



Personal Jurisdiction and the Improper Service of Process

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Nuance Communications, Inc. v Abby Software House, No. 2010-1100, US Court of Appeals for the Federal Circuit, 2010 US App. LEXIS 23419, 12 November 2010 (Nuance II)

Abstract

Under California's Long-Arm Statute, a US District Court erroneously dismissed patent infringement claim against a Cyprus parent corporation and its Russian affiliate for lack of personal jurisdiction and improper service of process.

Legal Context

As emerging markets play a bigger role in the global economy, and corporate entities located in them continue to avail themselves of US markets, when and how such entities become subject to personal jurisdiction in US Courts for alleged patent infringement is a matter of increasing concern. In *Nuance Communications, Inc. v Abby Software House, et al.*, the US Court of Appeals for the Federal Circuit laid out in great detail how two of the defendants (Abby Software, a Republic of Cyprus corporation, and Russian Federation Abby Production) were improperly dismissed for lack of personal jurisdiction and improper service of process outside the Hague Convention by the US District Court for the Northern District of California.

Facts

Nuance Communications was the owner by assignment of six US patents related to methods and systems for performing optical character recognition.

In 2008 Nuance brought a patent infringement action in the Central District of California against Abby USA Software House ('Abby USA') and Lexmark. The case was transferred to the US District Court for the Northern District of California. Later that year Abby USA identified in discovery responses a Cyprus company, Abby Software, and a wholly-owned Russian subsidiary, Abby Production. Nuance filed an amended complaint, adding Abby Production and Abby Software as additional defendants and served documents requests on both entities.

In May 2009 a local process server in Moscow personally served a manager of Abby Production with the amended complaint, amended summons and standing orders of the court, as well as Russian translations of these documents, effecting personal service on Abby Production. In June 2009 the Abby defendants filed a motion to dismiss Abby Production and Abby Software for lack of personal jurisdiction, and to dismiss Abby Production for



improper service of process. Abby Software did not object to service of process. The motion was supported with written declarations and previously unproduced documents. The Abby defendants also sought a protective order to preclude pending written discovery until the motion to dismiss was resolved.

In August 2009 the District Court issued an order in which it found:

1. service of process of Abby Software and Abby Production was improper pursuant to Fed. R. Civ. P. 4(h)(2), due to Nuance's failure to follow the Hague Convention;
2. the plaintiff failed to meet its burden to establish a prima facie showing of general or specific jurisdiction over each defendant it sued; and
3. the defendants' motion for a protective order was moot.

In particular, with respect to the jurisdictional issue, the District Court explained its rationale as follows:

"Here, because there is no showing that the Moving Defendants purposefully directed any specific activity at residents of California or within the forum state or that the plaintiffs' claim arises out of or relates to those activities, the Court need not reach the issue whether the assertion of personal jurisdiction is reasonable and fair. Again, there is no controlling precedent or evidence sustaining the position that this Court should pierce the corporate veil between the United States defendant, Abby USA, and the foreign defendants. Based on the record, the Court finds that it cannot exercise personal jurisdiction over the Moving Defendants. Defendants Abby Software, Ltd. or Abby Production, LLC are dismissed as defendants."

Nuance Commc'ns Inc. v Abby Software House, No. 08-02912, 2009 WL 2707390, at *3 (ND Cal. 25 Aug, 2009) (*'Nuance I'*) (citation omitted).

Significantly, as the Federal Circuit observed, no evidentiary hearing was conducted by the District Court before it reached its decision, and Abby Production and Abby Software never responded to Nuance's discovery requests.

Nuance filed a notice of appeal challenging the District Court's determination that it cannot exercise personal jurisdiction over Abby Production and Abby Software, and that these companies were served in a legally insufficient manner.

Analysis

On appeal, the Federal Circuit found:

1. the District Court erred when it declined to exercise jurisdiction over Abby Production and abused its discretion when it denied Nuance's request for jurisdictional discovery;



2. the District Court erred when it dismissed the Abby defendants for improper service of process; and
3. the District Court's decision was vacated and remanded for further proceedings consistent with the Federal Circuit's opinion.

Personal jurisdiction

First, the Federal Circuit analysed the personal jurisdiction issues over Abby Production and Abby Software. In this regard, the Federal Circuit applied its own law (rather than the regional Ninth Circuit law) to determine if the District Court properly declined to exercise personal jurisdiction over an out-of-state accused patent infringer. This is a question of law that the Federal Circuit reviews without deference, with the underlying factual determinations reviewed under a clear error standard.

In particular, the Federal Circuit applied the California Long-Arm statute, which is coextensive with the due process requirements under US federal law, to determine whether the California District Court had personal jurisdiction over the Abby Defendants. The touchstone of this analysis was whether the defendant was consistent with due process 'purposefully established "minimum contacts" in the forum State' (*Nuance II* at *10).

In this case, the issue was whether there was specific jurisdiction (rather than general jurisdiction) over the two defendants. In particular, under Federal Circuit law, specific jurisdiction exists under the following three-prong test:

1. whether the defendant purposefully directed activities at residents of the forum;
2. whether the claim arises out of or relates to those activities; and
3. whether assertion of personal jurisdiction is reasonable and fair.

Significantly, the Federal Circuit found troubling the failure of the District Court to allow for jurisdictional discovery and to hold a factual hearing on the subject. In such a situation, the Court noted that '[w]ithout discovery and a record on jurisdiction, this court must resolve all factual disputes in the plaintiff's favor' (*Id.* at *11–12).

Personal jurisdiction over Abby Production

First, the Federal Circuit analysed whether Abby Production, the Russian Federation affiliate of Abby USA, was subject to personal jurisdiction, and found that it was.

Under the first prong, the Federal Circuit found, 'Abby Production purposefully directed its activities at residents of California and therefore satisfies the first prong of the *Akro* test' (*Id.* at *16).



In particular, the Federal Circuit cited Nuance's arguments regarding:

1. an article dated 11 February 2008 quoted the CEO's stated goal of conquering the US market and noted that Abby's FineReader software program allegedly controlled about thirty percent of the US market;
2. the importation of allegedly infringing products into California;
3. the extraction of royalty payments for the sale of those products; and
4. Abby Production's agreement to provide assistance to Abby USA in selling, reproducing, and modifying the accused products in California.

The Federal Circuit also distinguished two cases cited by defendants, *HollyAnne Corp. v TFT, Inc.*, 199 F.3d 1304 (Fed. Cir. 1999) and *Pieczenik v Dyax*, 265 F.3d 1329 (Fed. Cir. 2001), both of which affirmed dismissals for lack of jurisdiction.

HollyAnne involved a single 'offer to donate' as being insufficient to confer personal jurisdiction. The Federal Circuit found it to be inapposite, 'because Abby Production seeks to "conquer" the US market, not to donate its services, and its contacts with California are much more significant than the single interaction in *HollyAnne*' (*Nuance II* at *14).

Pieczenik found an arrangement which 'superficially resemble[d]' the arrangement between the Abby defendants as insufficient to establish personal jurisdiction. In particular, *Pieczenik* found 'that [an] agreement [between the defendant there and a New York company] did not confer personal jurisdiction because

1. the agreement was not negotiated or executed in New York;
2. there was no visit to New York in connection with the licensing;
3. the choice-of-law provision did not specify New York law;
4. the agreement did not require the defendant to send any goods into New York or provide any services in New York; and
5. the only payments were payments by the licensee in New York to the defendant in Massachusetts' (*Id.* at *15).

The Federal Circuit distinguished *Pieczenik*, as applying a different standard under New York's narrower long-arm statute, after an extensive factual hearing, which more importantly involved unrelated entities. The Federal Circuit found it significant that Abby Production and Abby USA not only had an agreement like in *Pieczenik*, but also



had:

1. 'an expressed desire to “win the whole US market” by issuing ABBYY’S FineReader software program in the United States’;
2. ‘the admitted distribution of that software to Abbyy USA, a California entity’; and
3. ‘[o]ver ninety-five percent of the profits resulting from the sale of that software flow to Abbyy Production’. (Id. at *16).

Under the second prong, the Federal Circuit found ‘that the claims arise out of or relate to the purposefully directed activities, because Nuance’s infringement claims relate to Abbyy Production’s importation of goods into California.’ (Id.) The Federal Circuit rejected Abbyy Production’s argument that it ‘has no physical presence in California’:

“To the contrary, the record shows that Abbyy Production provided copies of the accused software products to Abbyy USA, a California entity. By operation of the Agreement, Abbyy Production retains ownership in the accused software even after that software enters California. Greater than ninety-five percent of the profits in California flow to Abbyy Production. Under these facts, Abbyy Production has sufficient presence in the forum for importation under 35 U.S.C. § 271(a). (Id. at *17).”

The Federal Circuit also found that ‘Abbyy Production also runs afoul of the Supreme Court’s and this court’s stream of commerce jurisprudence’ (Id. at *18). In particular, the Federal Circuit distinguished its *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994), precedent, as follows:

“Abbyy Production purposefully ships the accused software products into California through an established distribution channel, with the expectation that copies of those products will be sold in California. Unlike *Beverly Hills Fan*, which involved the more attenuated connection of an out-of-state distributor, Nuance brought suit in the same forum in which Abbyy Production’s distributor, Abbyy USA, is located. Moreover, under the Agreement, Abbyy Production has agreed to furnish Abbyy USA with new versions and updates of the Software, technical support, and oral and written consultations. The Supreme Court has endorsed precisely this sort of purposeful activity as reinforcing the proper exercise of jurisdiction. See *Asahi (Metal Indus. Co. v. Superior Ct. of Cal.)*, 480 US (102), 112 (1987). [*Nuance II* at *19–20 (citation omitted).]”

Significantly, the Federal Circuit emphasized that no more is required to establish specific jurisdiction than the non-US defendant making the accused products available for sale through an established distribution chain, and the cause of action for patent infringement is alleged to arise out of these activities.

With respect to the third prong, the Federal Circuit rejected the argument that assertion of jurisdiction over Abbyy Production would be unfair. The Federal Circuit distinguished *Asahi*, on



the following grounds:

1. Abbyy Production was not merely an upstream provider like in Asahi, but instead established a distribution system with Abbyy USA that was intended to deliver products to the US market via a commonly owned California entity.
2. Abbyy Production knew the destination of its products, and its conduct and connections with the forum state were such that it should have reasonably anticipated being brought into court there.
3. Abbyy Production and Abbyy USA share the same counsel and operate under a consolidated Global Management Team.

In sum, the Federal Circuit found '[t]hese relationships should ameliorate any possible burden of litigating in California.' (*Id.* at *21).

Personal jurisdiction over Abbyy Software

The Federal Circuit separately analysed whether the California District Court had personal jurisdiction over Abbyy Software. While the Federal Circuit found evidence to establish a *prima facie* case of personal jurisdiction, it also recognized that the factual record was insufficient to make a proper determination. Thus the Federal Circuit found that the district court abused its discretion by dismissing Abbyy Software without jurisdictional discovery.

In particular, the Federal Circuit identified the following facts to support a conclusion that Abbyy Software was more than merely a holding company:

"Abbyy Software's website portrays Abbyy as a single company with offices in many countries, including the United States. The CEO of Abbyy Software, who expressed a desire to return to the U.S. market, is both the founder of the Abbyy companies and the Chairman of Abbyy's Global Management Team, which includes among its members the CEOs of Abbyy USA and Abbyy Production. Abbyy Software's website lists multiple California entities as customers of the accused products, including Hewlett-Packard, Alameda County, and Los Angeles County. Abbyy Software's website also promotes the sale of these products in California by providing the names and contact information for retail stores located in California as well as online stores that sell the FineReader product. (*Id.* at *22–23)."

However, the record also included evidence making 'uncertain' the extent of Abbyy Software's involvement:

"Abbyy Software does not directly sell products through its website or otherwise. The record does not show at this point that Abbyy Software receives revenue from the sale of the accused software. Abbyy Production, not Abbyy Software, appears to develop the accused software and import master copies of that software into California. While the Global Management Team and the statements in the *Trade Secret Magazine* article suggest



that Abby Software exerts some control over its subsidiaries, the record is unclear about the degree to which Abby Software intentionally established distribution channels that it knew, or could have foreseen, terminated in California. (*Id.* at *23–24).”

Because the Federal Circuit could not ‘determine that Abby Software purposefully availed itself of the privilege of conducting activities in California by some affirmative act or conduct, and that Nuance’s claims arise out of those activities,’ the Court remanded the case for further discovery. (*Id.* at *24).

Service of process over Abby Production and Abby Software

The Federal Circuit found the District Court improperly found Nuance’s service of process over Abby Production and Abby Software to be insufficient under the Hague Convention.

With respect to Abby Production, Nuance served Abby Production personally in Moscow, but did not attempt to serve Abby Production under the Hague Convention. The record in the case indicates that Nuance could not serve Abby Production through the Russian Federated Authority under the Hague Convention. While the Federal Circuit expressly did not decide whether personal service is allowed under Russian law, it nonetheless found that on remand ‘the district court should therefore allow alternate service as it deems appropriate, including at least substitute service, pursuant to Rule 4(f)(3), of Abby Production by substitute service on Abby USA.’ (*Id.* at *39).

With respect to Abby Software, the Federal Circuit found the District Court’s dismissal of Abby Software for lack of personal jurisdiction on its own motion to be clear error. First, the District Court erred in failing to provide Nuance with any opportunity to show its service of process was sufficient on Abby Software. Moreover, since Abby Software failed to raise this defence in their first motion under Rule 12(b), the defence was waived, and thus it was improper for the District Court to dismiss on this ground in any event.

Practical Significance

Nuance II provides helpful guidelines to non-US entities whose products are sold in the US to determine whether they may be subject to jurisdiction in the US. It confirms the expansive reach of US courts in patent infringement actions over non-US entities that purposely seek to avail themselves of US markets. When establishing worldwide networks of related entities to manufacture and distribute products, entities that seek to avoid jurisdiction in the US should pay careful attention to the considerations outlined in *Nuance II*.

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