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### DECLARATORY JUDGMENTS

The Supreme Court's *MedImmune* ruling lowered the bar for bringing declaratory judgment claims, but recent cases indicate that the "second prong" of the jurisdictional test may have been largely unaffected.

### Suppliers and Declaratory Judgment; Even After *MedImmune*, Two-Prong Test Lives On

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#### Abstract

The Supreme Court's *MedImmune* ruling last year lowered the bar for bringing declaratory judgment claims by throwing out the old "reasonable apprehension of imminent suit" requirement for DJ jurisdiction in favor of an "all circumstances" analysis. Although much has been written on the *MedImmune* ruling, recent cases indicate that the "second prong" of the traditional test for DJ jurisdiction may have been largely unaffected by *MedImmune*.

The second prong relates to the actions of the DJ plaintiff, as opposed to the patent owner. To determine

DJ jurisdiction, the DJ plaintiff's behavior must be considered. This is particularly important for suppliers whose customers have been threatened or sued for patent infringement.

Even if there is clearly a justiciable dispute between the patent owner and customer, the supplier may not have grounds to bring a DJ claim. Courts look at whether the supplier has itself engaged in potentially infringing activity. One court has also considered the impact of the customer's sales on the supplier's overall business.

This paper addresses recent post-*MedImmune* case law and the factors relevant to determining whether a supplier can properly bring a DJ claim to protect a threatened customer.

#### Introduction

Suppliers were encouraged by the Supreme Court's *MedImmune* ruling last year, which unquestionably lowered the bar for bringing declaratory judgment claims.<sup>1</sup> When a patent owner threatens or sues a sup-

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<sup>1</sup> See *MedImmune Inc. v. Genentech Inc.*, 127 S. Ct. 764, 81 USPQ2d 1225 (2007) (73 PTCJ 242, 1/12/07).

plier's customer, the supplier may be anxious to step into court and attack the patent. For suppliers, keeping the goods flowing often means keeping the customers free from patent-related problems.

A successful DJ case against the patent owner may remove the threat by, e.g., invalidating the asserted patent. Patent owners, on the other hand, would like to be free to pursue reasonable licensing opportunities without being dragged into court by every supplier who feels its market is being threatened. Although *MedImmune* lowered the bar, patent owners can take heart in more recent rulings that address the circumstances under which a supplier can bring DJ claims.

As has been widely reported, the Supreme Court's *MedImmune* decision threw out the old "reasonable apprehension of imminent suit" requirement for DJ jurisdiction in favor of an "all circumstances" analysis.<sup>2</sup> Before *MedImmune*, patent owners were considered safe from a DJ claim as long as they did not threaten litigation or demand that the potential licensee stop its allegedly infringing activity.

*MedImmune* altered that consideration by changing the focus from whether the DJ plaintiff reasonably felt suit was imminent to addressing the totality of the circumstances concerning the patent owner's actions. As a result, even where suit was clearly not imminent, post-*MedImmune* cases have found DJ jurisdiction.<sup>3</sup>

What has not been widely reported is that the Supreme Court's ruling in *MedImmune* focused primarily on the "first prong" of the traditional test for DJ jurisdiction, namely the prong relating to the behavior of the patent owner. However, the "second prong," which relates to the behavior of the DJ plaintiff, seems to have been largely unaffected by *MedImmune*.

Recent decisions have confirmed that the actions of the DJ Plaintiff must still be considered in determining whether DJ jurisdiction lies and, particularly for suppliers, the bar may not have been lowered as much as they may have hoped.

## Background

Article III of the Constitution limits the availability of declaratory relief to "the adjudication of 'Cases' or 'Controversies.'"<sup>4</sup> This requirement restricts courts from hearing "a difference or dispute of a hypothetical or abstract character" or a claim "that is academic or moot."<sup>5</sup>

When deciding whether to hear a declaratory judgment suit, the Federal Circuit traditionally applied a "two-prong test."<sup>6</sup> The first prong focused on the behavior of the patent owner and considered whether the patent owner's actions had created a "reasonable apprehension of suit."<sup>7</sup> Typically, courts determined

<sup>2</sup> *Id.*

<sup>3</sup> See, e.g., *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, 482 F.3d 1330, 1334, 82 USPQ2d 1225 (Fed. Cir. 2007) (73 PTCJ 674, 4/6/07).

<sup>4</sup> *Cat Tech LLC v. TubeMaster Inc.*, 528 F.3d 871, 879, 87 USPQ2d 1965 (Fed. Cir. 2008) (76 PTCJ 175, 6/6/08) (quoting U.S. Const. Art. III, § 2).

<sup>5</sup> *Id.* (quoting *Aetna Life Insurance Co. v. Haworth*, 300 U.S. 227, 240 (1937)).

<sup>6</sup> *Id.* (internal citations omitted).

<sup>7</sup> *Id.*

whether the patent owner had "threatened" litigation or merely offered a license.<sup>8</sup>

The second prong of the traditional test focused on the DJ plaintiff's actions and hinged on whether the DJ plaintiff had performed "meaningful preparation" to conduct "potentially infringing activity."<sup>9</sup>

In *MedImmune*, the Supreme Court rejected the "reasonable apprehension of suit test" and instead instructed courts to determine "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."<sup>10</sup>

After *MedImmune*, the Federal Circuit reiterated that when considering all the circumstances, the issue of whether the declaratory judgment plaintiff has engaged in "meaningful preparation to conduct potentially infringing activity remains an important element . . . which must be considered."<sup>11</sup> Accordingly, if the declaratory judgment plaintiff has not taken significant, concrete steps to conduct infringing activity, then the justiciability requirements may not be satisfied.<sup>12</sup>

In other words, after *MedImmune*, the second prong still echoes "the most determinative" standing requirement, i.e., injury-in-fact; thus, it may be dispositive on the issue of justiciability.<sup>13</sup>

In a more recent case, a district court found that a supplier failed to establish DJ jurisdiction over a patentee even though the supplier's customer was sued for patent infringement by the patentee.<sup>14</sup> In this Northern District of California decision, the court focused on the fact that the supplied product was capable of uses other than in the infringing method.<sup>15</sup> Moreover, the court noted that the supplier had not been accused of infringement, either direct or by inducement.<sup>16</sup>

The court in *Fujitsu Ltd.* further found it to be significant that the supplier had "not shown that infringement suits by the [patent owner] . . . threaten a significant portion of [the supplier's] . . . business or that its customers generally are at risk of being accused of infringement simply by using" the supplied machine.<sup>17</sup> Thus, the extent to which the infringement assertions affected the supplier's overall business was considered by the court.

## Suppliers and the Second Prong

So when exactly may a supplier pursue a DJ claim to protect a customer who has been threatened or even sued for patent infringement?

<sup>8</sup> See, e.g., *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996).

<sup>9</sup> *Cat Tech LLC*, 528 F.3d at 879 (internal citations omitted).

<sup>10</sup> *Id.* (citing *MedImmune Inc.*, 127 S. Ct. at 771 (internal quotations omitted)).

<sup>11</sup> *Id.* at 880 (citing *Teva Pharmaceuticals USA Inc.*, 482 F.3d at 1339) (emphasis added).

<sup>12</sup> *Id.*; accord *Teva Pharmaceuticals USA Inc.*, 482 F.3d at 1339 ("An injury-in-fact must be 'personal,' 'concrete and particularized,' and 'actual or imminent.'")

<sup>13</sup> *Teva Pharmaceuticals USA Inc.*, 482 F.3d at 1339-40 ("An Article III controversy is found where a plaintiff has demonstrated an injury-in-fact caused by the defendant that can be redressed by the court").

<sup>14</sup> See *Fujitsu Ltd. v. Nanya Technology Corp.*, No. C 06-6613 CW, 2008 WL 3539503, at \*1 (N.D. Cal. Aug. 12, 2008).

<sup>15</sup> See *id.* at \*3.

<sup>16</sup> See *id.*

<sup>17</sup> *Id.*

While the first prong will still need to be addressed under *MedImmune's* "all circumstances" test, it seems that the second prong must also be considered. Specifically, the supplier's conduct remains an important factor in determining whether there is DJ jurisdiction after *MedImmune*.

The clearest path for establishing DJ jurisdiction is where the supplier is itself conducting activities, or making meaningful preparations to conduct activities, that are potentially infringing.<sup>18</sup> For example, in the case of a patent covering a widget, the supplier who is manufacturing, selling, or offering to sell the claimed widget to its customer in the United States is conducting activities that are potentially infringing and the second prong should be satisfied.

It is a more difficult scenario where the supplier is providing less than all components of a claimed apparatus. In this scenario, courts may look to whether the supplier's activities are potentially infringing under the traditional contributory infringement standard.<sup>19</sup> If a component provided by a supplier is capable of "substantial noninfringing use" then the provision of that component by the supplier will not be a contributory infringement and DJ jurisdiction should not be found on this basis.<sup>20</sup>

In the case of a method claim, the courts may also consider whether a component or device provided by the supplier is capable of substantial noninfringing use, i.e., whether the supplied component or device may be used in methods other than the claimed method. In *Fujitsu Ltd.*, the supplier provided a machine that was then allegedly used by the customer to carry out a claimed method.<sup>21</sup> The parties did not dispute that the supplied machine had "substantial non-infringing uses" and thus could be used in methods other than the claimed method.<sup>22</sup> Because of this substantial non-infringing use, the court did not find DJ jurisdiction on this basis.

A supplier attempting to rely on contributory infringement as a basis for asserting DJ jurisdiction is therefore potentially put in the difficult position of having to admit, at the outset of litigation, that its supplied component has no substantial use other than in the claimed method or apparatus. Although it may be possible to establish jurisdiction in this manner, it seems unlikely that many suppliers would make the necessary admissions so early in a case.

A supplier may also be able to establish DJ jurisdiction by focusing on inducement of infringement.<sup>23</sup> For example, if the supplier is providing instructions to its customers that would induce the customers to carry out

a claimed method, or to combine a supplied component with other components to make a claimed apparatus, then the supplier may satisfy the second prong.

Inducement, however, requires an intent to infringe the patent.<sup>24</sup> Thus, it may be difficult for a supplier to demonstrate the required intent. Indeed, as in the case of contributory infringement, it would seem that the majority of suppliers would be reluctant to make the necessary admissions at the outset of litigation to establish DJ jurisdiction in this manner.

The *Fujitsu Ltd.* court implied that DJ jurisdiction may be easier to establish in a case where the accused customers make up a "significant portion" of the supplier's business.<sup>25</sup> The court did not find that this factor, by itself, would be sufficient, but rather considered it as part of the "totality of the circumstances" in determining whether a "substantial controversy exists" between supplier and patent owner.<sup>26</sup> Accordingly, when attempting to establish DJ jurisdiction, a supplier should also focus on the relative importance of the threatened customers and volume of affected sales. Threats affecting a "significant portion" of a supplier's customers would seem to make for a more compelling argument for a case or controversy between supplier and patent owner. The patent owner attempting to defeat DJ jurisdiction should seek to prove that the threatened customer represents but a small portion of the supplier's sales.

In *Fujitsu Ltd.*, the court also found it significant that the supplier would be able to have its defenses against the patent heard as part of the litigation between the patent owner and the customer.<sup>27</sup> Thus, if the supplier is a party to litigation between the patent owner and the customer, e.g., as an indemnitor, then this factor will seem to weigh against the court finding DJ jurisdiction.

## Conclusion

Post-*MedImmune*, the DJ plaintiff's acts remain vital in determining whether DJ jurisdiction exists.

In the case of a supplier, the court will consider whether the supplier itself is conducting, or making meaningful preparations to conduct, potentially infringing activity. Courts may further consider an accused customer's overall impact on the supplier's business and whether the supplier has an opportunity to have its interests protected as part of a litigation between the patent owner and the customer.

<sup>18</sup> See *Cat Technology LLC*, 528 F.3d at 877, 882; *WS Packaging Group Inc. v. Global Commerce Group LLC*, 505 F. Supp. 2d 561, 566 (E.D. Wis. 2007).

<sup>19</sup> See, e.g., *Fina Research S.A. v. Baroid Ltd.*, 141 F.3d 1479, 1481-82, 46 USPQ2d 1461 (Fed. Cir. 1998) (55 PTCJ 601, 4/23/98) (pre-*MedImmune* decision).

<sup>20</sup> *Fujitsu Ltd.*, 2008 WL 3539503, at \*3.

<sup>21</sup> See *id.* at \*1.

<sup>22</sup> *Id.* at \*3.

<sup>23</sup> See 35 U.S.C. § 271 (c); *AquaTex Industries Inc. v. Technique Solutions*, 419 F.3d 1374, 1380 n.\*\*, 76 USPQ2d 1213 (Fed. Cir. 2005) (70 PTCJ 480, 8/26/05).

<sup>24</sup> See 35 U.S.C. § 271(b); A party is liable for inducing infringement when it "knowingly induced infringement and possessed specific intent to encourage another's infringement." *ACCO Brands Inc. v. ABA Locks Manufacturer Co.*, 501 F.3d 1307, 1312, 84 USPQd 1267 (Fed. Cir. 2007) (74 PTCJ 607, 9/21/07) (quoting *Minnesota Mining and Manufacturing Co. v. Chemque Inc.*, 303 F.3d 1294, 1304-05, 64 USPQ2d 1270 (Fed. Cir. 2002) (64 PTCJ 441, 9/20/02)). "Specific intent requires a 'showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.'" *Id.* (quoting *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293, 1304, 81 USPQ2d 1238 (Fed. Cir. 2006) (73 PTCJ 206, 12/22/06)).

<sup>25</sup> *Fujitsu Ltd.*, 2008 WL 3539503, at \*3.

<sup>26</sup> *Id.* at \*3-4.

<sup>27</sup> *Id.* at \*3.