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Neutralizing Actual Controversy: How Patent Holders Can Reduce the Risk of Declaratory Judgment in Patent Disputes

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NEUTRALIZING ACTUAL CONTROVERSY: HOW PATENT
HOLDERS CAN REDUCE THE RISK OF DECLARATORY
JUDGMENT IN PATENT DISPUTES

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ABSTRACT

*Alleged patent infringers may bring declaratory judgment actions against patentees when actual controversies exist over infringement or validity. Such declaratory judgment actions are important strategic tools because they allow alleged infringers to take initiative and bring actions, thereby eliminating the risk of doing business without knowing whether continued product use would constitute infringement. Declaratory judgment actions also provide alleged infringers an opportunity to choose the forum in which to bring their suits. In order to bring such an action, however, there must be an actual controversy between the parties to establish standing. The United States Supreme Court's 2007 decision in *MedImmune v. Genentech* made it easier for alleged infringers to obtain declaratory judgments without actually terminating or breaching license agreements. The Court held that all circumstances should be considered when determining whether an actual controversy exists. The United States Court of Appeals for the Federal Circuit, relying on *MedImmune*, has since considered what communication between parties is sufficient to establish the existence of such a controversy. This Article analyzes those decisions, discusses possible implications, and describes how the Federal Circuit has finally embraced the "all circumstances" test for determining whether a sufficient controversy exists to sustain a declaratory judgment action.*

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INTRODUCTION

Declaratory judgment actions are important tools for alleged infringers in patent litigation because they resolve uncertainty and prevent monetary damages from continuing to accrue for infringement. In addition, declaratory judgment actions give alleged infringers strategic advantages by acting as plaintiff, including the ability to choose a favorable forum and to enjoy the benefits of primacy and memorability at trial.¹ The issue, however, is whether there is an actual controversy such that an infringer will have standing to bring an action for a declaratory judgment.

In 2007, the United States Supreme Court in *MedImmune, Inc. v. Genentech, Inc.* abandoned the two-part test traditionally applied when

¹ In trial, the plaintiff generally introduces the case (“primacy”) and delivers the closing statement (“memorability” or “recency”). Primacy and memorability put plaintiffs in a better position to convince judges or juries.

determining if a party has standing to bring a declaratory judgment action—showing (1) a reasonable basis for believing the infringer will be sued and (2) meaningful preparation to infringe.² Instead the Court adopted a new “all circumstances” test that eliminated the first prong and made it easier to obtain declaratory relief in patent cases. However, confusion resulted when the Federal Circuit failed to consistently apply the new test and instead considered certain elements of the two-part test from time to time.

Two years after *MedImmune*, in *Hewlett-Packard Co. v. Acceleron LLC*,³ the Federal Circuit eliminated some of that confusion when it followed the “all circumstances” test to determine whether an alleged infringer had standing to bring a declaratory judgment action. The *Hewlett-Packard* case is important not only because it confirms that the Federal Circuit follows the “all circumstances” test set out in *MedImmune*, but also because it sheds light on the trend that the Federal Circuit treats patent-holding companies differently from patentees who actually use their patents.

I. DECLARATORY JUDGMENT ACTIONS IN PATENT DISPUTES

The Declaratory Judgment Act⁴ authorized federal courts to provide legal remedies to interested parties who have an “actual controversy” within the meaning of Article III of the U.S. Constitution.⁵ Congress intended declaratory relief as an alternative to injunction in cases where injunctive relief is unavailable.⁶ The objectives of the Declaratory Judgment Act are (1) to avoid accrual of avoidable damages to those who are not certain of their rights, (2) to afford early adjudication without waiting until the adversary decides to bring a patent infringement lawsuit, and (3) to clarify legal relationships before they have been disturbed or a party’s rights have been

² *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

³ *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1361 (Fed. Cir. 2009).

⁴ 28 U.S.C. §§ 2201-2202 (2006).

⁵ U.S. Const., art. III, § 2.

⁶ *Steffel v. Thompson*, 415 U.S. 452 (1974).

violated.⁷

Courts do not have jurisdiction to deliver advisory opinions on questions that are abstract or hypothetical in nature, so only interested parties who have an actual controversy are eligible to bring a suit.⁸ The term “actual” is one of emphasis rather than of definition, which means that the controversy should be real in the constitutional sense.⁹ In other words, the Declaratory Judgment Act requires that actions for declaratory judgment meet the same test for “case or controversy” as required for conventional suits under Article III federal jurisdiction.¹⁰ Determining whether there is an actual controversy is essential to deciding whether a party has standing to sue.¹¹

Declaratory judgment actions are frequently used in patent infringement suits as both shields and swords. Employed as a shield, a defendant can bring counterclaims for a declaration of invalidity, unenforceability, and non-infringement. In contrast, when used as a sword, the declaratory judgment action allows the alleged infringer to file suit before the patentee brings an infringement action. This can prevent damages from continuing to accrue and can help businesses make risk assessments.

The advantages of declaratory judgments for alleged patent infringers are many. For example, declaratory judgment actions allow

⁷ *Travelers Ins. Co. v. Davis*, 490 F.2d 536, 543 (9th Cir. 1974).

⁸ *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227 (1937).

⁹ *Id.* at 239-40.

¹⁰ See, e.g., Jennifer R. Saionz, *Declaratory Judgment Actions in Patent Cases: The Federal Circuit's Response to MedImmune v. Genentech*, 23 BERKELEY TECH. L.J. 161, 161 (2008).

¹¹ However, even if an actual controversy exists, courts still have discretion to hear declaratory judgment action. But the district court must have a sound basis for refusing jurisdiction over a declaratory judgment action. See *Wilton v. Seven Falls Co.*, 515 U.S. 277, 289-90 (1995). See also *Elecs. for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1345-46 (Fed. Cir. 2005); *Capo, Inc. v. Dioptrics Med. Prod., Inc.*, 387 F.3d 1352, 1357 (Fed. Cir. 2004) (“There must be a sound basis for refusing to adjudicate an actual controversy, for the policy of the Act is to enable resolution of active disputes.”); *Genentech v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993) (“When there is an actual controversy and a declaratory judgment would settle the legal relations in dispute and afford relief from uncertainty or insecurity, in the usual circumstance the declaratory action is not subject to dismissal.”).

alleged infringers to eliminate uncertainty regarding potential patent infringements. In addition, bringing a declaratory judgment action gives an alleged infringer the opportunity to choose a favorable place to sue and to control aspects pertaining to litigation such as forum convenience, potential jury pools, local court rules, trial speed, and court sophistication regarding patent cases. Finally, declaratory judgment actions allow alleged infringers to better control business risks.

The declaratory judgment action is an equitable remedy. This means that the court has discretion to decline the declaratory judgment action jurisdiction if it deems appropriate, even if a justiciable controversy exists.¹²

II. FROM TWO-PART TO “ALL CIRCUMSTANCES”: HISTORY OF DECLARATORY JUDGMENT ACTIONS AND SUPREME COURT’S DECISION IN *MEDIMMUNE*

The Supreme Court first established the meaning of “actual controversy” under the Declaratory Judgment Act in *Aetna Life Insurance Co. v. Haworth*.¹³ In *Aetna*, the Court defined the limitation of “actual controversy” to mean controversies appropriate for judicial determination by a court described in Article III of the Constitution.¹⁴ The Court stated that “the controversy must be definite and concrete,

¹² See, e.g., *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 810 (Fed. Cir. 1996) (“Even if there is an actual controversy, the district court is not required to exercise declaratory judgment jurisdiction, but has discretion to decline that jurisdiction.”).

¹³ *Aetna Life*, 300 U.S. 227 (1937). In *Aetna Life*, the declaratory judgment defendant, Haworth, had purchased life insurance policies from Aetna Life Insurance Company. The policies provided that upon proof of total and permanent disability, the insured was no longer required to pay additional premiums, yet the insurance policies would remain in force. Haworth allegedly ceased payment of premiums and provided Aetna with documentation of disability. Haworth did not initiate suit against Aetna or make any threats to do so. Aetna sued Haworth under the Declaratory Judgment Act, seeking to have the policies declared null and void for nonpayment.

¹⁴ *Id.* at 239-40 (“The Declaratory Judgment Act of 1934, in its limitation to ‘cases of actual controversy,’ manifestly has regard to the constitutional provision and is operative only in respect to controversies which are such in the constitutional sense. The word ‘actual’ is one of emphasis rather than of definition.”).

touching the legal relations of parties having adverse legal interests.”¹⁵

Later, in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, the Supreme Court stated that the presence of an “actual controversy” within the meaning of the statute depends on “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.”¹⁶

Based on this guidance, the United States Court of Appeals for the Federal Circuit tried to develop a two-part test to assess whether an actual controversy exists.¹⁷ This dual prong test required: (1) an explicit threat or other action by the patentee that creates a reasonable apprehension on the part of the declaratory judgment plaintiff that they will face an infringement suit (the “reasonable apprehension” prong) and (2) present activity by the declaratory judgment plaintiff which could constitute infringement, or concrete steps taken with the intent to conduct such activity (the “meaningful preparation” prong).¹⁸

Under the first element, the defendant’s (patent holder’s) actions needed to create, in the alleged infringer, a reasonable apprehension of an infringement suit.¹⁹ An express accusation of infringement was sufficient, but not necessary, to create a reasonable apprehension of suit.²⁰ For the second element, the plaintiff (alleged infringer) needed to engage in an activity that would be subject to an infringement

¹⁵ *Id.* at 240-241.

¹⁶ *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270 (1941); *see also* *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731 (Fed. Cir.1988); *see also* *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 810 (Fed. Cir. 1996).

¹⁷ *See* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879 (Fed. Cir. 1983) (“Courts have interpreted the controversy requirement in the patent field to generally mean that the declaratory plaintiff has sufficient interest in the controversy and that there is a reasonable threat that the patentee or licensor will bring an infringement suit against the alleged infringer.”).

¹⁸ *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1339 (Fed. Cir. 2007); *see also* *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 737 (Fed. Cir. 1988).

¹⁹ *See* *Arrowhead* 846 F.2d at 736.

²⁰ *See* *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953, 956 (Fed. Cir. 1987).

accusation or have made “meaningful preparation” for such an activity.²¹

In *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court held that the Federal Circuit’s two-part test was inconsistent with Supreme Court precedent, explicitly overruling the “reasonable apprehension” element of the test and implicitly overruling the second part as well.²² The Supreme Court replaced the Federal Circuit’s formalistic approach with a “totality of the circumstances” approach that inquires into the parties’ legal interests to determine whether there is an actual controversy.²³

The Court held that although MedImmune paid royalties to Genentech to eliminate the risk of an infringement suit, it was not prohibited from also filing a declaratory judgment action for non-infringement, invalidity, and unenforceability.²⁴ The Supreme Court reasoned that Article III’s justiciable controversy requirement did not require an unwilling licensee to risk liability for infringement, with potential treble damages, before it could obtain a declaration of actively contested legal rights.²⁵ In short, the plaintiff of a declaratory judgment action does not have to choose between abandoning a claim of right and facing the threat of injury.²⁶

Although the Supreme Court did not explicitly overrule both prongs of the two-part test, the Court indicated in a footnote that the Federal Circuit’s two-part test conflicted with Supreme Court precedent.²⁷ Regardless of the Court’s ultimate decision about the two-

²¹ See *Arrowhead*, 846 F.2d at 736.

²² *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n. 11 (2007). See also *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380 n. 2 (Fed. Cir. 2007) (“We therefore leave to another day the effect of *MedImmune*, if any, on the second prong.”).

²³ *MedImmune*, 127 S. Ct. at 771.

²⁴ *Id.*

²⁵ *Id.* at 775 (“The rule that a plaintiff must destroy a large building, bet the farm, or (as here) risk treble damages and the loss of 80 percent of its business before seeking a declaration of its actively contested legal rights finds no support in Article III.”).

²⁶ *Id.* at 772-73.

²⁷ *Id.* at 774 n. 11.

part test, it was clear from the opinion that the “all circumstances” test should apply in the future.²⁸ It has, however, taken the Federal Circuit a number of years to completely abandon the two-prong test and embrace the “all circumstances” analysis.

III. AFTER *MEDIMMUNE*: CONFUSION CAUSED BY CONTINUOUS USE OF ELEMENTS IN THE IMPROPER TWO-PART TEST

After *MedImmune*, the Federal Circuit initially followed aspects of the new “all circumstances” test set out by the Supreme Court. But occasionally the Federal Circuit would continue to apply the traditional two-part test, thereby leading to some confusion because the Supreme Court had held that test was improper. This confusion, however, was eventually eliminated by *Hewlett-Packard Co. v. Acceleron LLC*, a 2009 Federal Circuit case that clearly follows the “all circumstances” test of *MedImmune*. With that decision, the Federal Circuit signaled to future litigants that the “all circumstances” test will now be used going forward.

A. Initial Adherence to the “All Circumstances” Test

In *SanDisk Corp. v. STMicroelectronics, Inc.*, the Federal Circuit considered a dispute between competitors who had entered into negotiations to cross-license their patents.²⁹ When negotiations began to break down, SanDisk filed suit, alleging infringement of one of its patents and seeking a declaratory judgment of non-infringement and invalidity of the fourteen STMicroelectronics (ST) patents that had been discussed during the cross-licensing negotiations.³⁰ ST filed a motion to dismiss for lack of subject matter jurisdiction. The district court granted the motion, holding that no actual case or controversy

²⁸ *Id.* at 771 (“Basically, the question in each case is 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.”).

²⁹ *SanDisk*, 480 F.3d 1372 (Fed. Cir. 2007).

³⁰ *Id.* at 1376.

existed under the declaratory judgment action because SanDisk did not “reasonably apprehend” suit.³¹

The Federal Circuit reversed. The court determined that it had jurisdiction in a declaratory judgment action where cross-licensing negotiations were ongoing.³² Furthermore, the court held that SanDisk could bring a declaratory judgment action before it received explicit threats of litigation.³³ “[W]here a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license,” the court has jurisdiction over the action “and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.”³⁴ The Federal Circuit observed that this holding was consistent with *MedImmune*.³⁵

In addition, the Federal Circuit acknowledged that *MedImmune* overruled the “reasonable apprehension” element of the two-part test,³⁶ but the court observed that *MedImmune* did not address the “meaningful preparation” element. The Federal Circuit declined to consider the effect of *MedImmune* on the second element at that time.³⁷

³¹ *Id.*

³² *Id.* at 1383.

³³ *Id.* at 1381 (“We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.”).

³⁴ *Id.* See also *Cygnus Therapeutic Sys. v. ALZA Corp.*, 92 F.3d 1153 (Fed. Cir. 1996) (holding that declaratory judgment jurisdiction was not supported where the “patentee does nothing more than exercise its lawful commercial prerogatives and, in so doing, puts a competitor in the position of having to choose between abandoning a particular business venture or bringing matters to a head by engaging in arguably infringing activity”).

³⁵ *SanDisk*, 480 F.3d at 1381-82.

³⁶ *Id.* at 1380.

³⁷ *Id.* at 1380 n. 2 (“We therefore leave to another day the effect of *MedImmune*, if any, on the second prong.”). The second prong asks whether the plaintiff engaged in infringing activity or meaningfully prepared to engage in such activity.

In short, the Federal Circuit failed to completely embrace the Supreme Court's "all circumstances" test in *SanDisk*.

That same year, in *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, the Federal Circuit addressed a dispute between a generic (Teva) and a brand name (Novartis) pharmaceutical company.³⁸ Unlike *SanDisk Corp.*, however, *Teva Pharmaceuticals* moved closer towards the "all circumstances" test.

In *Teva Pharmaceuticals*, Novartis filed a New Drug Application (NDA) with the FDA for the drug Famvir and listed five patents covering the drug: one relating to its composition and four relating to therapeutic methods.³⁹ Later, Teva filed an Abbreviated New Drug Application (ANDA) for a generic version of Famvir and certified that Teva's drug did not infringe upon Novartis' patents or that the patents were invalid.⁴⁰

Novartis sued Teva for infringement of its composition patent, but not the method patents.⁴¹ In a separate suit, Teva brought a declaratory judgment action for invalidity and non-infringement of the unasserted method patents.⁴² Because Novartis had not taken any actions or made any threats to enforce the method patents, the district court held that

³⁸ *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330 (Fed. Cir. 2007).

³⁹ *Teva*, 482 F.3d at 1334. The Federal Food, Drug, and Cosmetic Act provides generic pharmaceutical manufacturers with a shortened approval process for marketing generic drugs. Federal Food, Drug, and Cosmetic Act of 1938, Pub. L. No. 75-717, 52 Stat. 1040 (codified as amended at 21 U.S.C. §§ 301-399 (2000 & Supp. IV 2004)); Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (1984) (codified in relevant parts at 21 U.S.C. § 355 and 35 U.S.C. § 271(e) (2000 & Supp. III 2003)).

⁴⁰ *Id.* The ANDA filed by generic manufacturers allows utilization of the safety and efficacy data submitted for the equivalent branded drug's previously filed NDA. 21 U.S.C. § 355(j) (2000 & Supp. III 2003). As an added incentive to produce generic drugs, the first company to file an ANDA for a particular drug is granted a 180-day period of market exclusivity before other generic manufacturers may enter the market. The 180-day period of market exclusivity begins to run either when the generic drug begins commercial marketing or when a court declares the patent covering the branded drug invalid.

⁴¹ *Id.* at 1334-35.

⁴² *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, No. 05-2881 JLL, 2005 U.S. Dist. LEXIS 38649 (D. N.J. Dec. 12, 2005).

no justiciable controversy existed and dismissed the case for lack of subject matter jurisdiction.⁴³

The Federal Circuit looked at the totality of the circumstances under which Teva had brought suit and reversed the district court, holding that Teva had a justiciable controversy under the *MedImmune* standard.⁴⁴ The court emphasized that “Novartis created a present and actual ‘controversy’ by choosing to sue . . . on Teva’s single act of infringement, thereby placing into actual dispute the soundness of Teva’s ANDA and Teva’s ability to secure approval of the ANDA.”⁴⁵ Though the Novartis-initiated suit was a different case from Teva’s declaratory judgment action, litigation over the composition patent and the method patents necessarily involved the same technology, the same parties, and related patents. Thus, the Federal Circuit concluded that there was a justiciable controversy.⁴⁶

B. Federal Circuit Still Considers Factors of the Improper Two-Part Test

Although the Federal Circuit began to consider “all circumstances” in *Teva Pharmaceuticals* when determining declaratory judgment jurisdiction, it seems that the traditional two-part test did not completely disappear. Just a year after the *SanDisk* and *Teva* cases, in 2008, the Federal Circuit seemed to resurrect at least part of its two-part test.

In *Cat Tech LLC v. TubeMaster, Inc.*,⁴⁷ the Federal Circuit found that the second prong of “meaningful preparation” was still intact—at least as a factor used in determining whether a dispute is immediate and real.

Cat Tech had brought suit against TubeMaster for patent infringement. TubeMaster counterclaimed, seeking a declaration that its devices did not infringe Cat Tech’s patent and that the patent was invalid and unenforceable. Cat Tech subsequently amended its comp-

⁴³ *Id.* at 9.

⁴⁴ *Teva*, 482 F.3d at 1340.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871 (Fed. Cir. 2008),

laint, seeking a declaratory judgment of infringement.⁴⁸ The district court concluded that TubeMaster did not infringe⁴⁹ so Cat Tech appealed.

On appeal, the Federal Circuit affirmed, but in doing so seemed to reinvigorate the “meaningful preparation element.” The Federal Circuit concluded that although *MedImmune* articulated a “more lenient legal standard” for the availability of declaratory judgment relief in patent cases,⁵⁰ the issue of whether there has been “meaningful preparation” to conduct potentially infringing activity remains an important element when considering the “totality of circumstances” for purposes of the *MedImmune* test.⁵¹ In other words, if a declaratory judgment plaintiff has not taken significant, concrete steps to conduct infringing activity, the dispute is neither “immediate” nor “real” and the requirements for justiciability have not been met.⁵² In contrast, from the Federal Circuit’s point of view, the immediacy requirement for a declaratory judgment could be satisfied if the alleged infringer took significant, concrete steps to use the potentially infringing design, like TubeMaster did in this case.⁵³

In addition to *Cat Tech*, there are two other cases showing that the Federal Circuit appeared to be retreating from its acceptance of the “all circumstances” test in *Sandisk*. In *Janssen Pharmaceutica, N.V. v. Apotex, Inc.*,⁵⁴ the Federal Circuit required more than speculative fear of harm to establish that the dispute was “definite and concrete.”⁵⁵ In *Prasco, LLC v. Medicis Pharm. Corp.*, the Federal Circuit required the plaintiff in a declaratory judgment action to show an affirmative act by the

⁴⁸ *Cat Tech*, 528 F.3d at 878.

⁴⁹ *Id.*

⁵⁰ *Id.* (quoting *Micron Tech v. MOSAID Tech.*, 518 F.3d 897, 902 (Fed. Cir. 2008)).

⁵¹ *Id.* (quoting *Teva*, 482 F.3d at 1339).

⁵² *Id.* (quoting *Lang v. Pac. Marine & Supply Co.*, 895 F.2d 761, 764 (Fed. Cir. 1990) (emphasizing that the test for justiciability “looks to the accused infringer’s conduct and ensures that the controversy is sufficiently real and substantial”)).

⁵³ *Cat Tech*, 528 F.3d at 882.

⁵⁴ *Janssen Pharmaceutica, N.V. v. Apotex, Inc.*, 540 F.3d 1353 (Fed. Cir. 2008).

⁵⁵ *Id.* at 1362-63.

patentee that demonstrated intent to sue.⁵⁶ Both of these holdings are reminiscent of the Federal Circuit's traditional two-part test.

IV. *HEWLETT-PACKARD AND THE FEDERAL CIRCUIT'S RETURN TO MEDIMMUNE*

In 2009, the Federal Circuit once again returned to the "all circumstances" test, but this time with more conviction. In *Hewlett-Packard Co. v. Acceleron LLC*,⁵⁷ the Federal Circuit held that when Acceleron, the patent-holder, offered a potential patent license to Hewlett-Packard without expressly accusing infringement, that contact was sufficient to give Hewlett-Packard standing to bring a declaratory judgment action.

Acceleron had contacted Hewlett-Packard on September 14, 2007 to offer a patent license with a two-week deadline for a response. Acceleron requested an opportunity to discuss the potential license of a patent recently acquired and asked Hewlett-Packard not to use any information exchanged in the discussion in any litigation. Two weeks later, Hewlett-Packard responded by agreeing not to file a declaratory judgment action for 120 days if Acceleron similarly agreed not to file an infringement action during the same period. Acceleron then responded, stating that it did not believe Hewlett-Packard had any basis for filing a declaratory judgment action. Once again, it imposed a two-week period for Hewlett-Packard to accept the patent license offer.

On October 17th, Hewlett-Packard filed a declaratory judgment suit in the District Court for the District of Delaware. Acceleron moved to dismiss for lack of subject matter jurisdiction. On March 11, 2009, the district court granted Acceleron's motion, based on the following factual filings: (1) Acceleron never proposed a confidentiality agreement, and (2) Acceleron never accepted Hewlett-Packard's 120-day-standstill proposal and never provided a counter-proposal or other assurance it would not sue Hewlett-Packard. Hewlett-Packard appealed the dismissal of its declaratory judgment action.

⁵⁶ *Prasco, L.L.C. v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1338 (Fed. Cir. 2008).

⁵⁷ *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358 (Fed. Cir. 2009).

On appeal, the Federal Circuit reversed the dismissal after holding a declaratory judgment action cannot be defeated simply by using a correspondence that “avoids the magic words such as ‘litigation’ or ‘infringement.’”⁵⁸ The Federal Circuit further recognized that it is implausible (especially after *MedImmune* and several post-*MedImmune* decisions) to expect that a competent lawyer drafting such correspondence for a patent owner would identify specific claims, present claim charts, and explicitly allege infringement.⁵⁹

On the other hand, the court noted that a communication from a patent owner to another party that merely identifies its patent and the other party’s product line, without more communications, cannot establish adverse legal interests between the parties, let alone the existence of a “definite and concrete” dispute. More communication is required to establish declaratory judgment jurisdiction.⁶⁰

The Federal Circuit noted that the test for declaratory judgment jurisdiction in patent cases is objective.⁶¹ Indeed, it is the objective words and actions of the patent holder that are controlling.⁶² Thus, conduct that can be reasonably inferred as demonstrating intent to enforce a patent can create declaratory judgment jurisdiction.

The Federal Circuit further observed that Acceleron was solely a licensing entity, and without enforcement it received no benefits from its patents.⁶³ In the Federal Circuit’s view, this added significance to the fact that Acceleron refused Hewlett-Packard’s request for a mutual standstill—and such a limited standstill is distinguishable from a covenant not to sue.⁶⁴

The facts of this case, when viewed objectively and in totality, showed to the Federal Circuit’s satisfaction that Acceleron took the

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.* at 1362.

⁶¹ *Id.* at 1363 (quoting *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed.Cir.1988)).

⁶² *Id.* (quoting *BP Chems. v. Union Carbide Corp.*, 4 F.3d 975, 979 (Fed. Cir. 1993)).

⁶³ *Id.* at 1364.

⁶⁴ *Id.* (such as that cited by the district court in *Prasco, LLC, v. Medicis Pharmaceutical Corp.*, 537 F.3d 1329, 1341 (Fed. Cir. 2008)).

affirmative step of twice contacting Hewlett-Packard directly and making an implied assertion of its patent right against Hewlett-Packard. In other words, Acceleron did not directly accuse Hewlett-Packard of patent infringement, but it did (1) indicate that its patents were “relevant” to Hewlett-Packard products, (2) insist that Hewlett-Packard’s response must come within two weeks, and (3) ask Hewlett-Packard not to file a declaratory judgment action. Thus, the Federal Circuit held that it is reasonable for Hewlett-Packard to interpret Acceleron’s letters as implicitly asserting its patent rights under the circumstances,⁶⁵ and Hewlett-Packard was eligible to bring a declaratory judgment action.

The *Hewlett-Packard* decision is important because the Federal Circuit confirmed again—and, hopefully, once and for all—that the “all circumstances” test should be applied to determine jurisdiction over declaratory judgment actions.⁶⁶ It is also noteworthy that Federal Circuit considered that a patentee is “solely a licensing entity, and without enforcement it receives no benefits from its patents.”⁶⁷ This signals that the Federal Court may treat patent holders who actually sell patented products more favorably than patent holding entities who only license patents.

V. IMPLICATION OF *HEWLETT-PACKARD*—“ALL CIRCUMSTANCES” TEST CONFIRMED & PATENT HOLDING ENTITIES BEWARE

The *Hewlett-Packard* case confirms that the Federal Circuit will apply the “all circumstances” test in determining whether an actual controversy exists to satisfy the standing requirement for declaratory judgment actions by alleged infringers during licensing negotiation. An actual controversy occurs when the patent holder and the alleged infringer have different opinions about whether accused products fall within the scope of the patents. Patent holders should therefore consider the risk of facing a declaratory judgment action if adverse

⁶⁵ *Id.*

⁶⁶ *Id.* (“Our decision in this case undoubtedly marks a shift from past declaratory judgment cases”).

⁶⁷ *Id.*

opinions form during licensing negotiations. Patentees may want to arrange certain nondisclosure agreements (NDAs) between parties prior to the licensing negotiation. Although NDAs may not completely prevent the alleged infringer from bringing declaratory judgment actions, they may provide a contractual basis for a remedy if the accused infringer discloses materials in further declaratory judgment actions.

Another strategy would be for patentees to bring an infringement suit before initiating the licensing negotiation. The patentee can generally file a complaint first without serving the accused infringer to allow both parties to have a chance to negotiate a possible license. By doing so, the patentees can still choose favorable fora and enjoy the advantages of primacy and memorability in litigation.

Patent holding companies should expect that the courts will take into consideration that such companies generally license their patents rather than using them in other ways. The Federal Circuit reasoned that because licensing is how patent holding companies use their patents, the “actual controversy” occurs more easily when adverse positions are formed during licensing negotiation. If the patentee is a holding company, which means that patentee can only enforce the patent right by licensing, that status is also a factor to consider when determining declaratory judgment jurisdiction.

CONCLUSION

Hewlett-Packard signaled the Federal Circuit’s decision to finally embrace the “all circumstances” test from *MedImmune* in determining whether there is an actual controversy to establish standing for a declaratory judgment action over patent infringement. Communication merely identifying patents and products is insufficient to establish adverse legal interests or an actual controversy. Instead, the courts will consider all circumstances under an objective standard to determine whether there is a declaratory judgment jurisdiction. If the patentee is a holding company, the courts may more easily find a sufficient controversy exists over a licensing negotiation. On the other hand, the courts still have discretion whether to hear a declaratory judgment action case even if the actual controversy element is met. To preserve

the advantage of choosing favorable fora, it is recommended that patentees bring any applicable infringement suit before initiating license negotiations.

PRACTICE POINTERS

- Patentees should avoid ultimatums or strict deadlines during license negotiation. During the license negotiation, the patentee should be aware that the accused infringer might use every correspondence and communication as evidence to show actual controversy between the parties. Demands for responses within specific timeframes could suggest a sufficient controversy has arisen.
- Patentees should avoid disclosing patents not intended. Patentees should not disclose unrelated patents during license negotiation because such disclosure may create a basis for the accused infringer to bring a declaratory judgment action against that unrelated patent.
- Patentees should consider executing nondisclosure agreements (NDAs). Before any license negotiation, both parties should consider executing a NDA to prevent disclosure of any communication during negotiation. Such an agreement may not effectively prevent the accused infringers from bringing declaratory judgment actions, but the NDA could provide a contractual basis for possible damage claims if one party breaches.
- Patentees should consider bringing suit before license negotiation. Based on the modern “all circumstances” test, it is easier for accused infringers to bring a declaratory judgment action than before. To preserve the advantages of choosing favorable fora, patentees may want to bring an infringement suit before license negotiations.
- Patentees should challenge, on equitable grounds, declaratory judgment claims brought during negotiations. Patentees should consider asking courts to decline jurisdiction if an alleged infringer files a declaratory judgment action during licensing negotiations. Since a declaratory judgment action is an equitable remedy, the

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court can decline jurisdiction if it perceives the alleged infringer filed the action just to gain leverage in the licensing negotiation.

- Patentees should negotiate penalty clauses in license agreements. Patentees should include penalty clauses in license agreements that are triggered by any attack on the patent. Possible penalties could include an automatic increase in royalty rates, liquidated damages, or termination of the license.