

Lotso More Than Non-Exclusive Licensor-Licensee Relationship Needed for Personal Jurisdiction

Article By:

Eleanor B. Atkins

Addressing whether the activities of non-exclusive licensees subject the licensor to personal jurisdiction, the US Court of Appeals for the Fifth Circuit held that jurisdiction over the licensees does not extend personal jurisdiction to the licensor where the licensor does not have any additional contacts with the forum. *Diece-Lisa Industries, Inc. v. Disney Enterprises, Inc.*, Case No. 17-41268 (5th Cir. Nov. 19, 2019) (Dennis, J).

Diece-Lisa Industries owns a trademark registration for LOTS OF HUGS for “toys, namely, puppets” and sells stuffed toy bears under that mark. Two years after the LOTS OF HUGS registration issued, Disney released *Toy Story 3*, featuring a stuffed bear named Lots-O’-Huggin’ Bear, or Lotso for short.

Diece-Lisa initially sued certain Disney retail entities for trademark infringement and unfair competition stemming from the defendants’ sale of Lotso merchandise, and later filed a second complaint against the Disney entities that owned and licensed the Disney character intellectual property (IP holders). The district court consolidated the cases and granted Diece-Lisa leave to file a third amended complaint, in which Diece-Lisa added 10 new Disney subsidiaries as defendants and additional infringement claims.

The district court then denied the IP holders’ pre-consolidation motion to dismiss for lack of personal jurisdiction. The IP holders filed a motion for reconsideration, arguing that their only contact with Texas was the grant of non-exclusive licenses to parties that happened to conduct business in the state.

While this motion was pending, the district court made the three decisions from which Diece-Lisa appealed. First, the district court vacated the order granting Diece-Lisa leave to file the third amended complaint. Second, the district court stayed the case pursuant to a consented order preventing both parties from raising additional claims, defenses or theories of liability. Nonetheless, Diece-Lisa attempted to file a fourth amended complaint with new theories of infringement, but the district court granted the defendants’ motion to strike in light of the consented order. Third, the district court granted the defendants’ motion for reconsideration, dismissing the claims against the IP holders for lack of personal jurisdiction.

On appeal, Diece-Lisa argued that the court had personal jurisdiction over the IP holders for two reasons. First, Diece-Lisa claimed that the activities of the IP holders (granting non-exclusive licenses to parties conducting business in Texas and exercising quality control pursuant to those licenses) was sufficient for personal jurisdiction (licensor theory). Second, Diece-Lisa argued that the IP holders were part of the “unified Disney Company,” and if the court had jurisdiction over the retail entities, it therefore also had jurisdiction over the IP holders (franchise theory).

The Fifth Circuit dismissed the franchise theory because Diece-Lisa failed to allege any facts that would rebut the “presumption of institutional independence,” such as:

- Information as to the amount of stock owned by the parent of the subsidiary
- Whether the entities have separate headquarters, directors and officers
- Whether corporate formalities are observed
- Whether the entities maintain separate accounting systems
- Whether the parent exercises complete control over the subsidiary.

Addressing the licensor theory of personal jurisdiction, the Fifth Circuit stated: “[n]either this nor any other circuit has held that specific jurisdiction may arise solely from a defendant licensor’s non-exclusive licenses to third parties who sell allegedly infringing products in the forum state, and at least one circuit has explicitly rejected such a theory.” Accordingly, where the plaintiff has not alleged that the defendants had any additional contacts with the forum state (as here), the mere fact that the defendant granted non-exclusive licenses to parties that conduct business in the forum state is insufficient to establish personal jurisdiction. Accordingly, the Court affirmed the district court’s order dismissing the claims against the IP holders for lack of personal jurisdiction.

With respect to the other issues on appeal, the Fifth Circuit affirmed the decision to strike the fourth amended complaint, pursuant to the agreed order, but vacated the district court’s order with respect to the third amended complaint, holding that the “district court’s failure to give notice and a hearing prior to the *sua sponte* dismissal of a complaint is unfair and requires reversal.” On remand, the Court instructed the district court to first consider whether it has jurisdiction over the defendants in the third amended complaint, “in accordance with the jurisdictional analysis provided in this opinion.”

© 2025 McDermott Will & Emery

National Law Review, Volume IX, Number 361

Source URL: <https://natlawreview.com/article/lotso-more-non-exclusive-licensor-licensee-relationship-needed-personal-jurisdiction>