Federal Circuit Further Refines Test for Declaratory Judgment Jurisdiction

December 9, 2009

Federal Circuit Shifts its Declaratory Judgment Jurisprudence

By Timothy J. Rechtien

Federal law provides businesses with the ability to sue a patent holder to obtain a "declaratory judgment" that their products are not infringing the patent holder's patent. The ability to bring these declaratory judgment suits is important to many businesses, especially to those businesses that receive threats from patent holders that can be classified as "patent holding companies," "non-practicing entities" or "patent trolls." The freedom to sue, however, is not absolute. Rather, it is limited by a jurisdictional bar. In its most recent decision on the subject, *Hewlett-Packard Co. v. Acceleron LLC*, No. 2009-1283, __ F.3d __, 2009 WL 4432580 (Fed. Cir. Dec. 4, 2009) ("Acceleron"), the Federal Circuit arguably lowered that bar—at least in cases wherein the patent holder is a holding company. In doing so, the court explained that its decision "marks a shift from past declaratory judgment cases."

DECLARATORY JUDGMENT GENERALLY

Under the Declaratory Judgment Act, "any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration" where there exists "a case of actual controversy." *MedImmune, Inc. v. Genentech, Inc.,* 549 U.S. 118, 126 (2007) (citing 28 U.S.C. § 2201(a)). In the patent litigation context, a declaratory judgment action typically arises where a potential patent infringer brings suit against the relevant patent holder seeking a declaration of non-infringement or patent invalidity. The potential patent infringer, however, cannot

simply file a lawsuit out of the blue. Rather, before a potential infringer can enter the doors to the courthouse, there must be a “definite and concrete” dispute between the parties. In other words, there must be “a case of actual controversy.”

In *MedImmune,* the Supreme Court acknowledged that there is no bright-line rule for distinguishing cases that satisfy the actual controversy requirement and those that do not. *Id.* According to the Court, “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 reality to warrant the issuance of a declaratory judgment.” *Id.* (emphasis added).

THE FEDERAL CIRCUIT’S DECISION IN *ACCELERON*

In *Acceleron,* the Federal Circuit applied the Supreme Court’s “all the circumstances” test and reversed the district court’s dismissal of the plaintiff’s declaratory judgment suit. In doing so, the court first detailed “all the circumstances” that lead to the plaintiff, Hewlett-Packard Company (“HP”), filing its declaratory judgment suit against the defendant, Acceleron LLC (“Acceleron”).

To that end, the court explained that Acceleron is a patent holding company which had acquired ownership of the patent at issue on May 31, 2007. Less than four months later, Acceleron wrote to HP “to call [HP’s] attention to the [patent at issue],” to inform HP that the patent at issue related to Blade Servers—a product sold by HP—and to inform HP that Acceleron would expect a response in two weeks. In response, HP’s litigation counsel wrote back to Acceleron stating that HP wanted more information from Acceleron and that HP wanted both companies to agree to refrain from taking any legal action for a period of 120 days. Four days later, Acceleron wrote back to HP explaining that Acceleron did not believe there was any basis for HP to file a declaratory judgment action, that Acceleron would not promise to refrain from filing suit, and that Acceleron would give HP two weeks in which to respond.

Two weeks later, HP filed a declaratory judgment suit against Acceleron in the District of Delaware, seeking a declaratory judgment of non-infringement and invalidity of the patent at issue. The district court dismissed the case, however, finding that, at the time HP filed suit, the potential for litigation was still “too speculative a prospect to support declaratory judgment jurisdiction.”

On appeal, the Federal Circuit disagreed and reversed. *Acceleron*, 2009 WL 4432580, at *5. After explaining that *MedImmune* had lowered the bar for determining declaratory judgment jurisdiction, the court cautioned that nevertheless, “a communication from a patent owner to another party, merely identifying its patent and the other party’s product line, without more, cannot establish adverse legal interests between the parties, let alone the existence of a ‘definite and concrete’ dispute.” *Id.* at *2. According to the court, “[m]ore is required to establish declaratory judgment jurisdiction.” *Id.*

Given this statement, one might have expected the court to have adopted Acceleron's argument that, because Acceleron never explicitly asserted its rights under the patent at issue in correspondence with HP—by way of, for example, threatening to sue for infringement or demanding a license—there was simply no controversy to support HP's suit. The court, however, rejected this argument.

The court explained that the test for declaratory judgment jurisdiction in patent cases is objective, and that the "purpose of a declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids the magic words such as 'litigation' or 'infringement.'" *Id*. at *3-4. The court further observed that Acceleron was solely a licensing entity and that, unlike a practicing entity, only receives benefits from its patent through enforcement of that patent. *Id.* at *4. This, according to the court, added significance to the fact that Acceleron refused HP's request to refrain from filing suit for 120 days. *Id.*

In the end, the court held that "[u]nder the totality of the circumstances . . . it was not unreasonable for HP to interpret Acceleron's letters as implicitly asserting its rights under the [patent at issue]," and that "conduct that can be reasonably inferred as demonstrating intent to enforce a patent can create declaratory judgment jurisdiction." *Id.* Thus, the court found that an actual controversy existed to support declaratory judgment jurisdiction. *Id.* at *5.

CONCLUSION

In light of the Federal Circuit's decision in Acceleron, both inside and outside counsel should think twice before sending letters to another entity identifying their client's patent and the other entity's relevant product line. This is especially true if counsel represents a patent holding company. Under the totality of the circumstances, this type of letter—despite the lack of an explicit threat of litigation or infringement—may create the foundation for declaratory judgment jurisdiction.

On the other hand, inside and outside counsel receiving letters on behalf of their clients from patent holders—and especially patent holding companies—that contain an implicit assertion of rights under a patent against an identified product, may now feel more confident that if they file a declaratory judgment suit to protect their client, that suit will not be dismissed for lack of jurisdiction.

Posted: December 9, 2009