not immoral, this is at best an amoral resolution of the matter. Finally, in a more general sense, settlement avoids the cathartic and cleansing function served by well publicized trials. Parties to a dispute are denied their “day in court.” Members of the public are denied their chance to learn about, contemplate, and come to terms with the behavior of their fellow citizens. They are robbed of the opportunity to experience the sense that justice has been served—or a sense of outrage that it has been denied.

*Id.* (footnotes omitted); see also Brief for the United States as Amicus Curiae at 8, *FTC v. Schering-Plough Corp.*, 548 U.S. 919 (2006) (No. 05-273), 2006 WL 1358441, at \*8 (noting that not all settlements are consistent with the public interest); Owen M. Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1082-87 (1984) (describing the social benefits of litigation and explaining how settlement can impose serious costs on the general community).

<sup>250</sup> See Leslie, *supra* note 49, at 156 (“[I]n many license agreements—especially those resulting from settlement negotiations—the accused infringer always either explicitly or implicitly acknowledges the patent’s validity.” (quoting *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 363 F. Supp. 2d 514, 533 (E.D.N.Y. 2005))).

<sup>251</sup> See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971); see also Sudarshan, *supra* note 7, at 170 (“[A] defendant with strong invalidity defenses who nevertheless suc-

challenges a patent, it creates a “public good” because that intellectual property enters the public domain where everyone can use it.<sup>252</sup> Thus, while settlement may advantage the private parties involved in the case, the real benefit to the public comes when patent cases are litigated because that is the only way to invalidate bad patents.<sup>253</sup>

Indeed, the Supreme Court has acknowledged this “public function served by patent litigation” on more than one occasion.<sup>254</sup> To that end, the Court has declared that the interest of the public in eradicating bad patents is equally if not more important than the interest of patent holders in protecting their inventions.<sup>255</sup> Despite this guidance from the Court, the Federal Circuit has fashioned a jurisdictional rule that elevates patent holders’ interests above those of the public. At a time when our nation faces a widespread bad patent problem that threatens the vitality and legitimacy of our patent system, such a rule should not be tolerated.

Moreover, even assuming that the settlement of patent disputes is a legitimate and important public policy objective, there is no evidence that the Federal Circuit’s rule precluding personal jurisdiction based on cease-and-desist letters significantly increases the rate at which patent disputes are settled. Courts have theorized that patent holders would be less willing to attempt settlement, and would instead file suit at home, if they knew that sending a cease-and-desist letter would subject them to personal jurisdiction in the alleged infringer’s home forum.<sup>256</sup> Yet this theory is undermined by

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cumbs to a nuisance-value settlement deprives all prospective future defendants who might have benefited from a preclusive invalidity finding.”).

<sup>252</sup> Stiglitz, *supra* note 10, at 1715.

<sup>253</sup> *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 658 (1983) (Stevens, J., concurring) (discussing the public interest in patent litigation); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2019 n.67 (2007) (contending that a system that encourages too many alleged infringers to settle may “lead[] to underprovision of the public good of invalidating bad patents”).

<sup>254</sup> *Devex*, 461 U.S. at 658 (Stevens, J., concurring); *see also Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (discussing the value of litigation in challenging patent validity); *Autogenomics, Inc. v. Oxford Gene Tech. Ltd.*, 566 F.3d 1012, 1027 (Fed. Cir. 2009) (Newman, J., dissenting) (“The evolving law under *MedImmune* facilitates challenge to adversely held patents.”); Dreyfuss, *supra* note 50, at 707 n.109 (noting that the policy on which *Lear* was based was “facilitating the challenge of bad patents”). Congress has also acknowledged the important role that validity challenges play in eradicating bad patents. *See Hatch-Waxman Act of 1984* § 101, Pub. L. No. 98-417, 98 Stat. 1585, 1586 (codified as amended at 21 U.S.C. § 355(j)(1) (2006)) (incentivizing generic pharmaceutical companies to challenge invalid patents by providing them with limited market exclusivity).

<sup>255</sup> *Lear*, 395 U.S. at 670 (“Surely the equities of the [patentee] do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”); *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892) (“It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly . . .”).

<sup>256</sup> *See, e.g., Baig v. Coca-Cola Co.*, No. 08 C 4206, 2009 WL 1470176, at \*4 (N.D. Ill. May 27, 2009) (“[I]f a cease and desist letter subjects the rights holder to jurisdiction in the infringing party’s

the fact that patent holders in other contexts continue to send cease-and-desist letters even when there is a possibility that they will eventually be sued in a distant forum.

Indeed, there are countless cases in which patent holders who would potentially be subject to personal jurisdiction in the alleged infringer's home state (under specific jurisdiction, general jurisdiction, or stream of commerce theories) nonetheless choose to attempt negotiation through a cease-and-desist letter rather than simply filing suit in their home state.<sup>257</sup> Consider the *Akro* case as an example.<sup>258</sup> In that case, Luker—the patent holder who resided in California—sent several cease-and-desist letters to Akro in Ohio. After Akro sued for declaratory relief in Ohio, Luker moved to dismiss for lack of personal jurisdiction. The court denied the motion because Luker had contacts with the forum state other than the cease-and-desist letter—namely, an exclusive license agreement with one of Akro's competitors in Ohio.

According to the *Red Wing Shoe* court, a defendant like Luker would not send a cease-and-desist letter for fear of subjecting himself to personal jurisdiction in the alleged infringer's home state. Rather, Luker would simply file a patent infringement action in California or some other jurisdiction where he prefers to litigate. But we know from *Akro* and other cases like it that this simply is not true; patent holders continue to send cease-and-desist letters. And, contrary to what the Federal Circuit suggests, this is perfectly rational behavior. Litigation—particularly patent litigation—is extremely expensive, the process is lengthy, and the results are often unpredictable.<sup>259</sup> Thus, many (if not most) patent holders will opt to send a cease-and-desist letter because the risk of being sued for declaratory relief in the alleged infringer's home state is outweighed by the potential benefits derived from that letter: the possibility of an out-of-court settlement.<sup>260</sup>

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forum, the rights holder will be strongly encouraged to file suit in its home forum instead of pursuing informal resolution.”)

<sup>257</sup> See, e.g., *Campbell Pet Co. v. Miale*, 542 F.3d 879, 882 (Fed. Cir. 2008); *Silent Drive, Inc. v. Strong Indus., Inc.*, 326 F.3d 1194, 1199 (Fed. Cir. 2003); *Genetic Implant Sys., Inc. v. Core-Vent Corp.*, 123 F.3d 1455, 1458 (Fed. Cir. 1997); *Akro Corp. v. Luker*, 45 F.3d 1541, 1548-49 (Fed. Cir. 1995); *Chemguard Inc. v. Dynax Corp.*, No. 4:08-CV-057-Y, 2010 WL 363481, slip op. at \*4-5 (N.D. Tex. Feb. 2, 2010); *SmugMug, Inc. v. Virtual Photo Store LLC*, No. C 09-2255 CW, 2009 WL 3833969, slip op. at \*3-4 (N.D. Cal. Nov. 16, 2009).

<sup>258</sup> See *supra* Part IV.B.2.a (discussing *Akro* in detail).

<sup>259</sup> See sources cited *supra* note 15 (discussing the nature of patent litigation).

<sup>260</sup> Some might argue that the Federal Circuit's jurisdictional rule does in fact promote settlement because it causes many alleged infringers to settle. But this can hardly be characterized as settlement promotion; rather, these alleged infringers are forced to settle because—as a result of this jurisdictional rule—they usually do not have the option of seeking declaratory relief in their home state. See Sudarshan, *supra* note 7, at 160 (discussing how many alleged infringers opt to settle rather than litigate even when they have meritorious defenses); Kline, *supra* note 24, at 273-74 (arguing that alleged infringers often settle rather than sue for declaratory relief because a convenient forum is unavailable).

Last, but certainly not least, the Federal Circuit’s attempt to justify its jurisdictional rule on the ground that “this policy [of promoting settlement] squarely invokes one of the considerations enumerated by the Supreme Court for the [fairness] prong of a proper Due Process analysis”—namely, the interstate judicial system’s interest in obtaining the most efficient resolution of controversies—is similarly unpersuasive.<sup>261</sup> The Federal Circuit misinterpreted and misapplied this fairness factor. This factor, which is derived from interstate federalism concerns and acts as a “specification[] of the proper allocation of judicial authority among the states,” is concerned with the *interstate judicial system’s* interest in efficiently resolving controversies.<sup>262</sup> In other words, the relevant inquiry is whether it would be more efficient to resolve the case in State X or in State Y, *not* whether it would be more efficient to resolve the case by litigation or by an out-of-court settlement.<sup>263</sup> The Federal Circuit’s reliance on this factor, therefore, was misplaced.

## 2. Consideration of Other Fairness Factors

The preceding critique illuminates several failings of this jurisdictional rule regarding cease-and-desist letters. Yet an additional and perhaps equally compelling criticism is the apparent lack of consideration by the Federal Circuit of any of the other fairness factors in crafting this rule.

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<sup>261</sup> *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1361 (Fed Cir. 1998).

<sup>262</sup> Weinstein, *supra* note 232, at 228; *see also* *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 292 (1980) (“Implicit in this emphasis on reasonableness is the understanding that the burden on the defendant, while always a primary concern, will in an appropriate case be considered in light of other relevant factors, including . . . the interstate judicial system’s interest in obtaining the most efficient resolution of controversies . . .” (citations omitted)).

<sup>263</sup> *See, e.g., In re Vistaprint Corp. Mktg. & Sales Practices Litig.*, No. 4:08-md-1994, 2009 WL 2407652, slip op. at \*3 (S.D. Tex. Aug. 3, 2009) (“There is nothing in the record to indicate that the federal judicial system in Massachusetts is less efficient in resolving litigation at trial than this or any other federal district . . .”); *Highline Capital Corp. v. Ahdoot*, Nos. 06-cv-02023-EWN-CBS, 06-cv-02024-EWN-BNB, 2008 WL 486020, at \*13 (D. Colo. Feb. 20, 2008) (“[A]s to the interstate judicial system’s interest in obtaining the most efficient resolution of controversies, this factor focuses on whether Colorado is the most efficient place to litigate this dispute, and depends on factors such as: (1) the location of witnesses; (2) where the wrong underlying the lawsuit occurred; and (3) whether jurisdiction is necessary to prevent piecemeal litigation.”); *Campbell v. Johnson & Towers, Inc.*, 123 F. Supp. 2d 329, 337 (D.S.C. 1999) (“[T]he interstate judicial system will gain the most efficient resolution of the controversy by litigating the dispute in South Carolina because the vessel is located in South Carolina, and therefore, all surveys, inspections, removal of the engines, and discovery relating to the vessel’s damage have been and will be conducted in South Carolina.”).

a. *Burden on the Defendant*

A primary factor in deciding whether personal jurisdiction lies is the burden on the defendant.<sup>264</sup> It is essential to “estimate . . . the inconveniences”<sup>265</sup> to the parties because protection of the individual defendant’s liberty interest is paramount in the due process analysis.<sup>266</sup> So, when a patent holder sends a cease-and-desist letter to an alleged infringer in another state and then attempts to avoid personal jurisdiction, the court should always consider whether it would actually cause a severe inconvenience or undue burden for the defendant to litigate there.<sup>267</sup>

In some circumstances, a patent holder may be able to make a compelling case that it would be too burdensome to litigate in a distant forum. For example, if an individual inventor of limited means is sued for declaratory relief, he may be able to prove that the litigation is “‘so gravely difficult and inconvenient’” that he would be at a “‘severe disadvantage’ in comparison to [the alleged infringer].”<sup>268</sup> Individual inventors (unlike corporate patent owners) rarely threaten patent litigation, however, because the risk of triggering a costly and prolonged declaratory relief suit is usually too high.<sup>269</sup>

Instead, most of the parties in patent suits are for-profit corporations.<sup>270</sup> And while many of those are small- to medium-sized companies,<sup>271</sup> they are very likely to have the financial wherewithal to defend a lawsuit in another state that, in reality, is not that much more expensive than defending a lawsuit at home.<sup>272</sup> On this point, it is important to keep in mind that the ques-

<sup>264</sup> *World-Wide Volkswagen*, 444 U.S. at 292 (“[T]he burden on the defendant [is] always a primary concern . . .”).

<sup>265</sup> *Int’l Shoe Co. v. Washington*, 326 U.S. 310, 317 (1945) (internal quotation marks omitted).

<sup>266</sup> *Spencer*, *supra* note 116, at 623 (“The burden on [the] defendant[] is typically given the most weight . . .”).

<sup>267</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 478 (1985).

<sup>268</sup> *Id.* (quoting *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 18 (1972)).

<sup>269</sup> *Ball & Kesan*, *supra* note 15, at 5 (stating that the costs of patent litigation “can be a particular barrier to small firms and individual inventors seeking to defend their patent rights”); Steve Seidenberg, *Troll Control*, A.B.A. J., Sept. 2006, at 51, 51, available at [http://www.abajournal.com/magazine/article/troll\\_control](http://www.abajournal.com/magazine/article/troll_control) (“Only an infinitesimal percentage of small inventors can muster the resources to defend their property—to spend millions of dollars and many years trying to collect through the courts . . . . So in 99 percent of cases, the large companies get the IP for free. It is a great business model, but only for large companies.” (internal quotation marks omitted)).

<sup>270</sup> *Ball & Kesan*, *supra* note 15, at 31 (demonstrating that the vast majority of parties involved in a large sample of patent cases were private firms).

<sup>271</sup> *Id.*

<sup>272</sup> While it is usually more expensive to litigate in a distant forum, the total cost of an average patent lawsuit is very high. *See Ball & Kesan*, *supra* note 15, at 5 (citing previous studies showing that “legal costs of patent litigation run[] from half a million dollars to three million dollars per suit or \$500,000 per claim at issue per side”); *see also, e.g.*, Tracy O. Appleton, Note, *The Line Between Liberty and Union: Exercising Personal Jurisdiction over Officials from Other States*, 107 COLUM. L. REV.

tion here is whether it would be unduly burdensome for the defendant to litigate the case in State X rather than State Y, *not* whether the cost of the litigation itself is too much for the defendant to bear. In most instances in which corporate defendants are involved, the answer to this question will be no. This is especially true in today's world, where modern transportation, technology, and legal services have facilitated nationwide—and, indeed, worldwide—litigation.<sup>273</sup>

b. *The Forum State's Interest*

A proper jurisdictional analysis should also encompass the forum state's interest in adjudicating the dispute. Some have even suggested that this is one of the most important factors to be considered.<sup>274</sup> At the very least, we know what the Supreme Court has told us: "A State generally has a 'manifest interest' in providing its residents with a convenient forum for redressing injuries inflicted by out-of-state actors."<sup>275</sup> Where an alleged infringer receives a cease-and-desist letter in its home state and files a declaratory judgment action there, that state clearly has such a manifest interest. Indeed, the Federal Circuit has recognized this "manifest interest" in other contexts,<sup>276</sup> and nothing is different here. Thus, this factor should weigh in favor of subjecting the patent holder to personal jurisdiction in the alleged infringer's home forum.

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1944, 1973 n.164 (2007) (noting that "every aspect [of litigation]" in a distant forum "is likely to have some . . . additional costs involved," including conducting discovery, participating in discussions with the judge and other parties by phone, and sending attorneys to a distant forum to handle more dispositive motions and hearings (quoting Telephone Interview with Michael A. Scodro, Deputy Solicitor Gen., Office of the Ill. Att'y Gen. (Apr. 6, 2007))). Therefore, the additional costs of litigating in a distant forum will typically be negligible compared to the total cost of patent litigation.

<sup>273</sup> *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985) (explaining that "modern transportation and communications have made it much less burdensome for a party sued to defend himself in a State where he engages in economic activity" (quoting *McGee v. Int'l Life Ins. Co.*, 355 U.S. 220, 223 (1957)) (internal quotation marks omitted)); David J. Gerber, *Prescriptive Authority: Global Markets as a Challenge to National Regulatory Systems*, 26 HOUS. J. INT'L L. 287, 301 (2004) ("The actual cost for business firms to litigate disputes in distant fora is reduced by technological developments, such as the increased effectiveness and speed of communication, and by the growth of transnational law firms and legal alliances.").

<sup>274</sup> See, e.g., Abramson, *supra* note 35, at 451.

<sup>275</sup> *Burger King*, 471 U.S. at 473 (quoting *McGee*, 355 U.S. at 223).

<sup>276</sup> See, e.g., *Akro Corp. v. Luker*, 45 F.3d 1541, 1549 (Fed. Cir. 1995) (stating that Ohio had a "manifest interest" in providing plaintiff, a resident of the state, a convenient forum for redressing the "restraint of its production of goods by means of a non-infringed, invalid and/or unenforceable patent" (quoting *Burger King*, 471 U.S. at 743) (internal quotation marks omitted)); *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1568 (Fed. Cir. 1994) (holding that Virginia had a manifest interest in discouraging injuries within its boundaries, including design patent infringement actions).

c. *Convenient and Effective Relief for the Plaintiff*

The third fairness factor to consider is the plaintiff's interest in obtaining convenient and effective relief. The hypothetical posed by this Article assumes that the alleged infringer sues at home.<sup>277</sup> The plaintiff's home state is presumptively convenient,<sup>278</sup> and that choice of forum is entitled to greater deference than if the lawsuit were filed elsewhere.<sup>279</sup> And although it may not be particularly inconvenient for the alleged infringer to pursue litigation elsewhere (e.g., in the patent holder's home state), it is important to remember that one recognized benefit of being a plaintiff and initiating litigation is the right to choose the forum.<sup>280</sup> Moreover, a state has an interest in providing a convenient forum for *all* of its citizens, "not just those who might face severe economic hardship if forced to litigate" elsewhere.<sup>281</sup>

Apart from convenience, the freedom to sue at home also furthers the plaintiff's interest in obtaining effective relief. As explained earlier, alleged infringers who pursue declaratory relief substantially increase their chances of proving the patents in suit invalid.<sup>282</sup> This "declaratory judgment effect" is a direct result of the plaintiff's ability to choose its home forum.<sup>283</sup> And so, like the others, this factor also favors personal jurisdiction based on cease-and-desist letters.

d. *Fundamental Substantive Social Policies*

The final fairness factor, which implicates the states' shared interests in furthering fundamental substantive social policies, warrants a bit more discussion. Although the Federal Circuit did not invoke this factor to justify

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<sup>277</sup> See *supra* Part IV.B. Indeed, a survey of the case law confirms that in the vast majority of cases where this jurisdictional rule is invoked, the alleged infringer is suing in its home state. See, e.g., *Laseraim Tools, Inc. v. SDA Mfg., LLC*, 624 F. Supp. 2d 1027, 1028-29 (E.D. Ark. 2008); *Idaho Energy, L.P. v. Harris Contracting Co.*, No. CV07-423-N-EJL, 2008 WL 4498809, at \*1-2 (D. Idaho, Sep. 30, 2008); *Cito Prods., Inc. v. MacDuff*, No. 07-cv-443-BBC, 2008 WL 1999111, at \*1 (W.D. Wis. May 8, 2008); *Allen Block Corp. v. Cnty. Materials Corp.*, No. 05-2879 (JNE/JJG), 2006 WL 3307619, at \*1 (D. Minn. Oct. 30, 2006); *Davlyn Mfg. Co. v. H&M Auto Parts, Inc.*, 414 F. Supp. 2d 523, 525 (E.D. Pa. 2005).

<sup>278</sup> *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 255-56 (1981) ("When the home forum has been chosen, it is reasonable to assume that this choice is convenient.").

<sup>279</sup> *Id.* at 255 ("[P]laintiff's choice of forum is entitled to greater deference when the plaintiff has chosen the home forum.").

<sup>280</sup> *Id.* at 241 ("[P]laintiff's choice of forum should rarely be disturbed.").

<sup>281</sup> *Patent Rights Prot. Grp., LLC v. Video Gaming Techs., Inc.*, 603 F.3d 1364, 1370-71 (Fed. Cir. 2010).

<sup>282</sup> See *supra* Part I.B.

<sup>283</sup> Moore, *supra* note 59, at 922.

its jurisdictional rule, perhaps it could have.<sup>284</sup> The court might have argued that such a jurisdictional rule would further a fundamental substantive social policy, namely the promotion of out-of-court settlement of patent disputes. Of course, such an argument suffers from the same false premise mentioned earlier: that settlement of patent disputes is necessarily in the public's best interest.<sup>285</sup> This is often not the case because the invalidation of a patent, unlike settlement, creates a "public good."<sup>286</sup>

But putting that concern aside for the moment, consider the following hypothetical: when *Red Wing Shoe* was decided, the public benefited more from a policy that promoted settlement of patent disputes than from one that encouraged those suits to be litigated to judgment. If that were true—and assume it is for argument's sake—then perhaps, at the time it was adopted, the Federal Circuit's rule was justifiable as furthering a fundamental substantive social policy.

Yet the question of whether a substantive social policy is "fundamental" is surely subject to change over time.<sup>287</sup> A social policy that was con-

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<sup>284</sup> Since *Red Wing Shoe*, the Federal Circuit has held that this final fairness factor does not apply in patent cases. See, e.g., *Patent Rights Prot.*, 603 F.3d at 1371; *Elecs. for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1347-48 (Fed. Cir. 2005); *3D Sys., Inc. v. Aarotech Labs., Inc.*, 160 F.3d 1373, 1380 (Fed. Cir. 1998). According to the Federal Circuit, this factor is implicated only when there is a conflict between the substantive law of the forum state and another state, and no such conflict exists in patent actions because they are governed by federal law irrespective of the forum state. In reaching this conclusion, the Federal Circuit relied on the following passage from *Burger King Corp. v. Rudzewicz*:

[W]here a defendant who purposefully has directed his activities at forum residents seeks to defeat jurisdiction, he must present a compelling case that the presence of some other considerations would render jurisdiction unreasonable. Most such considerations usually may be accommodated through means short of finding jurisdiction unconstitutional. For example, the potential clash of the forum's law with the "fundamental substantive social policies" of another State may be accommodated through application of the forum's choice-of-law rules. Similarly, a defendant claiming substantial inconvenience may seek a change of venue.

471 U.S. 462, 477 (1985) (footnote omitted). While *Burger King* clearly contemplates that a clash of substantive law may trigger the final fairness factor, the Court was merely providing one example of a situation that could implicate this factor. Nothing in the opinion suggests that courts should only consider this factor in the fairness analysis when the relevant law of the two competing forums is in conflict. Rather, courts—including those deciding cases based exclusively on federal law—should always consider whether subjecting a defendant to jurisdiction in a particular state might somehow implicate the shared interest of the several states in furthering fundamental social policies. See, e.g., *Violet v. Picillo*, 613 F. Supp. 1563, 1579 (D.R.I. 1985) ("[T]he several states of this nation surely share an important substantive interest in furthering policies designed to mitigate the widespread effects of improper management and disposal of hazardous chemical wastes.").

<sup>285</sup> See *supra* Part V.B.1.

<sup>286</sup> Farrell & Merges, *supra* note 7, at 952.

<sup>287</sup> Todd Barnett, *Lobato v. Taylor: Torrens Title Lost to Legal Fictions*, 15 MO. ENVTL. L. & POL'Y REV. 309, 318 (2008) ("[I]n time, social policies and politics change."); John C. Duncan, Jr., *The Ultimate Best Interest of the Child Enures from Parental Reinforcement: The Journey to Family Integrity*, 83 NEB. L. REV. 1240, 1264 (2005) ("[S]ocial policies and beliefs change over time . . ."); see also Peter D. Jacobson & Rebecca L. Braun, *Let 1000 Flowers Wilt: The Futility of State-Level Health Care Reform*, 55 U. KAN. L. REV. 1173, 1173 (2007) (noting that our federalist system permits states to experiment with different social policies over time).

sidered fundamental a century ago might actually be illegal today.<sup>288</sup> And even within a much shorter timeframe, social policy priorities may shift rather quickly.

While it is difficult to pinpoint exactly when our bad patent problem began, it was not until the final years of the 1990s that this topic became the subject of significant scholarly debate.<sup>289</sup> Over the next several years, lawmakers began to acknowledge the problem,<sup>290</sup> market participants called for reform,<sup>291</sup> and the Supreme Court decided landmark cases that, at least indirectly, addressed the proliferation of bad patents.<sup>292</sup> So, to put it simply, much has changed since *Red Wing Shoe* was decided little more than a decade ago.

Given this clear shift in policy priorities, it is time that this jurisdictional rule—which was adopted exclusively for policy reasons—be retooled. This brings us to the final Part of this Article, which proposes a method for addressing this jurisdictional question going forward and demonstrates how this method will help remedy the bad patent problem that our system currently faces.

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<sup>288</sup> Compare *Plessy v. Ferguson*, 163 U.S. 537, 544-53 (1896) (permitting state-mandated racial segregation on trains and announcing the “separate but equal” doctrine), with *Brown v. Bd. of Educ.*, 347 U.S. 483, 495 (1954) (abolishing the “separate but equal” doctrine and overruling *Plessy v. Ferguson*).

<sup>289</sup> See, e.g., Lemley, *supra* note 7, at 1497 (recognizing the problem of bad patents); Merges, *supra* note 54, at 589 (criticizing PTO’s issuance of too many bad patents); Lawrence Lessig, *The Problem with Patents*, THE INDUSTRY STANDARD (Apr. 23, 1999, 12:00 AM), <http://www.lessig.org/content/standard/0,1902,4296,00.html> (criticizing the recent tendency of the Patent Office to grant “bad patents” (internal quotation marks omitted)).

<sup>290</sup> See *supra* note 57 (setting forth Congress’s recent proposals to reform the patent system).

<sup>291</sup> See, e.g., Declan McCullagh, *Microsoft, Oracle Call for Patent Reform*, CNET NEWS (Apr. 25, 2005, 8:53 AM), [http://news.cnet.com/Microsoft,-Oracle-call-for-patent-reform/2100-1030\\_3-5683240.html](http://news.cnet.com/Microsoft,-Oracle-call-for-patent-reform/2100-1030_3-5683240.html).

<sup>292</sup> See, e.g., *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 418-19 (2007) (easing the obviousness standard by holding that the Federal Circuit’s “teaching, suggestion, or motivation” test for obviousness should be flexibly applied, not as “rigid and mandatory formulas”); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007) (rejecting the Federal Circuit’s “reasonable apprehension of suit” test, and thus making it easier for alleged infringers to challenge patents via declaratory relief (internal quotation marks omitted)); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (rejecting the Federal Circuit’s general rule “that courts will issue permanent injunctions against patent infringement absent exceptional circumstances” because such categorical grants of relief are erroneous and instead holding that the Federal Circuit should apply the traditional test for injunctive relief “[a]ccording to well-established principles of equity”).

## VI. THE FUTURE OF PERSONAL JURISDICTION IN PATENT DECLARATORY RELIEF ACTIONS

### A. *The Case-by-Case Approach*

For all the reasons just outlined, the exercise of personal jurisdiction over nonresident defendants based on cease-and-desist letters will often comport with due process.<sup>293</sup> In some limited circumstances, however, this rule should not apply. So this question, like all questions of personal jurisdiction, should be considered on a case-by-case basis.<sup>294</sup>

What, then, would this case-by-case approach look like? Of course, courts would have to begin with the contacts portion of the personal jurisdiction test to ensure that the defendant patent holder had purposefully availed itself of the forum state by sending a cease-and-desist letter to the alleged infringer there. As the Federal Circuit has already acknowledged, this portion of the test is generally satisfied when the alleged infringer sues in its home state where the threatening letter was received.<sup>295</sup>

Once the contacts portion of the test is met, personal jurisdiction over the defendant is presumed to be fair and reasonable.<sup>296</sup> At that point, the defendant patent holder may only avoid personal jurisdiction by making a compelling case that the exercise of that jurisdiction would offend traditional notions of fair play and substantial justice.<sup>297</sup> In many cases, it would be quite difficult for defendants to satisfy this burden, as explained in Part V of this Article.

Yet there may be exceptions. If, for instance, the patent holder were an individual inventor or a non-profit organization, the defendant may be able to make a compelling case that defending the lawsuit in a distant forum would be so burdensome as to render the exercise of personal jurisdiction unconstitutionally unreasonable.<sup>298</sup> Alternatively, if the alleged infringer

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<sup>293</sup> See *supra* Part V.B.

<sup>294</sup> See Cameron & Johnson, *supra* note 35, at 834 (stating that—with respect to personal jurisdiction—the Supreme Court “has eschewed the opportunity to create definitive rules . . . and [has] mandated case-by-case, fact-specific inquiry”); Simard, *supra* note 125, at 1620 (noting that personal jurisdiction is a case-by-case analysis).

<sup>295</sup> See *supra* Part IV.B.2.

<sup>296</sup> See, e.g., Ibrahim v. Dep’t of Homeland Sec., 538 F.3d 1250, 1259 (9th Cir. 2008) (“[B]ecause he purposefully directed his order toward California, we presume that jurisdiction is reasonable.”); Charles W. “Rocky” Rhodes, *Liberty, Substantive Due Process, and Personal Jurisdiction*, 82 TUL. L. REV. 567, 571 (2007) (“[I]f the nonresident defendant has committed the purposeful acts that establish the necessary ties to the forum, the exercise of jurisdiction is presumed reasonable unless the defendant can make a ‘compelling case’ that the fair play factors ‘would render jurisdiction unreasonable.’” (quoting Burger King Corp. v. Rudzewicz, 471 U.S. 462, 477 (1985))).

<sup>297</sup> *Burger King*, 471 U.S. at 477-78.

<sup>298</sup> The defendant may also be able to accomplish this by requesting a transfer of venue under 28 U.S.C. § 1404 (2006). See *supra* note 145 (discussing transfer of venue in patent cases).

were previously headquartered in the forum state, but has since moved, the defendant may be able to show that the forum state has no significant interest in the litigation. And, of course, there may be other factors that could overcome the presumption of reasonableness that we cannot now envisage.

Thus, a case-by-case analysis is the proper method to follow in patent declaratory judgment cases. Such a flexible approach allows courts to consider the “relationship among the defendant, the forum [state], and the litigation,” as the Supreme Court has mandated,<sup>299</sup> and has important policy implications for invalid patents as well.

### B. *Patent Declaratory Relief and the Public Good*

There is little doubt that the Federal Circuit’s jurisdictional rule provides some benefits: it increases predictability for litigants and eases the burden on courts. But by discouraging litigation and forcing alleged infringers into settlement, it also undermines one of the very important public functions served by patent litigation—the elimination of bad patents.<sup>300</sup> When an alleged infringer successfully challenges a patent, the patent is invalidated, and the intellectual property enters the public domain where anyone is allowed to use it. This creates a public good to be shared not only by other potential competitors, but also by society as a whole.<sup>301</sup>

This Article’s proposed approach to this jurisdictional issue would promote the creation of these public goods by facilitating patent validity challenges via declaratory relief.<sup>302</sup> In particular, it empowers alleged infringers with more robust declaratory judgment rights by allowing them to seek declaratory relief at home. By providing a convenient and friendly forum, alleged infringers are encouraged to seek declaratory relief instead of either settling or waiting to be sued for infringement in a forum chosen by the patent holder.

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<sup>299</sup> *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 414 (1984) (quoting *Shaffer v. Heitner*, 433 U.S. 186, 204 (1977)) (internal quotation marks omitted).

<sup>300</sup> *See, e.g., Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 658 (1983) (Stevens, J., concurring) (noting the public interest served by patent litigation); *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (discussing the value of litigation in challenging patent validity).

<sup>301</sup> *See Farrell & Merges, supra note 7*, at 952; *Stiglitz, supra note 10*, at 1715; *Thomas, supra note 54*, at 333 (recognizing that patent validity challenges exhibit the characteristics of public goods).

<sup>302</sup> At a time when the number of patent suits is on the rise and the nature of our patent system as a whole is under scrutiny, one might question the wisdom of a proposal that actually encourages more patent litigation. But this proposal only encourages declaratory relief actions, which currently make up a very small portion of the patent suits filed each year. Furthermore, providing alleged infringers with more robust declaratory judgment rights will likely lead to *less* patent litigation overall because patent holders who previously engaged in a practice of indiscriminately issuing cease-and-desist letters will be more prudent when deciding who to threaten with an infringement suit. *See supra notes 164-67 and accompanying text.*

This ability to seek declaratory relief at home is so important because validity challenges asserted in declaratory judgment actions are significantly more likely to be successful than those raised in Standard Patent Infringement Suits. In other words, declaratory judgment actions are particularly effective at providing the public good of invalidating bad patents. Thus, by facilitating the filing of these lawsuits, this case-by-case approach to personal jurisdiction will effect positive change—the elimination of invalid patents that misappropriate public domain concepts.

#### CONCLUSION

For years, validity challenges raised during litigation have served as the primary gatekeeper of patent quality. This system is far from perfect, as evidenced by the persistent commentary about our widespread bad patent problem. Yet there is a bright spot in this otherwise bleak period for our patent system: declaratory relief.

Declaratory judgment actions are particularly good at invalidating bad patents. But alleged infringers are unlikely to seek declaratory relief in large numbers unless they can do so in a convenient and friendly forum. The Federal Circuit's current bright-line rule precluding personal jurisdiction based on cease-and-desist letters often makes this impossible. That this jurisdictional rule undermines the public policy favoring validity challenges is troubling enough. Even worse, this rule—which has gone largely unchallenged until now—contradicts Supreme Court personal jurisdiction jurisprudence. The Court has recently made it clear that it strongly disfavors special rules like this for patent cases and believes that Federal Circuit law should fall in line with mainstream doctrine.

In the end, declaratory relief has the potential to be even more effective at providing the public good of invalidating bad patents. Thus, we should be moving toward legal standards and policy initiatives that encourage, rather than dissuade, the filing of these lawsuits. Adopting the jurisdictional proposal contemplated in this Article would be a first step in that direction.