



Tuesday, October 21
11:00 am-12:30 pm

508 Best Practices in Patent Litigation

Kevin Cranman

General Counsel

Tandberg Television, Inc.

David Djavaheerian

Vice President and Assistant General Counsel

Tessera, Inc.

Isabella Fu

Associate General Counsel

Microsoft Corporation

Joseph Murphy

Former General Counsel

Shainin LLC

Faculty Biographies

Kevin Cranman

Kevin Cranman is general counsel for TANDBERG Television, Inc. in Atlanta, which is a division of the Ericsson Group. Mr. Cranman handles commercial transactions regarding telecommunications and broadcasting technologies, IP development and protection, litigation and dispute management, HR issues, and other matters.

Previously, Mr. Cranman served as in-house counsel both at Panasonic Mobile Communications and at the Georgia Institute of Technology. Mr. Cranman has also played a business role at BellSouth Intellectual Property. He has spoken and published on technology and IP, including licensing and litigation issues.

David Djavaheerian

David Djavaheerian is vice president and associate general counsel for Tessera, Inc., a publicly traded semiconductor technology company based in San Jose, CA.

Prior to joining Tessera, Mr. Djavaheerian specialized in patent litigation at Irell & Manella LLP.

Mr. Djavaheerian teaches as an adjunct lecturer at the Paul Merage School of Business at the University of California, Irvine, where he heads a course in intellectual property law and strategy. Mr. Djavaheerian is on the board of directors for the Orange County chapter of the Federal Bar Association and the Boalt Hall Alumni Association.

Mr. Djavaheerian received a BA from the University of California, Berkeley and a MA from Georgetown University. He is a graduate of the University of California Berkeley Law School.

David Killough

David Killough is a senior attorney in Microsoft's patent litigation group in Redmond, WA.

Prior to joining Microsoft, Mr. Killough was partner and co-head of the IP practice at Vinson & Elkins in Texas. Mr. Killough has also worked as a partner at O'Melveny & Myers in California.

Mr. Killough has been litigating patent cases for over 20 years and has been listed among the Best Lawyers in America, and as a "Texas Superlawyer."

Joseph Murphy

Joseph Murphy, a registered patent attorney, is currently in-transition and working as a consultant to in-house law departments while seeking his next in-house position. Mr. Murphy's previous in-house positions included general counsel for Shainin, LLC, intellectual property counsel for Intermec, Inc., and vice president of intellectual property for PSC, Inc. (now Datalogic Scanning, Inc.), one of the world's largest makers of bar code scanning equipment.

Mr. Murphy's litigation experience is primarily as an in-house attorney selecting and supervising trial and appellate counsel, particularly in the patent-litigation-intensive field of laser bar code scanners. However, due to last-minute developments, he personally entered an appearance in the CAFC for the last act of the drama that was Symbol Technologies v. Lemelson, one of the cases that will be addressed by this panel.

Mr. Murphy holds a BS, a Certificate in Optics from the University of Rochester's Institute of Optics, and a JD from Pierce Law Center.

ITC 337 INVESTIGATIONS

Assertion Alternative To District Court

The International Trade Commission

- The ITC is an independent, non-partisan, quasi-judicial U.S. government agency that, among other things, is authorized under Section 337 of the Tariff Act of 1930 to investigate and bar unfair importation of goods into the U.S.

Key Elements of a 337 Case

- An unfair act of importation – such as importing goods into the U.S. that infringe a U.S. patent
- The existence of a domestic (U.S.) industry – typically commercial use of the patented invention in the U.S. or an established U.S. licensing program for the patent

ITC Remedies

- Exclusion Orders
 - General, barring all importation of all infringing goods including those of third parties
 - Limited, barring importation of a particular company's (usually the respondent's) infringing goods
 - Neither is limited to the specific models found by the ITC to infringe

ITC Remedies

- Cease and Desist Orders
 - Applies to U.S. Respondents Only
 - Prevents sale, distribution and infringing use of infringing imported goods
 - Purpose is to prevent stockpiling of infringing goods in the U.S. to circumvent an exclusion order (respondent must have a significant U.S. inventory of infringing products)

ITC “Pros”

- Exclusion and Cease & Desist Orders
- Speed (12 to 16 months)
- Relative Predictability (Well-Established Procedures, Experienced Judges/No Jury)
- No Counterclaims
- Limited Equitable Defenses (No Laches)

ITC “Cons”

- High Up-Front Costs
- Second “Opponent” in the ITC Staff
- Validity not so “presumptive”
- Can’t give them “the Old Razzle Dazzle”
- No Damages Available
- Possible Two Front War

Defensive Initiatives

When You’re Mad as Hell and
You’re Not Going to Take it Any
More

Declaratory Relief/Transfer

- Take the Initiative and File for Declaratory Judgment and
 - Cease the home court advantage, or
 - At least deprive the patentee of its choice
- Transfer Motions: Are you really “fly papered” to a forum that’s “inconvenient”?

USPTO Reexamination

- Ex Parte vs. Inter-Parties; Does it Matter?
 - Opportunity to Respond
 - Exhaustion of Prior Art Defenses
- Timing
 - Pre-Litigation
 - During Litigation
 - Stay vs. “Two Bites at the Apple”

USPTO Reexamination

- Does It Work?
 - Examiner vs. Jury
 - No Presumption of Validity
 - New Relaxed Obviousness Standard
 - Broadest Reasonable Interpretation
 - Claims Frequently Invalidated
 - Claims More Frequently Amended

Does Anyone Else Care?

- Regulators – FTC, Justice Department, EU
- Similarly Situated Companies
- Standards Bodies
- Industry Organizations
- Media
 - Main stream press
 - The “blogosphere”

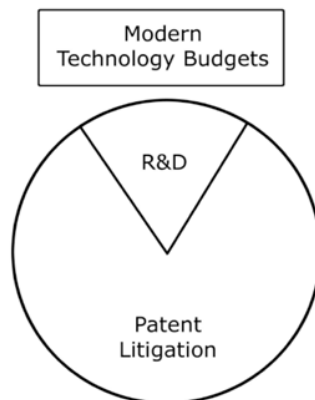
How Different People See Allegations of Patent Infringement

- Lawyers: Another dispute; part of doing business
- Engineers: Take it personally; an affront to their integrity; feel accused of dishonesty
- Business People: Irritated; “lawyers run amok”; want to win, so need to define “win”; want to control costs and risks

Budget

- Oh, yes, you can.
- Business teams expect it to be run like a project
- Define goals (some / all of)
 - protect market
 - enforce rights for royalties
 - defend one’s non-infringement position

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Budget With Law Firm

- Now, firms are more sensitive to budgeting. (10 years ago, there may have been objection).
- Budget in dispute stages and match to calendar timeline:
 - Early assessment
 - Non-infringement opinion
 - Litigation stages and strategy
 - Declaratory Judgment (DJ)
 - Motion for summary judgment (MSJ)
 - Mediation / Alternative Dispute Resolution (ADR)
 - Pre Trial motions
 - Trial
 - Appeal

Agreement on Goals

- Get out with (for) \$ _____
- Inflict pain / cost . . . “at all cost” (?)
- Preserve product line / launch
- Buy other party; get bought
- “Win” in the press / industry
- Keep it out of the press / industry

Alternative Dispute Resolution (ADR)

- Required by most courts (settlement conference, mediation)
- Yes, there are better (and not-so-better) neutrals (like everything else)
- Even if you don't achieve resolution, it may be good to receive focused input with a neutral before meeting the jury
- Give it a real try – maybe at various stages

Joint Defense Agreements (JDAs)

- Especially valuable when an industry or focused group is under attack
- Premise of cost savings (cost splitting)
- Proper drafting and management of information and process.
- Watch privilege issues.

Counsel Selection

- RFP / some sort of process
- Vetting options – actual benefit and corporate obligations
- Opinion counsel – trial counsel: Should you split? (Seagate and non-infringement opinions)
- Consider each firm's history regarding:
 - Going to trial (vs. motions / pre-trial activity)
 - This patentee; patentee's firm
 - Good fit feel with you and your team

Billing Arrangements

- Traditional / hourly
- Not to exceed (NTE) ranges for specific jobs
- Flat fees
- Contingency Fees
- Performance bonuses for agreed outcomes
- Creative / hybrid

Litigation Considerations

IP disputes consume vast amounts of time and resources:

- Personnel: focusing on the dispute, not sales, R&D, or growth.
- Time spent responding to subpoenas, document production, searching and producing electronic files.
- Financial: litigation counsel, expert witnesses, travel expenses.
- Lost opportunity costs – you're busy managing complex litigation instead of conducting commerce.
- Emotional - complex litigation has a life of its own; it distracts and drains.

What is Success?

- Define Success and Goals.
 - Taking a stand that you won't be forced to pay; won't be "ripped off"?
 - A PR Victory and / or a pyrrhic victory?
 - Getting to use or stop another's use of technology.
 - Business implications – product launches can never outsell a royalty payment damages loss.
 - Business people - we and our clients - make decisions based on cost.
 - Set and operate within budget.

When the Letter Comes

- Read and assess.
- Impanel relevant internal and external resources.
- Establish a plan and budget.
- Seek relevant documents (file history, examinations).
- Licenses – does your company, parent company, or another have a license that can provide coverage?
- Third-party issues:
 - Indemnification or other obligation to you from vendors.
 - Obligations (notice, financial) from you to others, such as customers.
- Is Patent related to or covered by standards bodies or other IP pools?

Issues Addressed in Demand Letters

Effective letters:

- Give notice of particular claims.
- Establish faith that IP Owner believes in position.
- Identify Alternatives – what recipient must do to avoid litigation.
- Are not misleading.
- Make good trial exhibits.
- From *Handbook of Intellectual Property Claims and Remedies*, Patrick J. Flinn, Aspen Law & Business (1999-2003).

Develop an Initial Strategy

- Collect information required for an informed analysis of the infringement allegation.
- After assessing the merits of the allegation, developing a strategy for dealing with it becomes easier.
- You don't have to answer, but don't simply ignore. Do not ignore a demand letter.

Formal Response to Patentee

- After reviewing analysis with patent, and litigation, counsel, consider options:
- "Get lost / Go Pound Sand": "We are certain we do not infringe your patent. We do not intend to discuss it."
- "No thanks": "We are confident that we do not infringe the patent and/or the patent is invalid."
- "Let's talk": "Without admitting infringement or waiving any defenses, we are willing to consider licensing terms."
- Mark communications "Subject to FRE 408". Establish an agreement that information is subject to FRE 408 so that such information can only be used for purposes of negotiation between the parties.

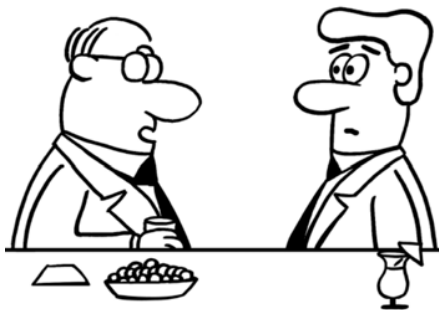
Formal Response - "Pound Sand"

- Not generally recommended.
- Good way to up the ante and alienate the other party.
- If you decide to offer or provide non-infringement and/or invalidity arguments, provide only as much as reasonably necessary to convince patentee of your position.

Formal Response

- Lead with non-infringement arguments.
- Invalidity responses are viewed as weak, dubious.
- To claim invalidity, disclose strong prior art that makes your case.
- Making patentee sort through a mound of information will generally not work.
- Discussing and negotiating can buy time.
- Use Non-disclosure Agreements (NDAs).
- Use FRE 408 notices on all communications. Establish FRE 408 agreement for communications

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We make money the old-fashioned way...
accumulating dubious patents and then suing
legitimate businesses for the hostage value.

Who is the Patentee / IP Owner?

- Is patentee in the business of enforcing IP for revenue?
- Competitor? Fighting over market share?
- Who has more resources, drive, time to continue?
- Has patentee licensed to others? Information sources.
- Has patentee litigated? Information sources.
- Is the technology valuable? Is it worth the fight?
- Opting for cross license (or cross claim) resolution. If patentee is an individual (as opposed to a competitor), your patent portfolio won't help as leverage, (no interest in your portfolio; just your money).

Early Steps

- Demand Letter – respond that the matter is being assessed. Do not ignore.
- Request (demand) a comprehensive claims chart which should:
 - Provide reasonable information.
 - Show how much effort (diligence) patentee has exercised.

Initial Strategy

- Collect information for analysis.
- Discuss issues raised in Letter.
- Duty to notify liability and D&O insurance carriers. Failure to notify can be cause to deny claim.
- Internal review.
- Review with patent litigation counsel.

Internal Resources / Team

- Include a variety of perspectives.
 - Legal, financial, technical, corporate management, document management, process experts.
 - Management, especially the Board, does not like surprises.
- Assessing Trial Counsel:
 - Is this a general dispute? Or a “bet the company” case?
 - Seek good fit between client and outside counsel.
 - Review firm’s cases, jurisdiction, experience, expertise, track record.
 - Establish communication and decision making processes.
 - Consider bidding the work.
- Public Relations / Corporate Issues.
 - SEC / disclosure requirements.
- Managing customers, consumers, competitors.
- Budget: Plan, revisit, and update; it’s a business.

Preparation and Management

- Relationship with Trial Counsel: Need a team approach; be collaborative; minimize second guessing.
- Pre-Litigation: Assess from both perspectives – enforcer and enforcer. “Argue against yourself”.
- Preparing the Company - “Getting Their Minds Right”.
- Disruption – litigation will take time away from main business.
- Budget:
 - Be realistic. It’s a sport of kings – and a contact sport.
 - Return on investment (ROI). A case is an investment to generate or protect revenue and assets.
- Timeline. Long process – 18 to 36 months or longer – and then the appeal.
- Emotional impact and drain (and “victory”: may not be euphoric).

Preparation

- Fact Finding.
 - Start with kick-off meeting:
 - Educate trial counsel, be educated, explain, listen.
 - Determine situation and sequence of events; identify weaknesses.
 - Witnesses: Assess value and credibility.
 - Educate management (“Get their minds right”).
 - Document gathering: Review document retention policy for compliance, but this is not the time to create a matter-specific policy. Remember ENRON and the others.
 - Commission a Prior Art Search.
 - Collect the File History.
- Consider Alternatives to Litigation.
 - Cross license with patentee – another reason to build an IP asset portfolio.
 - ADR: Mediation.
 - Arbitration.
 - License – take a license for a modest fee. It may be more than you want to pay, but less expensive than litigating (and much less than litigating and losing).

Managing Expectations

- Communication:
 - Confidentiality – emphasize importance of confidentiality.
 - Balance – who needs, must, wants to know what, when.
 - Realistic Assessment.
 - Perception.
- Expectation as Reality? Perception as Reality?
- Define Success – what are the goals and where is the balance?
- Realistic Assessment.
 - Inherent risks of litigation.
 - SEC disclosure requirements.
 - One might see language such as the following in disclosures:
 - “Because of the nature and inherent uncertainties of litigation, should the outcome of pending actions be unfavorable, the Company (and its business, financial condition, cash flow, and other elements) could be adversely affected.”
- Client Perception.
 - Corporate Culture – “Can you handle the truth?”
 - Level of understanding of risk at C-level, CEO, Board of Directors. (No surprises).
 - Who are stakeholders? What do they think?
 - It's about honesty – and it's personal: CTO's, engineers, and others involved with product creation feel accused of dishonesty.

Best Defense = Good Offense (and Defense)

- Response Approach.
- IP Creation and Management Program.
- Feature Clearance Program.
- Licensing / Cross Licensing Program.
- Enforcement Reputation.
- Dispute and Litigation Management Program.

IP Creation and Management

- Whether one's rights are tangible or intangible, protect them.
- IP and intellectual assets come in a number of forms: patents, copyrights, trademarks, trade secrets, and confidential and proprietary information.
- Top Down Management Endorsement.
- Company Policy to Own IP.
- Incentives to Inventing Population.
 - Rewards and incentives (cash, products, plaques, award events) for submitting invention disclosures, participating in IP growth.
 - Quota Incentive – requirement, soft or hard, for personnel to submit a set number of ideas or disclosures in a time period.
- Culture of Compliance.

It's the Culture

- Create a culture of compliance:
 - Protect your rights (develop and protect assets) and others' rights (avoid infringement risks).
 - Have a reputation for doing so.
- Respect IP rights as if they were and are tangible.
- Educate: require employees who use software and technology to appreciate that it is, indeed, property.
- Having – and enforcing – policies will help create an IP-respectful culture.

Patent Law Developments

Right to Challenge the Validity of a Patent:

- MedImmune, Inc. v. Genentech, Inc., *et al.*, 127 S. Ct. 764 (Jan. 2007)
- SanDisk Corporation v. ST Microelectronics, Inc. and ST Microelectronics NV, 480 F.3d 1372 (Fed. Cir. March 2007)

Lowering the Threshold for Invalidity: Obviousness

- KSR International Co. v. Teleflex, Inc. *et al.*, 127 S. Ct. 1727 (April 2007)
- Lindsight Analysis on obviousness; records and lab books, mere important.

No Presumption that Injunction Should Issue in Patent Cases

- Ebay Inc. et al v. Mercexchange, L.L.C., 126 S. Ct. 1837 (2006)

The Need to Obtain A Clearance Opinion:

- In re Seagate Technology LLC, 83 USPQ2d 1865 (Fed. Cir Aug. 2007) (cert denied Feb. 2008, 128 S. Ct. 1445)
 - Change from the "due care" standard from Underwater Devices; need to show clear and convincing evidence of objective recklessness by alleged infringer
 - Waiver w/r/t non-infringement opinion does not constitute A/C waiver w/r/t other communications

Declaratory Judgment (DJ)

- Federal Declaratory Judgment Act 28 U.S.C. 2201, *et seq.*
- Subject Matter Jurisdiction requires actual controversy. 28 U.S.C. 2201(a).
- Both MedImmune (USSC: Jan. 2007) and Cat Tech (Fed. Cir. May 2008) changed law for DJ jurisdiction. MedImmune Inc. v. Genentech, Inc. *et al.*, 127 S. Ct. 764 (Jan. 2007).
- Before MedImmune, courts looked at these factors to assess DJ jurisdiction:
 1. Whether patentee's conduct creates a reasonable apprehension that DJ plaintiff will face suit; and
 2. Whether DJ plaintiff's conduct amounts to infringing activity presuming infringement). (Arrowhead Ind. Water v. Ecolochem; Gen-Probe, Inc. v. Vysis, Inc., 359 F.3d 1376 (Fed. Cir. 2004)).
- Jurisdiction - Demand letter may or may not subject sender to jurisdiction. Issues still include analysis of personal jurisdiction, relevant contacts in forum, demand letters to conduct business via licenses, etc.

Declaratory Judgment (DJ), Cont.

- In MedImmune, the USSC held that assessment is "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests of sufficient immediacy and reality to "warrant" a DJ. The Court said licensee should not be forced to breach the license and risk trouble damages before pursuing DJ on the disputed rights.
- The Federal Circuit decided SanDisk after the USSC holding in MedImmune. In SanDisk, the court stated that a sufficient case and controversy exists when a patentee asserts rights (allegations of infringement) and the target claims it has the right to engage in the disputed activity.
- In Cat Tech v. TubeMaster (Fed cir; May 2008), the court looked at the meaningful preparation aspect, concluding that meaningful preparation to conduct potentially infringing activity is important – and is assessed under the totality of the circumstances. Dispute must be immediate and real.

MedImmune; RE: DJ

- Concerned DJ plaintiffs having to expose themselves to liability before bringing suit.
- The Court held that a licensee does not have to breach an agreement before seeking a DJ of invalidity or non-infringement.
- MedImmune seemingly over-rules the Federal Circuit's "reasonable apprehension" test and, as a result, expands opportunities for alleged infringers to invoke DJ jurisdiction.

What is Clear Post-MedImmune

- Licensee may cease paying royalties and challenge validity of licensed patent.
- Licensee may pay royalties “under protest” and challenge validity of licensed patent, provided that there is a sufficient threat of litigation in the event that licensee does not pay the royalties (*MedImmune*).

What is Unclear Post-MedImmune

- What constitutes a sufficient threat of litigation by a licensor to enable a licensee to challenge the validity of a licensed patent while still paying royalties?
- Even though a non-repudiating licensee may have DJ jurisdiction, will *Lear* doctrine (cease paying fees and challenge validity; *Lear, Inc. v. Adkins*, 395 U.S. 563 (1969)) ultimately bar the challenge?
- Are contractual bars or impediments to challenging validity enforceable? (Consider *Lochner* contract rights).
- If licensee is successful in challenging validity of licensed patent, can it recover royalties paid under protest or that otherwise accrued before the invalidity ruling?
- Does *MedImmune* apply to other types of IP licenses, e.g., trademark licenses?

Post-MedImmune: Considerations for Licensors

- Bars / impediments to licensee challenges of patent invalidity, enforceability or non-infringement:
 - Covenant by licensee not to challenge validity of licensed patents or claim that licensed products do not infringe (at least with respect to design changes made subsequent to execution of license agreement)?
 - Reserve the right to terminate the license or (convert to non-exclusive license) in the event of a licensee patent challenge?
 - Require an award to licensor of costs and attorney fees if a challenge by licensee is unsuccessful?
 - Royalty escalation in the event of an unsuccessful challenge?
- Incentives / requirements to settle or arbitrate licensee challenges:
 - Require advance notification of any intended claims of invalidity, unenforceability or non-infringement?
 - Require binding arbitration of a licensee challenge (which would have no force or effect on any other licensee -- 35 U.S.C. § 294(c))?

Post-MedImmune: Considerations for Licensors (Cont.)

- Attempts to minimize loss of future earned royalties that may be contested:
 - Charge higher up-front, non-refundable license fees?
 - Front-load royalty rates?
 - Specific allocation of royalties between licensed patents, know-how, etc.?
 - Seek an equity interest in licensee versus fees/royalties?
- Other possible considerations:
 - Specific venue/jurisdiction for licensee challenges?
 - Require patent validity challenge to be made only through reexamination process?
 - Remove incentive for licensee to challenge patent by not being greedy: make terms acceptable so that it's not worth challenging patent?

**Post-MedImmune:
Considerations for Licensees**

- Periodically re-evaluate license agreements to see if licensed patents are valid and infringed by licensee's products?
- Get licensor to state in writing the consequences of licensee ceasing to pay royalties?
- Pros and cons of continuing to pay royalties while challenging validity?
- Obtain a formal legal opinion regarding the validity of the licensed patents to guard against willfulness charges? In light of *Seagate*?

SanDisk: RE: DJ

- A claim by one party that they will not sue the other will not preclude the court from finding an "actual case or controversy," which is required to issue a declaratory judgment.
- 480 F.3d 1372 (March 2007)

SanDisk v. STMicroelectronics

- Holding: "We need not define the outer boundaries of declaratory judgment jurisdiction, which will depend on the application of the principles of declaratory judgment jurisdiction to the facts and circumstances of each case. 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." *SanDisk Corp. v. STMicroelectronics, Inc.*, Case No. 05-1300 (Fed. Cir. 2007).
- How does *SanDisk* impact strategies for enforcement?

In re Seagate, 83 USPQ2d 1865 (Aug. 2007)

RE: Willful Infringement; Attorney-Client and Work Product Privileges

- The Court substantially increases the requirements for an accused infringer to be found to be a "willful" infringer.
- Court held that proof of willful infringement, permitting enhanced damages, now requires a showing of "objective recklessness," a standard the Court didn't specifically define.
- The Court also significantly narrowed the scope of a waiver of the attorney-client and work-product protections that result when an alleged infringer asserts an advice of counsel defense to a charge of willful infringement.
- The result is that infringers will have an easier time defending themselves without the added expense of having acquired a competent advice of counsel.

KSR, 127 S. Ct. 1727 (April 2007)

- The Court abolishes the obviousness test commonly known as “TSM” (teaching, suggestion, motivation) because the inquiry over-emphasized the importance of published articles and the explicit content of issued patents.
- In reverting back to a 1966 decision (Graham v. John Deere), the Court reaffirms that the obviousness inquiry should encompass the teaching and knowledge available to “one of ordinary skill in the art.”

Ebay Inc., 126 S. Ct. 1837 (2006)

- The longstanding presumption that an injunction should be issued in patent cases, absent exceptional circumstances, has been overturned.
- The Court held that the “decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity”.
- The well-established principles of equity require plaintiffs to demonstrate that:
 - (1) irreparable harm exists;
 - (2) there are no adequate remedies available;
 - (3) the balance of harms favor the plaintiff; and
 - (4) public interest would not be disserved by issuing injunction.

Third-party Issues: Indemnification and Customer Suits

- Review agreements for indemnification obligations you may have to others or that others may have to you.
- Notify indemnifying parties.
- If insurance may cover, notify carrier.
- Patentee may go after customers or partners as a strategy to force settlement with manufacturer or supplier.
- May want to notify customers in order to avoid surprises and maintain good relationships.
- Consider non-infringing substitutes or design-arounds.
- Consider addressing customer contact with patentee. Arrange with patentee to cease contact while you assess the claims and work toward resolution.

Discovery of Electronic and Other Media Files

- Costs. It's a complex and expensive undertaking. Many vendors offer services to manage and facilitate the process.
- Considering demands to other party to retain files and record? Demanding party may be required to pay, a costly tactical move.
- Document Retention Policy (follow, don't modify, as part of litigation).
- Cross functional teamwork, likely among Legal, Compliance, IT, and other departments.

Value of Patents and IP Assets

- Establish and maintain market presence.
- Competitive advantage.
- A patent is a monopoly to exclude; not a right to do something.
- Force competition to use older technology.
- Return on investment (ROI) – establish ways to benefit from investments in technology and IP:
 - Time, money, personnel, costs of creation, costs of acquisition, etc.
 - Protect assets – they're capital.
- Turn a Cost Center into a Profit Center (at least a cost recovery center).
- IP Assets can affect one's value for investment, venture capital, M&A interest, etc.
- For an analysis of resolution of patent cases in the US, see Trends in Patent Cases: 1990 – 2000, *IDEA – The Journal of Law and Technology*, 41 IDEA 283 (2001).

Feature Clearance Program (FCP)

- Balance of value of Program - strategic decision whether to search.
- Treble Damages for Willful Infringement.
 - 35 U.S.C. §284
- Different approaches for different art types.
- It's a long time from filing to publication to issuance.
- Determine and prioritize important features.
- If a search uncovers relevant art, consider:
 - Designing around.
 - Commissioning a non-infringement opinion.
 - Negotiating license rights if feature is critical.

Feature Clearance Program

- Review Product in Design Phase (at least new or previously un-searched features).
- Determine novel and important features and how difficult they are to change.
- Search the critical, novel, and important features and technologies:
 - Preliminary art / novelty search.
 - Streamline with searcher for efficiency.
- May be able to presume that existing, older, and/or already deployed features:
 - Have been searched.
 - Don't infringe.
 - Or others infringe with you.
- Consider impact of standards-based IP or essential IP and being involved with standard bodies for setting standards.

Overview of Related Issues

- Background of Topic.
- IP Program.
- Feature Clearance – copy, text, art, other reviews.
- Non-infringement opinion.
- Litigation Risks.
- Internal Management. Team, preparation, expectations.
 - What is Success?
 - Review and Response Strategy.
- Third-party Implications – indemnification, customer suits.
- Disclosure obligations – setting reserves.

BONUS MATERIAL

- A highly informative paper on “Patent Demand Letters Post *Medimmune*” immediately follows the “Conclusion” slide.
- The Panel and the ACC IP Committee express their deepest thanks to Kilpatrick, Stockton LLP, who produced this paper as a supplement to this presentation.

Patent Demand Letters Post-*MedImmune*: Avoiding Declaratory Judgment Jurisdiction

Kristin Johnson Doyle¹
Gajan Retnasaba²
Jared S. Welsh³

Abstract

The *MedImmune* decision handed down by the Supreme Court in 2007 changed the standard for declaratory judgment jurisdiction in patent cases. The Federal Circuit's subsequent *SanDisk* decision interpreted *MedImmune* as dramatically lowering the threshold for such jurisdiction. In particular, the *SanDisk* decision suggests that most patent demand letters, drafted in accordance with traditional practices, will create declaratory judgment jurisdiction.

This article discusses *MedImmune* and subsequent decisions as they relate to declaratory judgment jurisdiction arising out of patent demand letters. It further identifies factors likely to trigger such jurisdiction and recommends steps a patent owner can take to avoid invoking declaratory judgment jurisdiction when sending demand letters.

¹ Kris Doyle is a partner with Kilpatrick Stockton and practices in the Intellectual Property Department. Among other things, her practice involves litigating patent cases, drafting and prosecuting patent applications for a variety of technical industries, providing opinions relating to the validity and infringement of patents, and advising companies on implementing strategies for protecting intellectual property rights.

² Gajan Retnasaba is an associate with Kilpatrick Stockton and practices in the Intellectual Property Department.

³ Jared Welsh was a summer associate with Kilpatrick Stockton in 2008.

I. Introduction

A patent owner typically initiates contact with potential infringers with a patent demand letter.⁴ A typical demand letter informs the recipient of the patent owner's patent, provides notice of potential infringement of the patent by the recipient, and requests cessation of the infringing activity by the recipient and/or calls for the recipient to license the patent.⁵

Such a letter creates uncertainty for the recipient. If the recipient continues to engage in the allegedly infringing activity, it risks incurring further liability – including the possibility of treble damages – and even an injunction if litigation ensues. If the recipient discontinues the allegedly infringing activity, it loses its investment in the technology. The Declaratory Judgment Act (“DJA”)⁶ was created to remove this cloud of uncertainty. The DJA allows a party facing the possibility of suit to seek a judgment declaring the rights of the parties involved.⁷ It also confers an advantage on the declaratory judgment plaintiff, who, as the first to file, can select the forum for the proceeding. The DJA thus poses no small risk to patent owners who wish to license their technology. A patent owner may use a demand letter to persuade a potential infringer to enter into licensing discussions, but that same instrument may land the owner in costly and perhaps unintended litigation in an unfriendly forum.

The recipient of a patent demand letter does not automatically receive the right to file for a declaratory judgment. The DJA provides for declaratory relief only where there is an “actual controversy.”⁸ Further, Article III of the Constitution limits federal courts to deciding “cases and controversies.”⁹ The Supreme Court has explained that, for a declaratory judgment action to go forward, there must be a “real and substantial controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.”¹⁰ In short, a potential infringer may

successfully file a declaratory judgment action only if he can show that an actual controversy exists, since a court cannot offer an advisory opinion in a situation that does not call for adjudication.

Even assuming such a showing is made and jurisdiction is proper, whether to entertain the case remains within the court's discretion.¹¹ While courts will typically exercise jurisdiction, if a court determines that a declaratory judgment plaintiff has engaged in forum shopping or has acted in bad faith, it may dismiss the action on the grounds of “procedural fencing.”¹² A court may also decline to exercise jurisdiction where it determines that the declaratory judgment plaintiff has filed an “anticipatory suit,” without exhausting all reasonable options outside of the courtroom.¹³

In the context of patent disputes, whether a declaratory judgment action will go forward often depends on the language of a demand letter. If a court perceives the content of the letter to create a “substantial controversy,” then it will go forward with a declaratory judgment action. If not, the suit will be dismissed, and the patent owner is once again in control and may select the venue and timing of litigation. As a result, the precise wording of the demand letter and the conduct of the patent owner are critical.

Unfortunately, there is no clear standard as to the wording of a demand letter that will or will not trigger declaratory judgment jurisdiction. What is sufficient depends upon the jurisdiction and the subject matter involved. Until recently, courts in patent cases applied a two part test in determining whether there was a “substantial controversy” and thus grounds for a declaratory judgment action existed.¹⁴ First, they asked whether the patent owner's conduct -- including the sending and substance of a demand letter -- created in the declaratory judgment plaintiff a “reasonable apprehension” of suit.¹⁵ Second, they asked whether the declaratory judgment plaintiff's current or intended conduct could constitute

⁴ See, e.g., Randolph C. Foster, *A Primer on Responding to Intellectual Property Demand Letters*, ABA SECTION OF BUSINESS LAW – PRACTICE POINTS 1 (Jan. 2007).

⁵ See, e.g., Tracey Steiner & Stephen Guth, *Beware Patent Trolls*, 46 MGMT. Q. 38 (2005).

⁶ 28 U.S.C. §§ 2201-2202.

⁷ See, e.g., *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953, 956 (Fed. Cir. 1987) (“[T]he purpose of the Declaratory Judgment Act ... in patent cases is to provide the allegedly infringing party relief from uncertainty and delay regarding its legal rights.”).

⁸ 28 U.S.C. §§ 2201(a).

⁹ U.S. Const. art. III, § 2.

¹⁰ *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 241 (1937) (internal quotations omitted).

¹¹ See, e.g., *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 776 (2007); *Micron Tech. Inc. v. MOSAID Techs. Inc.*, 518 F.3d 897, 904-05 (Fed. Cir. 2008); *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871, 883-84 (Fed. Cir. 2008).

¹² See, e.g., *Zide Sport Shop of Ohio, Inc. v. Ed Toberge Assocs., Inc.*, No. 00-3183, 2001 WL 897452, at *4 (6th Cir. July 31, 2001).

¹³ See *Guthy-Renker Fitness, L.L.C. v. Icon Health & Fitness, Inc.*, 179 F.R.D. 264, 271 (C.D. Cal. 1998).

¹⁴ See, e.g., *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1380 (Fed. Cir. 2004).

¹⁵ *Id.*

infringing activity.¹⁶ The standard has long guided patent owners in drafting -- with a reasonable degree of certainly -- demand letters that do not vest the recipients of such letters with the right to successfully file declaratory judgment actions.

However, in *MedImmune, Inc. v. Genentech, Inc.*,¹⁷ the Supreme Court called into question the applicability of the long-standing “reasonable apprehension of suit” test.¹⁸ Instead, the Supreme Court urged a broader approach based on “all the circumstances.”¹⁹ The Federal Circuit has interpreted and applied this more lenient standard in recent decisions.²⁰ It has thus become considerably easier for a patent demand letter to trigger jurisdiction under the DJA.

The remainder of this article sets out the prevailing standard for establishing declaratory judgment jurisdiction in patent cases by detailing the *MedImmune* holding and the Federal Circuit’s subsequent application of that holding in *SanDisk, Corp. v. STMicroelectronics, Inc.*²¹ It then identifies practice pointers for patent owners seeking to protect and exploit their patents without creating grounds for a declaratory judgment action.

II. The Supreme Court’s *MedImmune* Decision

In *MedImmune*, the declaratory judgment plaintiff, MedImmune, received a letter from the defendant, Genentech, claiming that a drug MedImmune manufactured was covered by a Genentech patent which, in turn, fell within a royalty agreement between the two companies.²² The letter demanded that MedImmune pay royalties under the agreement.²³ Believing the patent in question to be invalid and its drug to fall outside of the patent, MedImmune did not consider itself obligated to pay any royalties.²⁴ Still, MedImmune understood that refusing to pay the royalties, and thus provoking infringement litigation, could expose it to

¹⁶ *Id.*

¹⁷ 127 S. Ct. 764 (2007).

¹⁸ *Id.* at 774 n.11 (2007).

¹⁹ *Id.* at 771 (quoting *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

²⁰ See, e.g., *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871, 879 (Fed. Cir. 2008); *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1337 (Fed. Cir. 2007); *Monolith Power Sys. v. O2 Micro Int’l Ltd.*, No. c 07-2363 CW, 2007 WL 2318924 (N.D. Cal. Aug. 13, 2007).

²¹ 480 F.3d 1372 (Fed. Cir. 2007).

²² *MedImmune*, 127 S. Ct. at 768.

²³ *Id.*

²⁴ *Id.*

treble damages and an injunction from selling the drug.²⁵ MedImmune thus paid the royalties under protest and filed a declaratory judgment action to determine the parties’ rights.²⁶ Because existing Federal Circuit precedent prevented patent licensees in good standing from establishing an Article III case or controversy concerning the licensed patent, the district court dismissed the case for lack of jurisdiction under the DJA.²⁷ The Federal Circuit affirmed the district court’s dismissal.²⁸

Citing a wealth of prior Supreme Court case law, the Court overturned the Federal Circuit.²⁹ It found that, because MedImmune was effectively coerced into paying royalties by the threat of litigation, the fact that it had not violated the agreement and thus had no reasonable apprehension of suit should not prevent it from successfully bringing a declaratory judgment action.³⁰ Instead, it rationalized that “[t]he dilemma posed by that coercion – putting the challenger to the choice between abandoning his rights or risking prosecution – is a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.”³¹ The Supreme Court thus held that a patent licensee need not breach or terminate a license agreement before it can seek declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.³²

While failing to affirmatively repudiate the “reasonable apprehension of suit” test, the majority opinion noted in a footnote that the test was in conflict with Supreme Court precedent.³³ Instead of the “reasonable apprehension” test, the Supreme Court adopted an “all circumstances” test. More specifically, the issue now is “whether the facts alleged, under all the circumstances, show that there is a

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.* at 770-777.

³⁰ *Id.* at 774-775.

³¹ *Id.* at 773 (internal quotations omitted).

³² *Id.* at 777.

³³ *Id.* at 774 n.1. While the Federal Circuit originally interpreted this language as an outright rejection of the standard, see *infra* Part III, it recently held that the Supreme Court “did not completely do away with the relevance of a reasonable apprehension of suit” but rather “proving 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.” *Prasco, LLC v. Medicis Pharm. Corp.*, No. 2007-1524, 2008 WL 3546217, at *7 (Fed. Cir. Aug. 15, 2008) (internal quotations omitted).

substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."³⁴ For that question to be answered in the affirmative, the dispute between the parties must be "definite and concrete, touching the legal relations of parties having adverse legal interests" and must further be "real and substantial and admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts."³⁵ Vague though they are, these passages have formed the basis for many of the post-*MedImmune* decisions.³⁶

III. The Federal Circuit's *SanDisk* Decision

SanDisk Corp. v. STMicroelectronics, Inc.,³⁷ was the first significant declaratory judgment case decided by the Federal Circuit post-*MedImmune* and remains influential with respect to evaluating declaratory judgment jurisdiction.

In *SanDisk*, the declaratory judgment plaintiff, SanDisk, received two letters from the defendant, STMicroelectronics (ST), listing patents that ST thought "may be of interest to" SanDisk and requesting a meeting to discuss a "cross-license agreement."³⁸ During an ensuing meeting, ST presented to SanDisk a thorough infringement analysis detailing SanDisk's alleged infringement of the ST patent claims on an element by element basis.³⁹ Yet ST counsel verbally informed SanDisk counsel that "ST has absolutely no plan whatsoever to sue SanDisk."⁴⁰

Over the following months, negotiations continued and SanDisk subsequently filed suit against ST.⁴¹ Among its claims, SanDisk sought a declaratory judgment of noninfringement and invalidity of the ST patents.⁴² ST brought a

³⁴ *MedImmune*, 127 S. Ct. at 771 (quoting *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

³⁵ *Id.* at 771 (citing *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-241 (1937) (internal quotations omitted)).

³⁶ See, e.g., *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1378 (Fed. Cir. 2007); *Benitec Austral., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1343-44 (Fed. Cir. 2007), cert. denied, 128 S. Ct. 2055 (2008).

³⁷ 480 F.3d 1372 (Fed. Cir. 2007).

³⁸ *Id.* at 1374.

³⁹ *Id.* at 1375.

⁴⁰ *Id.* at 1376.

⁴¹ *Id.*

⁴² *Id.*

motion to dismiss the declaratory judgment claims for lack of subject matter jurisdiction, arguing that there was no controversy at the time of filing.⁴³

Applying the two part "reasonable apprehension of suit" test, the district court found that no evidence existed to establish that ST had threatened SanDisk with litigation or otherwise acted in a way that intimated an intent to initiate litigation.⁴⁴ Accordingly, SanDisk had no reasonable apprehension of suit, and the district court granted ST's motion to dismiss for lack of jurisdiction.⁴⁵

The Federal Circuit vacated the district court's ruling, noting that the *MedImmune* decision "represents a rejection of our reasonable apprehension of suit test."⁴⁶ While acknowledging that declaratory judgment jurisdiction will turn on the "facts and circumstances of each case,"⁴⁷ the Federal Circuit fashioned a new test for determining whether declaratory judgment jurisdiction exists:

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.⁴⁸

Applying this new test to the facts of the case, the court found that ST's allegations of infringement and entitlement to royalties from SanDisk coupled with SanDisk's assertion that its activities did not trigger the need for payment of royalties created "a substantial controversy, between parties having adverse legal interest, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."⁴⁹ This was despite ST's clear assurance to SanDisk that it would not file suit against SanDisk because ST's actions otherwise demonstrated a "preparedness and willingness to enforce its patent rights" against SanDisk.⁵⁰

⁴³ *Id.* at 1376-77.

⁴⁴ *Id.* at 1377.

⁴⁵ *Id.*

⁴⁶ *Id.* at 1380; but see *supra* note 33.

⁴⁷ *Id.* at 1381.

⁴⁸ *Id.*

⁴⁹ *Id.* at 1382.

⁵⁰ *Id.* at 1383-84.

Justice Bryson's concurring opinion notes the breadth of the court's test and the "sweeping change" in declaratory judgment law that it will effect.⁵¹ As Justice Bryson points out, the test outlined by the court would cover not only the facts before the court, but would apply to nearly all situations where the patentee offers to license a patent because "the rationale underlying a license offer is the patentee's express or implied suggestion that the other party's current or planned conduct falls within the scope of the patent."⁵² Thus, "virtually any invitation to take a paid license relating to the prospective licensee's activities would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct does not fall within the scope of the patent."⁵³

IV. The Impact of *MedImmune*

The practical effect of *MedImmune* was to lower the bar for an alleged infringer to bring a declaratory judgment action in a patent dispute. Post-*MedImmune* cases applying the new declaratory judgment standard have reinforced the breadth of the new standard. While jurisdiction is assessed on a case-by-case basis, courts in the vast majority of decisions issued post-*MedImmune* have exercised jurisdiction.⁵⁴ Thus, the jurisdictional landscape has changed and to the detriment of patent owners.

⁵¹ *Id.* at 1385.

⁵² *Id.* at 1384.

⁵³ *Id.*

⁵⁴ See, e.g., *Sony Elecs Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007); *Teva Pharma. USA, Inc., v. Novartis Pharm. Corp.*, 482 F.3d 1330 (Fed. Cir. 2007); *Micron Tech. Inc. v. MOSAID Techs. Inc.*, 518 F.3d 897 (Fed. Cir. 2008); *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871 (Fed. Cir. 2008); *Crutchfield New Media, LLC v. Charles E. Hill & Assocs., Inc.*, No. 1:06-CV-0837-UJM-JMS, 2007 WL 1320750 (S.D. Ind. May 4, 2007); *Cimline, Inc., v. Crafoa, Inc.*, No. 07-3997(RHK/VSM), 2007 WL 4591957 (D. Minn. Dec. 28, 2007); *Astec Am., Inc., v. Power-One, Inc.*, No. 6:07-CV-464, 2008 WL 1734833 (E.D. Tex. Apr. 11, 2008); *Samsung Elecs. Co. v. On Semiconductor Corp.*, 541 F. Supp. 2d 645 (D. Del. 2008); *Judkins v. HT Window Fashions Corp.*, 514 F. Supp. 2d 753 (W.D. Pa. 2007), *aff'd*, 529 F.3d 1334 (Fed. Cir. 2008); *FieldTurf USA, Inc. v. Sports Constr. Group, LLC*, 507 F. Supp. 2d 801 (N.D. Ohio 2007); *Highway Equip. Co. v. Cives Corp.*, 476 F. Supp. 2d 1079 (N.D. Iowa 2007); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007); *Sabert, Corp. v. Waddington North Am., Inc.*, No. 06-5423(JAG), 2007 WL 2705157 (D.N.J. Sept. 14, 2007); *Monolith Power Sys. v. O2 Micro Int'l Ltd.*, No. C07-2363 CW, 2007 WL 2318924 (N.D. Cal. Aug. 13, 2007); *Thomson Instrument OC. v. Biotage AB*, No. 06CV02305 BTM(BLM), 2007 WL 1989626 (S.D. Cal. July 3, 2007). *But see* *Prasco, LLC v. Medicis Pharm. Corp.*, No. 2007-1524, 2008 WL 3546217 (Fed. Cir. Aug. 15, 2008); *Geospan Corp. v. Pictometry Int'l Corp.*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug. 7, 2008); *Bridgelux, Inc. v. Cree, Inc.*, No. C06-6495 PJH, 2007 WL 2022204 (N.D. Cal. July 9, 2007).

Declaratory judgment jurisdiction, however, can only be established if the patent owner takes some affirmative action, such as asserting rights in a patent.⁵⁵ Many factors may contribute to whether the patent owner's actions are sufficient to invoke jurisdiction, and it is difficult to establish a single one as being dispositive. That being said, courts have found the existence and content of a demand letter to be a persuasive factor in jurisdictional determinations.

Although a demand letter that contains an explicit threat of suit will almost assuredly establish declaratory judgment jurisdiction, such a threat is not necessary to create an "actual controversy" entitling the alleged infringer to bring a declaratory judgment action.⁵⁶ Indeed, the *SanDisk* court found jurisdiction even though the patent owner explicitly represented that he would *not* file suit.⁵⁷ This is particularly true when the patent owner's other actions are contrary to such a representation, as was the case in *SanDisk* where the patent owner was making aggressive public statements and was suing other industry players.⁵⁸

A demand letter that contains a specific patent infringement allegation against the recipient is also likely to trigger declaratory judgment jurisdiction.⁵⁹ The more evidence provided in the letter to suggest that the patent owner has made a "studied and considered determination" of infringement, the more likely the letter will support jurisdiction.⁶⁰ For example, in *Sony Electronics Inc. v. Guardian Media Technologies*,⁶¹ the patent owner, Guardian, provided Sony with a detailed infringement analysis comparing the patent claims to the specific Sony products. The court found this factor persuasive in finding jurisdiction: "Guardian has explicitly identified the patents it believes that Sony infringes, the relevant claims of

⁵⁵ *SanDisk*, 480 F.3d at 1380-81; *Prasco*, 2008 WL 3546217, at *7 ("not only have the defendants not taken a concrete position adverse to Prasco's, but they also have taken no affirmative actions at all related to Prasco's current product"); *Astec*, 2008 WL 1734833, at *3-4.

⁵⁶ *SanDisk*, 480 F.3d at 1382; *Sony*, 497 F.3d at 1284; *Astec*, 2008 WL 1734833, at *4 ("there is no requirement that a patentee threaten an infringement action before an actual controversy arises").

⁵⁷ *SanDisk*, 480 F.3d at 1376; see also *EchoStar*, 515 F. Supp. at 451-452.

⁵⁸ *SanDisk*, 480 F.3d at 1382-83.

⁵⁹ *Samsung*, 541 F. Supp. 2d at 649; see also *Sony*, 497 F.3d at 1282; *Benitec Austl., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1345 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2055 (2008); *Highway Equip.*, 476 F. Supp. 2d at 1086.

⁶⁰ *Sony*, 497 F.3d at 1282.

⁶¹ 497 F.3d 1271 (Fed. Cir. 2007).

those patents, and the relevant Sony products that it alleges infringe those patents . . . the parties dispute is manifestly susceptible to judicial determination"⁶²

However, an infringement allegation must be directed to existing, allegedly infringing activities by the recipient or specific plans of the recipient to undertake allegedly infringing activities in the future.⁶³ There is unlikely to be declaratory judgment jurisdiction if the recipient of a demand letter is not presently practicing or possessing specific plans to practice the patented invention.⁶⁴ For example, in *Benitec Australia, Ltd. v. Nucleonics, Inc.*,⁶⁵ the recipient of the patent demand letter was not actually practicing the invention and only had vague plans to practice the alleged patented invention in the future.⁶⁶ Consequently, the Federal Circuit found that the matter lacked the "immediacy" and "reality" to create a justifiable controversy.⁶⁷

Infringement allegations are not a prerequisite to successfully maintaining a declaratory judgment action, however.⁶⁸ Rather, such allegations have been inferred in cases where the patent owner expressed in a demand letter the need of the recipient to license the patent or the patent owner's entitlement to royalties from the recipient.⁶⁹ For example, in *Crutchfield v. Charles E. Hill*,⁷⁰ Hill sent Crutchfield a demand letter identifying his patents along with "a summary of the extent to which Hill had litigated its right to the exclusive use of the patented technology" and inviting Crutchfield to take a license under the patents that were the subject of ongoing lawsuits.⁷¹ The court concluded that "it is clear that Hill was of the opinion

that Crutchfield was engaging in allegedly infringing activity or it would not have offered a license in the first place."⁷²

This language suggests that a situation where the only action by the patent owner is sending a letter merely identifying a patent and noting its availability for licensing could trigger a controversy supporting declaratory judgment jurisdiction. No post-*MedImmune* cases involving this particular fact pattern have been decided, thus leaving a patentee to proceed at his own peril.

While the majority of post-*MedImmune* cases have resulted in a finding of declaratory judgment jurisdiction, courts in a few cases have declined to find such jurisdiction.⁷³ In *Geospan Corp. v. Pictometry Int'l Corp.*,⁷⁴ the patent owner, Pictometry, sent a letter to a competitor, Geospan, identifying one of its patents and stating:

Pictometry has reviewed your website and from the information on your website, it seems that the GEOVISTA oblique imagery products may incorporate the technology covered by this patent. . . . We would appreciate it if you would review the attached patent and let us know specifically how your oblique imagery products and services differ from the patented technology.⁷⁵

The declaratory judgment plaintiff, Geospan responded that it would "provide a detailed response as soon as possible."⁷⁶ When no response was forthcoming, Pictometry sent a reminder letter, prompting Geospan to file a declaratory judgment suit.⁷⁷

The court dismissed the case for lack of jurisdiction.⁷⁸ The court refused to construe the demand letter as a veiled allegation of infringement because the letter evidenced that:

⁶² *Id.* at *3.

⁶³ *Prasco, LLC v. Medicis Pharm. Corp.*, No. 2007-1524, 2008 WL 3546217 (Fed. Cir. Aug. 15, 2008); *Geospan Corp. v. Pictometry Int'l Corp.*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug. 7, 2008); *Bridgelux, Inc. v. Cree, Inc.*, No. C06-6495 PJH, 2007 WL 2022024 (N.D. Cal. Jul. 7, 2007).

⁶⁴ *Geospan*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug. 7, 2008).

⁶⁵ *Id.* at 2 (emphasis added).

⁶⁶ *Id.* at 2.

⁶⁷ *Id.* at 2.

⁶⁸ *Id.* at 6.

⁶² *Id.* at 1286-87 (internal quotations omitted).

⁶³ See, e.g., *Benitec*, 495 F.3d at 1340.

⁶⁴ *Id.*

⁶⁵ 495 F.3d 1340 (Fed. Cir. 2007).

⁶⁶ *Id.* at 1348-49.

⁶⁷ *Id.*

⁶⁸ *Cimline, Inc. v. Crafcro, Inc.*, No. 07-3997(RHK/VSM), 2007 WL 4591957, at *4 (D. Minn. Dec. 28, 2007); *Monolith Power Sys. v. O2 Micro Int'l Ltd.*, No. C07-2363 CW, 2007 WL 2318924 (N.D. Cal. Aug. 13, 2007).

⁶⁹ See, e.g., *Sony Elecs Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007); *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007); *Micron Tech. Inc. v. MOSAID Techs. Inc.*, 518 F.3d 897 (Fed. Cir. 2008); *Crutchfield New Media, LLC v. Charles E. Hill & Assocs., Inc.*, No. 1:06-CV-0837-LJM-JMS, 2007 WL 1320750 (S.D. Ind. May 4, 2007).

⁷⁰ *Crutchfield*, 2007 WL 1320750 (S.D. Ind. May 4, 2007).

⁷¹ *Id.* at *1.

Pictometry has not yet established any position on whether Geospan infringes the '356 Patent. Pictometry's letter to Geospan was a means of gathering information regarding potential infringement, not an assertion of an already determined legal interest adverse to Geospan. Therefore, because the parties have not established positions of adverse legal interests, there is not substantial controversy regarding the '356 Patent.⁷⁹

Moreover, the court noted the absence in the case of factors common in other post-*MedImmune* cases where courts found declaratory judgment jurisdiction: "Pictometry has not demonstrated an intent to litigate against Geospan, has not accused Geospan on infringement, and has not demanded licensing fees."⁸⁰ This case suggests that by posturing a demand letter more as a request for information and thereby giving to the patent owner the appearance of being in an investigatory stage – i.e., yet to have made a "studied and considered determination"⁸¹ of infringement – may provide the patent owner with the leverage he needs to avoid a declaratory judgment action or secure a dismissal of such a case.

V. Other Considerations

Because the law requires a court to consider "all circumstances" when determining whether declaratory judgment jurisdiction is proper, a patent owner should not draft a demand letter without considering the applicability of other factors that courts have relied upon to establish jurisdiction.

Existence of a litigation history between the parties, especially one "involving the same technology and the same parties," supports jurisdiction.⁸² Indeed, in *Cimline v. Crafc*⁸³, the court found that Crafc's allegation of infringement by one of Cimline's products in a prior litigation entitled Cimline to seek declaratory

judgment of noninfringement of the patent by another of its products.⁸⁴ Citing *SanDisk*, the *Cimline* court found that "Crafc has engaged in a course of conduct that shows a preparedness and a willingness to enforce its patents" and "[t]hat is enough, under *MedImmune*, to establish . . . jurisdiction . . ."⁸⁵

The parties need not have a litigation history with each other, however. Rather, the litigation history of the patent owner alone has proved relevant. For example, in *Micron Tech. Inc. v. MOSAID Techs. Inc.*,⁸⁶ the fact that the patent owner had sued others in the industry was a factor considered and relied upon by the court in concluding that jurisdiction was proper.⁸⁷ Such was also the case in *Crutchfield*, where the alleged infringer knew that the patent owner "had a pattern of filing lawsuits . . . against companies without warning."⁸⁸

Moreover, the patent owner need not make litigation threats directly to the alleged infringer.⁸⁹ Rather, in *Micron*, the patent owner made public statements to "confirm[] its intent to continue an aggressive litigation strategy."⁹⁰ Similarly, in *Crutchfield*, the patent owner made public statements "regarding its intent to pursue litigation against any business that sells through the Internet."⁹¹ The courts relied in part on these statements to conclude jurisdiction was proper.⁹²

Finally, the existence of ongoing license negotiations does not negate an "actual controversy." Thus, an alleged infringer may maintain a declaratory

⁷⁹ *Id.* at *4.

⁸⁰ *Id.* (internal quotations omitted).

⁸¹ 518 F.3d 897 (Fed. Cir. 2008).

⁸² *But see Geospan Corp. v. Pictometry Int'l Corp.*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug 7, 2008) (finding that a prior lawsuit between the patent owner and a third party that involved the same patent at issue in the case did not give rise to declaratory judgment jurisdiction).

⁸³ *Crutchfield New Media, LLC v. Charles E. Hill & Assocs., Inc.*, No. 1:06-CV-0837-UJM-JMS, 2007 WL 1320750, at *1 (S.D. Ind. May 4, 2007).

⁸⁴ *See, e.g., Crutchfield*, 2007 WL 1320750 (S.D. Ind. May 4, 2007); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007); *Cingular Wireless, LLC v. Freedom Wireless, Inc.*, No. CV06-1935 PHX JAT, 2007 WL 1876377 (D. Ariz. June 27, 2007); *but see Geospan*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug 7, 2008).

⁸⁵ *Micron Tech. Inc. v. MOSAID Techs. Inc.*, 518 F.3d 897, 901 (Fed. Cir. 2008); *but see Prasco, LLC v. Medicis Pharm. Corp.*, No. 2007-1524, 2008 WL 3546217, at *7 (Fed. Cir. Aug. 15, 2008).

⁸⁶ *Crutchfield*, 2007 WL 1320750, at *1 (S.D. Ind. May 4, 2007).

⁸⁷ *Id.* at *2.

⁷⁹ *Id.* at 6.

⁸⁰ *Id.* at 6.

⁸¹ *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1383 (Fed. Cir. 2007).

⁸² *Teva Pharma. USA, Inc., v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1344 (Fed. Cir. 2007); *see also Cimline, Inc., v. Crafc, Inc.*, No. 07-3997(RHK/VSM), 2007 WL 4591957 (D. Minn. Dec. 28, 2007); *Astec Am., Inc., v. Power-One, Inc.*, No. 6:07-CV-464, 2008 WL 1734833 (E.D. Tex. Apr. 11, 2008); *Monolith Power Sys. v. O2 Micro Int'l Ltd.*, No. C07-2363 CW, 2007 WL 2318924 (N.D. Cal. Aug. 13, 2007); *Cingular Wireless, LLC v. Freedom Wireless, Inc.*, No. CV06-1935 PHX JAT, 2007 WL 1876377 (D. Ariz. June 27, 2007).

⁸³ 2007 WL 4591957 (D. Minn. Dec. 28, 2007).

judgment action even if the patent owner has expressed a willingness to engage in licensing discussions.⁹³

VI. Tips for Avoiding Declaratory Judgment Jurisdiction

Overall, the cases paint a bleak landscape for patent owners wishing to protect their patent rights. It appears that almost any overture by a patent owner towards a potential infringer, including sending a traditional demand letter, can trigger declaratory judgment jurisdiction. Thus, patent owners and their counsel should exercise extreme caution when sending such letters and be prepared to defend their position in litigation should the recipient of such letters seek and satisfactorily establish declaratory judgment jurisdiction. That being said, the use of smart strategies when dealing with alleged infringers may serve to shield the patent owner from declaratory judgment jurisdiction. A few of those strategies are discussed below.

1. File Suit Prior to Sending a Demand Letter

The safest course of action for patent owners wishing to send a demand letter is to first file an infringement suit but not formally serve the alleged infringer (although you may want to provide a courtesy copy).⁹⁴ The owner can then send a demand letter alleging infringement without worrying that the other party might successfully file a declaratory judgment action, since the first-to-file rule should preserve the owner's suit in the original forum. The patent owner then has 120 days during which to serve the defendant.⁹⁵ This effectively creates a 120 day safe harbor during which negotiations between the patent owner and the alleged infringer can take place with little risk that the alleged infringer can successfully maintain a declaratory judgment action. The imposing threat of litigation hanging over the alleged infringer's head and the realization that the patent owner is ready to "put his money where his mouth is" can facilitate such negotiations in the patent owner's favor.

⁹³ See *Sony Elecs Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007); *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1383 (Fed. Cir. 2007); *Samsung Elecs. Co. v. On Semiconductor Corp.*, 541 F. Supp. 2d 645 (D. Del. 2008); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007).

⁹⁴ This can only be done, of course, if the patent owner has conducted its pre-suit investigation and established infringement (to the extent possible).

⁹⁵ Fed. R. Civ. P. 4(m).

There is a risk to this tactic though. Some courts may apply the "hip-pocket rule," which prevents parties from filing a suit early so that it will be available in case a dispute goes unresolved.⁹⁶ In such a case, the defendant might have a chance to become the declaratory judgment plaintiff regardless of the patent owner's precautions. Overall, however this is the safest course to ensure that a patent owner's demand letter does not land him in a declaratory judgment action.

2. Send Bland Demand Letters

The utility of demand letters after *MedImmune* has changed. Where before demand letters were used in an attempt to persuade a recipient to cease infringing activities or enter into a favorable licensing agreement, they have been relegated now solely to a notice function. Unless you are indifferent to a declaratory judgment action, the less said in a demand letter these days, the better. A letter should put the alleged infringer on notice of the patent owner's patent(s) and nothing more. For example, a letter that simply introduces the patent owner, encloses the relevant patent for the recipient's edification, and extends an offer to discuss the patent should suffice.

Avoid any infringement allegations, threats of litigation, and demands for licensing fees. Preferably have a non-lawyer sign such letters to underscore the existence of any legal analysis. Avoid referencing any of the recipient's specific products or activities or comparing specific claims to such products or activities. To the extent that specific products are identified, include in the letter a request for more information about those products, thereby suggesting that you have yet to make an infringement determination and thus are not prepared to file a lawsuit. Avoid sending multiple letters to the same recipient; the best course of action if the first letter is ineffective may be to file suit in a preferred forum before re-contacting the recipient.

While the safest course is to avoid offering to license the patent, as mentioned earlier, no post-*MedImmune* case has found declaratory judgment jurisdiction based on a letter that merely identified a patent to the recipient and stated that the patent was available for licensing. While the obvious implication of such a letter is that the

⁹⁶ See *Remington Arms Co., Inc. v. Alliant Techsystems, Inc.*, No. 1:03CV1051, 2004 WL 444574, at *3 (M.D.N.C. 2004).

patent owner believes the recipient is infringing the patent, it may not trigger declaratory judgment jurisdiction.⁹⁷

3. Establish a Definite Negotiation Period

To the extent that negotiations ensue between the patent owner and demand letter recipient, it may be useful to send a letter to the recipient proposing a deadline for the completion of negotiations and obtain written agreement from the recipient not to file a declaratory judgment action before the deadline.⁹⁸ The patent owner who chooses this course of action should be prepared to file suit after the deadline, because its passing may give the other party grounds for declaratory judgment jurisdiction. But the owner should be safe until the deadline passes, as a declaratory judgment suit filed by the other party prior to the deadline will likely be deemed an "anticipatory filing"⁹⁹ and dismissed.

To avoid a race to the courthouse, even better would be to obtain written assurance from the recipient that it will give the patent owner a certain number of days after expiration of the deadline to file a lawsuit before the recipient can file. To obtain such agreement from the recipient, it may be useful to have a complaint prepared and ready to file. A follow-up call to the letter recipient indicating that the patent owner is prepared to file suit immediately and will do so unless the recipient agrees to grant the patent owner the right to file first may be effective.

4. Protect Discussions with the Alleged Infringer

Prior to negotiations, patent owners may want to attempt to solicit a confidentiality agreement from the alleged infringer, establishing that the substance of the negotiations will remain confidential.¹⁰⁰ Such an agreement would prevent the alleged infringer from using anything discussed during the negotiations to establish declaratory judgment jurisdiction. This approach may be more successful

⁹⁷ See, e.g., *Geospan Corp. v. Pictometry Int'l Corp.*, No. 08-816 ADM/JSM, slip op. (D. Minn. Aug 7, 2008). Of course, a smart recipient will simply request that the patent owner confirm his infringement belief, to which the patent owner can reply that he has yet to make such a determination.

⁹⁸ The parties may also enter into a formal standstill agreement or covenant not to sue, each agreeing not to file suit until a date certain.

⁹⁹ See, e.g., *Wilson Sporting Goods Co. v. Nicklaus Golf Equip. Co., L.L.C.*, 71 U.S.P.Q.2d (BNA) 1153 (N.D. Ill. 2004) (declining to entertain a declaratory judgment suit filed during settlement negotiations).

¹⁰⁰ *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1375 (Fed. Cir. 2007).

on unsophisticated parties, as parties familiar with the availability of declaratory judgment actions may be reticent to foreclose such an option.

5. File Suit in the Most Logical Venue

Courts have "substantial discretion" in deciding whether to entertain declaratory judgment claims.¹⁰¹ Moreover, courts may transfer a case to another district "for the convenience of parties and witnesses, in the interest of justice."¹⁰² Thus, even if a declaratory judgment action has been filed, the patent owner may well want to file his own action in the forum of his choosing and preferably one that appears the most convenient to the parties.¹⁰³ The patent owner can then make a compelling case to the court presiding over the declaratory judgment action that he should transfer the case to the patent owner's chosen forum. If successful, the patent owner has effectively negated any postural benefits that a declaratory judgment action affords an alleged infringer.

¹⁰¹ See, e.g., *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286 (1995); see also *supra* note 11.

¹⁰² In exercising their discretion, trial courts look to the §1404(a) transfer factors: "[t]he convenience and availability of witnesses, absence of jurisdiction over all necessary or desirable parties, possibility of consolidation with related litigation, or considerations relating to the interest of justice." See *Micron Tech. Inc. v. MOSAID Techs. Inc.*, 518 F.3d 897, 904-05 (Fed. Cir. 2008).

¹⁰³ *Wilton*, 515 U.S. at 286.