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## INTELLECTUAL PROPERTY

### Lax Patent Declaratory Judgment Standard Can Lead to Forum Contests

BY LYNDA L. CALDERONE

*Special to the Legal*

On Jan. 9, 2007, the U.S. Supreme Court took issue with the “case or controversy” test for Article III jurisdiction under the Declaratory Judgment Act being applied by the Court of Appeals for the Federal Circuit, the court having exclusive appellate jurisdiction in patent cases. In *MedImmune Inc. v. Genentech Inc.*, 127 S. Ct. 764 (2007), the Supreme Court held, contrary to prior Federal Circuit precedent, that a licensee who had not breached or terminated its agreement with a patentee, in some instances can sue a patentee/licensor under the Declaratory Judgment Act (28 U.S.C. Section 2201). Since *MedImmune*, the Federal Circuit changed its own test and has heard several cases articulating and giving meaning to the new test based on *MedImmune*. The impact of those decisions is changing the litigation strategy landscape, as acknowledged by the Federal Circuit in its latest case, *Micron Technology Inc. v. MOSAID Technologies Inc.*, Fed. Cir. Appeal No. 2007-1080 (Feb. 29, 2008). It is worth examining the past year’s cases in this area before discussing the Federal Circuit’s latest opinion.

The new Federal Circuit standard was set in March of 2007 in *SanDisk Corp. v. STMicroelectronics Inc.*, 480 F.3d 1372 (Fed. Cir. 2007), discussed at length in Lynn Malinoski’s article in *The Legal Intelligencer* on April 18, 2007. *SanDisk* involved a patentee who obtained and provided to an accused infringer detailed descriptions of how infringement applied, including engineering analyses. While the patentee alleged no plans



**LYNDA L. CALDERONE**, a shareholder and head of the Patent Group within the Intellectual Property Practice Group at Flaster Greenberg, concentrates her practice in the preparation and prosecution of U.S. patent applications as well as intellectual property litigation, reexamination of U.S.

patents, interference practice, prosecution of foreign patent applications, appeals before the Board of Patent Appeals and Interferences, and European opposition practice.

to sue, the infringer sought declaratory judgment relief. The court found facts sufficient to establish jurisdiction.

Similar outcomes are seen following *SanDisk*. In August, the court released *Sony Electronics Inc. v. Guardian Media Technologies Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007). In *Sony*, Guardian purchased V-Chip patents and attempted to license them to Sony, Mitsubishi, JVC and Matsushita, first sending infringement notice letters. The accused infringers raised various invalidity and/or noninfringement issues, and the license offers were declined. Four years later, Guardian sent letters requesting meetings to negotiate licenses. The defendants reiterated their defenses. Detailed claim charts were exchanged. In some instances, the parties met, but no resolution was achieved. Guardian notified the parties of the extent of their monetary obligations along with the license offers. Without further communication, the various defendants sued Guardian seeking judgments of noninfringement and invalidity.

The lower court, applying the pre-*MedImmune* standard, found insufficient facts to support jurisdiction and no “immediate threat of suit.” It also exercised its discretion not to take the case as (a) it was close in terms of a “potential threat” and (b) it felt the defendants were attempting to use declaratory judgment strategy to intimidate the patentee. The Federal Circuit held otherwise, noting that Guardian’s position that it was only after a business resolution did not remove the “case or controversy.” It also held that, even if Guardian wanted to keep negotiating, the defendants were not obligated to do so.

The court then looked at the lower court’s exercise of discretion in declining jurisdiction. The “close case” position was rejected as the result of an old legal standard. While the lawsuits were acknowledged as negatively impacting Guardian’s ability to license to third parties, the court found no evidence of attempted intimidation or attempts to seek a favorable bargaining position by suing. Last March’s decision, *Teva Pharmaceuticals USA Inc. v. Novartis Pharmaceuticals Corp.*, 482 F.3d 1330 (Fed. Cir. 2007), applies similar reasoning in a generic drug/Abbreviated New Drug Application situation to sustain jurisdiction.

In last September’s *Adenta GmbH v. OrthoArm Inc.*, 501 F.3d 1364 (Fed. Cir. 2007), a licensee, pursuant to a settlement license, did not want to pay royalties and took the position the licensed patent was invalid. The licensor notified the licensee such action would be a breach of agreement, causing enforcement of legal rights, but the licensor did not mention any specific action for patent infringement. The court upheld the lower court’s decision to deny a motion to

dismiss the action, relying on *MedImmune* and *SanDisk*.

On Feb. 29, 2008, in *Micron*, the Federal Circuit released its latest opinion following *MedImmune* and *SanDisk*. Micron is one of four major manufacturers of direct random access memory chips (DRAM chips). Collectively, the four manufacturers (Micron, Samsung, Infineon and Hynix) constitute 75 percent of the DRAM market. MOSAID owns patents in the DRAM area. In June 2001, it sent a strong letter to Micron asking Micron to license the patents with follow-up letters in December 2001, March 2002 and July 2002. The license offers were rejected, and MOSAID started suing beginning with Samsung. Infineon filed a declaratory judgment action, and following an unfavorable claim construction for MOSAID, the action ended in a summary judgment of noninfringement. Samsung settled its action, and MOSAID sued Hynix, who also settled and took a license.

After each license was obtained, MOSAID issued public statements and made similar statements in its annual reports, such as the following from the 2005 annual report, according to the court's opinion:

"MOSAID believes that all companies which manufacture DRAM products ... use MOSAID's patented circuit technology. With approximately half the DRAM industry now under license, it is clear that our remaining strategy is to license the remaining DRAM manufacturers. We will apply our strong IP portfolio and our significantly improved financial position in the aggressive pursuit of this objective."

MOSAID also sought to have the Infineon ruling vacated. After settling with the other manufacturers, there was speculation, including in the press, that Micron was next.

Micron did not wait. It filed a declaratory judgment action on July 24, 2005, in the Northern District of California based on 14 MOSAID patents. The following day, MOSAID brought suit in the eastern district of Texas against Micron and two other smaller DRAM manufacturers based on seven MOSAID patents, later adding three more patents and another defendant. Not all the patents were the same as those raised by Micron.

In the California action, MOSAID sought dismissal for failure to establish jurisdiction

under the prior "reasonable apprehension of suit" test, arguing that even if the test could be met, the lower court should exercise discretion and not hear the suit. Despite the behavior of MOSAID, no apprehension of suit was found, because there had been no threats specific to Micron for over four years, and no threats to Micron's customers. Further, no public comments were specifically directed at Micron.

The Federal Circuit on appeal cited to the Supreme Court standard from *MedImmune*, and as in *SanDisk*, relied on footnote 11 of the *MedImmune* decision for language supporting its new standard. The footnote appears below:

"[T]hat the dispute be definite and concrete, touching the legal relations having adverse legal interests and that it 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." *MedImmune*, 127 S. Ct. at 774, n.11.

The Federal Circuit's new test based on the *MedImmune* 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". Under the new, "all the circumstances" test, the court relied on the fact that Micron had received several threats in 2001 and then watched while others were sued by MOSAID. While four years lapsed following those threats, MOSAID was not idle but busy negotiating with and suing other manufacturers. The court also relied on the public statements and annual reports to confirm intent to pursue an aggressive litigation strategy. These facts led the court to find an actual, real and substantial dispute between the parties, and that Micron would have been sued soon. The court also noted that Micron actually was sued by MOSAID one day later in Texas.

While the holding in *Micron* is consistent with prior cases this past year upholding declaratory judgment jurisdiction when it may not have been sustained under the former standard, what sets *Micron* apart is that the court takes notice of the impact of its new standard. Regardless of the intent of the Supreme Court in *MedImmune* and the Federal Circuit in defining a new standard, *Micron* recognizes that the "more lenient legal

standard" it articulated will allow for easier use of declaratory judgment actions in patent cases. As a result, the court cautioned that in jurisdiction analyses, lower courts may find themselves in a "forum-seeking race" between accused infringers and patent holders. If that happens, as it did in *Micron*, the Federal Circuit instructs that the trial court should also consider the standard "convenience factors" found in a venue transfer analysis under 28 U.S.C. Section 1404(a).

Further, the Federal Circuit pointed out that while district courts have broad discretion to decline jurisdiction, it is not unlimited. In *Micron*, the lower court applied older law and did not rely on the new standard (holding that *Micron's* jurisdiction was "tenuous at best"); considered the Texas case as broader and a better place to litigate the issues; and viewed California as not having a vested interest. The Federal Circuit discounted the lower court's view of the case as subject to an overruled legal standard. It gave little weight to whether the Texas case was broader in scope. The court cautioned that in a race to the courthouse, a patentee could abuse this factor by simply filing an artificially broader case. Thus, while this is one factor to consider, the court felt this factor could be easily manipulated and so was entitled to less weight. Finally, the court felt that in balancing convenience, neither forum showed a stronger interest, so that deference should go to the first-filed forum.

Thus, the new declaratory judgment standard has been recognized by the Federal Circuit as creating an environment giving rise to competing court filings, so that, in addition to examining the jurisdiction standard, there is a need to also evaluate transfer factors: competing convenience of witnesses, whether the court can retain jurisdiction over all parties, the possibility of consolidating bases, the interests of justice, and the first-filed rule.

As the new standard is being applied, few factors, other than a solid covenant not-to-sue, appear to be persuasive in seeking dismissal. Patentees must consider this in their communications to potential infringers and weigh options carefully prior to sending a notice or cease and desist letter, including analyzing their own possible litigation strategies. If forum retention is an issue, patentees should carefully consider whether to secure the forum before seeking the license. •