

## FEDERAL CIRCUIT LOWERS THE BAR FOR DETERMINING DECLARATORY JUDGMENT JURISDICTION IN PATENT CASES

In its 2007 decision in *MedImmune, Inc. v. Genentech, Inc.*, the US Supreme Court adopted a totality of circumstances test to determine whether subject matter jurisdiction existed under the Declaratory Judgment Act. For patent cases, the United States Court of Appeals for the Federal Circuit had stated that declaratory judgment 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.”<sup>1</sup> On December 4, 2009, the Circuit clarified that test and further lowered the bar for declaratory judgment jurisdiction in patent suits.<sup>2</sup>

The Circuit recognized that there is no bright line rule for making the determination of jurisdiction for a declaratory relief action. Instead, the cases fall along a continuum. On one end are situations where a patent owner charged a party with infringement; jurisdiction existed there. On the other, where jurisdiction does not lie, a party merely learns of a patent owned by another, or perceives that a patent poses risk of infringement, but the patentee takes no affirmative act.

In between, a court must look at the *objective* words and actions of the patentee to determine jurisdiction under a *totality of circumstances* test. Under this new test, a communication from the patent owner to another merely identifying its patent and the other party’s product line would not suffice to establish jurisdiction. By contrast, a patent owner cannot avoid a declaratory relief action simply by not threatening litigation, demanding a license, or using such magic words as “litigation” or “infringement.” Relevant factors include:

- Deadline given for a response
- Insistence that the recipient not file suit
- Limited standstill (as opposed to a covenant not to sue)
- History, or lack thereof, of litigation in the industry
- Posture of the patent owner (Is it a patent holding company or a competitor?)
- Time between issuance of patent and initial contact

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<sup>1</sup> *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1377 (Fed. Cir. 2007).

<sup>2</sup> *Hewlett-Packard Co. v. Acceleron*, No. 2009-1283, 2009 WL 4432580 (Fed. Cir. 2009).

In sum, any conduct that can reasonably be inferred as demonstrating intent to enforce a patent can create declaratory judgment jurisdiction.

### **MEDIMMUNE AND THE TOTALITY OF THE CIRCUMSTANCES TEST**

While courts historically had applied a two-part test to determine whether an actual case or controversy existed, in *MedImmune*, the Supreme Court implemented a “totality of the circumstances” test. Under that test, declaratory judgment jurisdiction is determined by a multifactorial inquiry of “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>3</sup> The *HP* decision has now clarified that test in the patent infringement context.

### **THE HP DECISION**

Three months after Acceleron, a patent holding company, acquired US Patent No. 6,948,021 ('021 patent), it wrote two letters to Hewlett-Packard's Executive Vice-President and General Counsel. In the first, it identified itself as the '021 patent owner, referenced HP's Blade Servers, and requested an opportunity to discuss the patent with HP. But first, it wanted an agreement that any information the parties exchanged would not be used for any litigation purposes nor to create a case or controversy.<sup>4</sup>

**HP's Response:** HP's counsel responded that it would agree instead to a 120-day mutual standstill while the parties discussed the patent.

**Acceleron's Second Letter:** Acceleron rejected HP's counteroffer, noting that it did not think that HP had any basis for filing a declaratory judgment. It then said that if HP did not respond to the original letter by the original deadline, Acceleron would conclude HP had nothing to say about the merits of the patent or its relevance to HP's products.

HP then filed suit. The district court, taking into account Acceleron's business model as a non-competitor patent holding company, held that the litigation was “too speculative

a prospect to support declaratory judgment.”<sup>5</sup> The Federal Circuit reversed.

### **THE FEDERAL CIRCUIT APPLIES A TOTALITY OF THE CIRCUMSTANCES TEST**

The Federal Circuit rejected Acceleron's argument that its letter did not contain language threatening an infringement suit or demanding a license, and thus found that HP reasonably interpreted Acceleron's letters as an implicit assertion of its rights under the '021 patent. “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.’”<sup>6</sup>

The court found relevant that, in its first letter, Acceleron identified the '021 patent, which it related to HP's Blade Servers; requested that HP not file suit; and imposed a rigid two-week deadline for HP to respond. Relevant in the second letter was Acceleron's continued insistence on a two-week deadline and claim that if HP did not respond by then, it would understand that HP did not “have anything to say about the *merits of this patent*, or its *relevance to [HP's] Blade Server products*.”<sup>7</sup> The court noted that Acceleron failed to suggest a confidentiality agreement, or (2) to accept HP's counter-proposal of the 120-day standstill or some other assurance that it would not sue HP.<sup>8</sup> Finally, the court agreed that “the receipt of such correspondence from a non-competitor patent holding company...may invoke a different reaction than would a meet-and-discuss inquiry by a competitor, presumably with intellectual property of its own to place on the bargaining table.”<sup>9</sup>

As a result, the court found that Acceleron's affirmative steps included the direct contact of HP on two occasions and the implied assertion of its rights under the '021 patent against HP's Blade Server products. Considering the objective facts and the totality of the circumstances, the Federal Circuit held that there was “declaratory judgment jurisdiction arising from a ‘definite and concrete’ dispute between HP and Acceleron,

<sup>3</sup> *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007).

<sup>4</sup> *Hewlett-Packard Co.*, 2009 WL 4432580 at \*1.

<sup>5</sup> *Hewlett-Packard Co. v. Acceleron, LLC*, 601 F. Supp. 2d 581, 589 (D. Del. 2009).

<sup>6</sup> *Hewlett-Packard Co.*, 2009 WL 4432580 at \*3.

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

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at \*4 (quoting *Hewlett-Packard*, 601 F. Supp. 2d at 587).

parties having adverse legal interests.”<sup>10</sup>

### SUBJECTIVE BELIEFS IRRELEVANT

The court rejected two of Acceleron’s arguments because they were based on subjective beliefs. Acceleron argued that, since it had not yet determined a basis for asserting the patent, it could not have properly asserted its rights in the ’021 patent against HP. It similarly claimed that HP had not determined its legal interests, supported by the letter from HP’s counsel that HP was interested in learning more information to complete an accurate assessment. The court found it was irrelevant that Acceleron had conducted an adequate investigation or whether it subjectively believed HP was infringing. Instead, the court emphasized that the test for declaratory judgment jurisdiction is *objective* and conduct can be inferred as demonstrating intent to enforce a patent.<sup>11</sup>

### DEFINITION OF AFFIRMATIVE ACTS LOOSENEED

As the Federal Circuit recognized, the declaratory judgment bar has been lowered. Under *HP*, it may be difficult for any patent holder, let alone a patent holding company, to initiate discussions with another party without risk of a declaratory judgment action. The *HP* court focused on the fact that Acceleron’s letter stated that the ’021 patent was “relevant” to HP’s specific product line. Two other factors that weighed in favor of finding an implicit assertion of its patent rights were Acceleron’s imposition of a short deadline for response and its insistence that HP not file suit. Also relevant was Acceleron’s standing solely as a licensing entity. Without enforcement, it receives no benefits from its patents, which added significance to the fact that Acceleron rejected HP’s request for a mutual standstill.<sup>12</sup>

In addition, we note that in *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.*, the Federal Circuit held that “[a]s a matter of Federal Circuit antitrust law, the standards that we have developed for determining jurisdiction in a Declaratory Judgment Action of patent invalidity also define the minimum

level of ‘enforcement’ necessary to expose the patentee to a *Walker Process* claim for attempted monopolization.”<sup>13</sup> While this decision preceded the Supreme Court’s decision adopting the totality of circumstances test for jurisdiction, by lowering the bar for declaratory judgment jurisdiction, the Federal Circuit also may have lowered the bar, at least in certain circumstances, of the level of enforcement necessary to establish a *Walker Process* claim under the antitrust laws.

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*We hope that you have found this advisory useful. If you have additional questions, please contact your Arnold & Porter attorney or:*

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<sup>10</sup> *Id.* at \*5.

<sup>11</sup> *Id.* at \*4.

<sup>12</sup> *Id.* at \*4.

<sup>13</sup> 375 F.3d 1341 (Fed. Cir. 2004).