



Sidestepping Certain Types Of Patent Lawsuits

Certain terms should be avoided in letters seeking licensing agreements

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When a patent owner sends an offer to license, the recipient may respond by filing a declaratory judgment (DJ) action asserting non-infringement or invalidity of a patent. A patent owner will typically want to avoid DJ jurisdiction to maintain control of the timing and, more importantly, of the place of any litigation.

When the primary object is to secure licensing agreements rather than engage in litigation, a DJ lawsuit is an unnecessary complication and puts the patent at risk of being found invalid. Further, if the DJ complaint is filed before the patent owner's complaint, the patent owner may be pulled into the home court of the DJ plaintiff.

A recent case in the Court of Appeals for the Federal Circuit, which has appellate jurisdiction over patent matters, confirmed that a patent owner that simply notifies another party of the existence of its patent does not necessarily open the door for a DJ action.

For a court to have subject matter jurisdiction over a DJ action, the dispute must be sufficiently "definite and concrete." *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118, 132 n.11 (2007). Until 2007, the Federal Circuit used a "reasonable-apprehension-of-suit" test to determine whether there was DJ jurisdiction. Under this rigid test, a letter had to contain an explicit threat or include certain magic words such as "infringement" or "litigation" to give rise to DJ jurisdiction. In *MedImmune*, the Supreme Court stated that the Federal Circuit's "reasonable-apprehension-of-suit" test was in conflict with several

Supreme Court decisions.

Shortly after *MedImmune*, the Federal Circuit acknowledged that its rigid test had been rejected. *SanDisk Corp. v. STMicroelectronics Inc.*, 480 F.3d 1372, 1380 (Fed. Cir. 2007)

The Federal Circuit adopted an expansive new test in which DJ jurisdiction exists where a patentee 1) asserts rights under a patent and 2) identifies ongoing or planned activity of another party. Thus, the bar was lowered for determining DJ jurisdiction in patent cases. The more lenient legal standard has consequently increased the risk of a DJ lawsuit whenever a patent owner sends an offer to license the patent to another party.

To avoid the risk of a DJ action, the parties could agree that the terms of the offer were confidential and could not be used to support liability, damages, or jurisdiction. A promise not to sue may also lower the risk of DJ jurisdiction; however, the *SanDisk* court made clear that an express promise not to sue will not eliminate a justiciable controversy where the patentee "has engaged in a course of conduct that shows a preparedness and willingness to enforce its patent." *SanDisk*, 480 F.3d at 1383.

Asserting Vs. Identifying

However, the Federal Circuit appeared to retreat to its old narrow standard in a recent case in which the judges stated that a lowered bar for DJ jurisdiction "does not mean no bar at all." *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1361 (Fed. Cir. 2009). A patentee by "merely identifying its patent and the



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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. More is required to establish declaratory judgment jurisdiction."

Thus, 1) asserting patent rights and 2) identifying a product will support DJ jurisdiction, while 1) identifying a patent and 2) identifying a product will not. It is not clear where the line is between asserting a patent and identifying a patent, but the Federal Circuit believes such a line exists. The *Hewlett-Packard* court noted that after *MedImmune* and several post-*MedImmune* decisions, a competent lawyer would draft correspondence that did not "identify specific claims, present claim charts, and explicitly allege infringement" in order to avoid DJ jurisdiction. Nonetheless, the "totality of the circumstances" may prove that a licensing letter is an implied assertion of a patent right.

In *Hewlett-Packard*, the Federal Circuit reversed a finding of no DJ jurisdiction. There were several factors that influenced the court's decision: the patent owner 1) was a non-practicing patent holding company and thus presented a different threat than a competitor who may be willing to cross-

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license technology; 2) identified its patent as relevant to Hewlett-Packard's products; 3) imposed a deadline to respond; 4) would not agree to a standstill period in which neither side would file suit; and 5) failed to propose a confidentiality agreement.

Presumably, DJ jurisdiction would not exist if the patent owner sent a "notice" type letter that simply identified the patent and otherwise complied with the factors outlined in *SanDisk* and *Hewlett-Packard*. To be safe, a patent owner may want to file, but not serve, a complaint to preserve choice of forum before sending a letter. Filing a complaint secures the patent owner's choice of the forum that is most convenient for it.

A "put-up-or-shut-up" response will force the patent owner's hand. In such a response, a recipient will request the patent owner to state expressly 1) whether the products are within the scope of the patent

and 2) to identify with particularity how those products read on the patent claims. A reply by the patent owner will establish DJ jurisdiction. No reply will end the negotiation. The recipient should also have a DJ complaint prepared in case the patent owner's reply establishes DJ jurisdiction.

Practical Tips

The following practical tips may help reduce the risk of DJ jurisdiction when a patent owner is attempting to license a patent (or any intellectual property):

Do:

- Identify the patent and optionally the product.
- Include a confidentiality agreement that states the terms cannot be used to support jurisdiction.
- Agree to a standstill period where you will refrain from filing suit.

- Prepare a complaint for immediate filing in your choice of forum.

Do Not:

- Use magic words such as "infringement" and "litigation."
- Assert rights.
- Include claim charts.
- Impose a deadline.
- Be a patent-holding company.

This area of the law is still evolving with *SanDisk* expanding — and *Hewlett-Packard* contracting — DJ jurisdiction. Therefore, a patent owner should assess the risk of a possible DJ lawsuit for any invitation to license. Accordingly, a complaint should be prepared to file, but not served, prior to sending a letter in order to preserve one's choice of forum. This, unfortunately, increases the cost and complexity of monetizing a patent. Until there is clearer guidance from the courts, this is still the safest course of action. ■