

PIPLA NEWS

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SOME IMPLICATIONS OF THE MEDIMMUNE AND AVOCENT DECISIONS ON DECLARATORY JUDGMENT ACTIONS IN PATENT CASES

Thomas Joseph – Price & Adams, P.C.

I. Introduction

The ability to send demand letters in the form of invitations to license patents and other intellectual property is valuable for small start-up companies and patent holding companies, particularly when those companies do not have the resources to enforce their patents through litigation. The demand letters may also satisfy the notice requirements of 35 U.S.C. § 287. However, the ruling of the Supreme Court in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S. Ct. 764, 166 L. Ed. 2d 604 (2007), made it easier for the recipient to use those letters to justify the exercise of subject matter jurisdiction in a declaratory judgment action.

Since patent owners may no longer be able to avoid triggering a declaratory judgment when sending out demand letters, patent owners may want to review the requirements for personal jurisdiction so that they may, at least, avoid being sued in a distant forum. A recent decision by the Court of Appeals for the Federal Circuit may provide patent owners with a certain degree of guidance on the requirements for justifying the exercise of one form of personal jurisdiction, specific jurisdiction, in patent declaratory judgment actions. See *Avocent Huntsville Corp. v. Aten Int'l Co.*, 2008 U.S. App. LEXIS 25477 (Fed. Cir. December 16, 2008).

This article examines some of the implications of the *MedImmune* decision and the *Avocent* decision for declaratory judgment actions. Specifically, this article reviews the state of the law of subject matter jurisdiction prior to *MedImmune*, the elimination of a key safe harbor for patent owners by the *MedImmune* Court, and the effect of the *Avocent* decision. However, it should be recognized that

MedImmune has had a substantial effect on a number of cases relating to declaratory judgment actions in patent cases, so that a full discussion of the effect of the *MedImmune* decision is beyond the scope of this article.

II. The State of the Law of Subject Matter Jurisdiction Prior to *MedImmune*

An accused infringer must establish that there is an actual controversy between the patent owner and the accused infringer in order for subject matter jurisdiction to exist. In analyzing jurisdictional questions in declaratory judgment actions, there is no bright-line rule. *MedImmune*, 549 U.S. at 126, 127 S. Ct. at 771, 166 L. Ed. 2d at 615. Instead, "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 immediacy and reality to warrant the issuance of a declaratory judgment." *Id.*

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Prior to the *MedImmune* decision, the Court of Appeals for the Federal Circuit utilized a two-pronged conjunctive test to determine whether an actual controversy existed. See *Arrowhead Indus. Water, Inc. v. Ecolchem*, 846 F.2d 731, 736 (Fed. Cir. 1988); see also *Spectronics Corp. v. H.B.*

Fuller Co., 940 F.2d 631, 632 (Fed. Cir. 1991). The test required that an accused infringer prove: (1) that there was an explicit threat or action by the patentee that created a reasonable apprehension on the part of the accused infringer that it will face an infringement suit; and (2) that the accused infringer either produced the device or had prepared to produce the device. See *id.* The first prong of the test was commonly referred to as the “reasonable apprehension test.”

The contours of the “reasonable apprehension” test were somewhat ambiguous, which presented patent owners with a certain degree of risk when sending out demand letters. At least one commentator recognized that every demand letter constituted a potential test case. Peter C. Lando and Michael N. Rader, “Actual Notice and Declaratory Judgment Jurisdiction”, 29 A.I.P.L.A. Q.J. 233, 250 (2001). However, case law provided patent owners with a “safe harbor” to send demand letters without risking a declaratory judgment action.

In *Infosys, Inc. v. Billingnetwork.com, Inc.*, 2003 U.S. Dist. LEXIS 14808 (N.D. Ill. 2003), the court recognized that “merely offering a license does not create a reasonable apprehension.” *Id.* at *16 (citing *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053 (Fed. Cir. 1995)). The court also recognized that threats of litigation within the context of license negotiations may not create reasonable apprehension in certain circumstances. *Infosys*, 2003 U.S. Dist. at *16 (citing *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887 (Fed. Cir. 1992)).

The court ultimately held that the patent owner’s conduct did not create a reasonable apprehension of suit because the patent owner’s letters and telephone calls “used language that was either identical or very similar to the language used in *Shell*.” *Infosys*, 2003 U.S. Dist. at *18.

The *Shell* court held that a patentee’s statement that the alleged infringer’s activities “fall within,” are “covered by,” and are “operations under” the patent did not create a reasonable apprehension of suit. *Id.* at 889. As a result, a patent owner could send a potential licensee a letter that specifically identified one (or more) of their products and that stated that the product(s) was covered by the patent without triggering declaratory judgment jurisdiction.

III. The Elimination of the Shell Safe Harbor by the MedImmune Court

The *MedImmune* decision eliminated the safe harbor set forth in *Shell* by eliminating the reasonable apprehension test. While the *MedImmune* decision did not actually involve a demand letter, a subsequent Federal Circuit decision relied upon the *MedImmune* decision to eliminate the reasonable apprehension test within the context of license negotiations. See *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380 (Fed. Cir. 2007). The *SanDisk* court held that declaratory judgment “jurisdiction may be met where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do.” *Id.* As a consequence of *MedImmune* and *SanDisk*, a patent owner could not send a demand letter utilizing the language set forth in the *Shell* decision without risking triggering a declaratory judgment action.¹

The elimination of the safe harbor set forth in *Shell* may force small start-up companies and patent holding companies to rely upon a lack of personal jurisdiction to avoid being drawn into a declaratory judgment action. While this strategy cannot be used to prevent the patent owner from being sued in its home district, it does protect the patent owner from being sued in a distant forum where local counsel fees, travel costs, and other unfavorable factors may put the patent owner at a significant disadvantage.

IV. Reexamining Personal Jurisdiction in View of Avocent

As indicated above, the *Avocent* decision addressed the exercise of personal jurisdiction over a declaratory judgment defendant. The *Avocent*

¹ The demand letter that was sent by the defendant in *Indium Corp. of America v. Semi-Alloys, Inc.*, 566 F. Supp. 1344, 1347 (N.D.N.Y. 1983), does not identify a specific product. Accordingly, it may be possible to send a similarly worded letter without triggering a declaratory judgment action. However, a court is likely to be reluctant to adopt the reasoning of the *Indium* court because the *Indium* court relied upon the reasonable apprehension test in dismissing the declaratory judgment action.

defendant sold various products within the forum state, including products covered by the patents-at-issue. See *Avocent*, 2008 U.S. App. LEXIS at *2-7. The defendant also sent demand letters into the forum state. See *id.* The plaintiffs contended that these actions subjected the defendant to personal jurisdiction under the theory of specific jurisdiction. However, the district court dismissed the action for lack of personal jurisdiction.

The court held that merely selling a patented article within a forum state does not subject the defendant to personal jurisdiction, as follows:

In short, a defendant patentee's mere acts of making, using, offering to sell, selling, or importing products--whether covered by the relevant patent(s) or not--do not, in the jurisdictional sense, relate in any material way to the patent right that is at the center of any declaratory judgment claim for non-infringement, invalidity, and/or unenforceability. Thus, we hold that such sales do not constitute such "other activities" as will support a claim of specific personal jurisdiction over a defendant patentee.

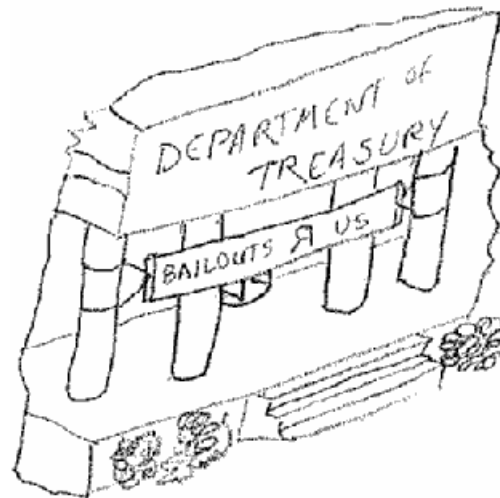
Id. at *31.² The court also held that the defendant should not be subject to personal jurisdiction for the demand letters on policy grounds. See *id.* at *22.

The court indicated that the relevant activities for determining whether specific jurisdiction exists in declaratory judgment actions are licensing activities. See *id.* at *30. However, the court recognized that non-exclusive licenses, standing alone, are insufficient to subject a patent owner to specific jurisdiction. See *id.*

The court also identified several different types of business arrangements that could subject a patent owner to specific jurisdiction. These arrangements include: (1) a relationship between the patent owner and an exclusive licensee headquartered or

doing business within the forum state; (2) a license agreement contemplating a relationship beyond royalty or cross-licensing payment, such as granting both parties the right to litigate infringement cases or granting the licensor the right to exercise control over the licensee's sales or marketing activities; (3) initiating judicial or extrajudicial patent enforcement within the forum, or entering into an exclusive license agreement or other undertaking which imposes enforcement obligations with a party residing or regularly doing business in the forum; and (4) a contract with an exclusive distributor to sell the patented products in the forum state that is analogous to a grant of a patent license. *Id.* at *24-28.

I.P. DAILY



Treasury gets sued for
TM Dilution...

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**PITT LAW TO HOST DR. ANNETTE KUR AT
FOURTH ANNUAL DISTINGUISHED
INTELLECTUAL PROPERTY LAW LECTURE**

On February 26th, the Pitt Law School will host the fourth annual Distinguished Intellectual Property Law Lecture from 4:00-5:30 P.M. at the law school. This year's event focuses on the legal protection of industrial design by means of design patents in the U.S. and the Community Design Right in the EU. The event will feature a talk by Dr. Annette Kur of

² A district court could still exercise personal jurisdiction over a patent owner who sells patented articles in the forum state under the theory of general jurisdiction. However, the burden for establishing minimum contacts under the theory of general jurisdiction is higher. See *Avocent*, 2008 U.S. App. LEXIS at *12-13.

the Max Planck Institute for Intellectual Property, Competition and Tax Law. Professor Kur spearheaded the Max Planck working group proposal that formed the basis of the European Union's Community design right legislation. She currently serves as president of the prestigious International Association for the Advancement of Teaching and Research in Intellectual Property.

Following Professor Kur's lecture, a panel will join her to debate the future of industrial design protection in the United States, Europe, and beyond featuring Donald S. Chisum, author of *Chisum on Patents*, Professor Janice M. Mueller of Pitt Law, and Daniel H. Brean, Esq. of the Webb Law Firm.

The program is free and open to the public with 1.5 hours of CLE credits available.

PTO SOLICITS COMMENTS ON DEFERRED EXAMINATION

The United States Patent and Trademark Office (USPTO) frequently receives suggestions that the USPTO adopt a deferral of examination procedure. The USPTO is conducting a roundtable to obtain public input from diverse sources to determine whether the support expressed for deferral of examination is isolated or whether there is general support in the patent community and/or the public sector generally for the adoption of some type of deferral of examination. The roundtable is open to the public. Members of the public who wish to participate in the roundtable must do so by request, as the number of participants in the roundtable is limited to ensure that all who are speaking will have a meaningful chance to do so. Members of the public who wish solely to observe need not submit a request. Any member of the public may submit written comments on issues raised at the roundtable or on any issue pertaining to deferral of examination.

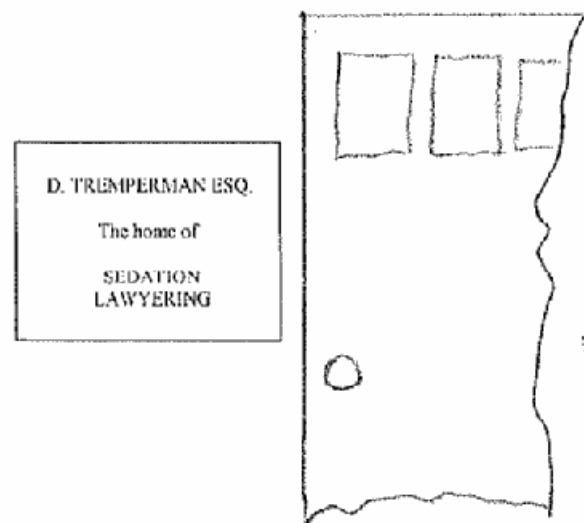
DATES: The roundtable will be held on Thursday, February 12, 2009, beginning at 9 a.m. and ending at 12:30 p.m.

The deadline for receipt of requests to participate in the roundtable is 5 p.m. on Thursday, February 5, 2009.

The deadline for receipt of written comments is February 26, 2009.

Local patent attorney and PIPLA member, Ed Pencoske of Jones Day, is preparing comments and has expressed interest in incorporating opinions of other PIPLA members. If you would like to contribute, please contact him directly at elpencoske@jonesday.com

CARPÉ PER DIEM



Buoyed by the success of his cousin's revolutionary dental practice, Dan tries a radical new approach to patent law...

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THE CUTTING EDGE

In The Cutting Edge, we break down the best of the best pending patent applications and recent patent grants to give you a preview of the next great invention that is coming soon to your neighborhood. For example...

Method of Swinging on a Swing

(U.S. Patent No. 6,386,227)

A five year old child successfully garnered patent protection for a novel method for swinging on a swing with application number 09/715,198. The patent describes prior art methods of swinging, where children gain momentum via a push or through the mechanism of the rider pumping their legs to gain speed. However, the patent notes, "These methods of swinging on a swing, although of considerable interest to some people, can lose their appeal with age and experience. A new method of swinging on a swing would therefore represent an advance of great significance and value."

The patent elaborates on the differences between known methods and the patented method saying that the standard method of swinging on a swing is defined by oscillatory motion of the swing and the user along an axis that is substantially perpendicular to the axis of the tree branch from which the swing is suspended. "In contrast to the conventional method of swinging, the present inventor has discovered that much greater satisfaction can be obtained by alternately pulling on one chain to move the swing and the user toward that side, and then pulling on the other chain to move the swing and the user toward that side. This side-to-side oscillatory motion of the swing and the user is thus along an axis that is substantially parallel to the axis of the tree branch from which the swing is suspended..."

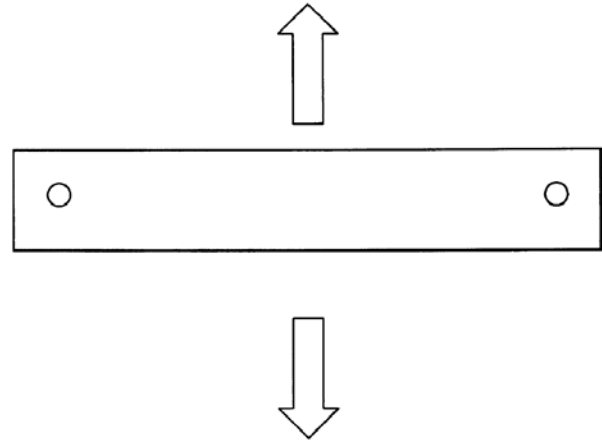


Figure 1

The differences are illustrated in the drawings, where Figure 1 illustrates the prior art method having motion perpendicular to the member from which the swing is suspended and Figure 2 illustrates the improved method having motion substantially parallel to the support member.

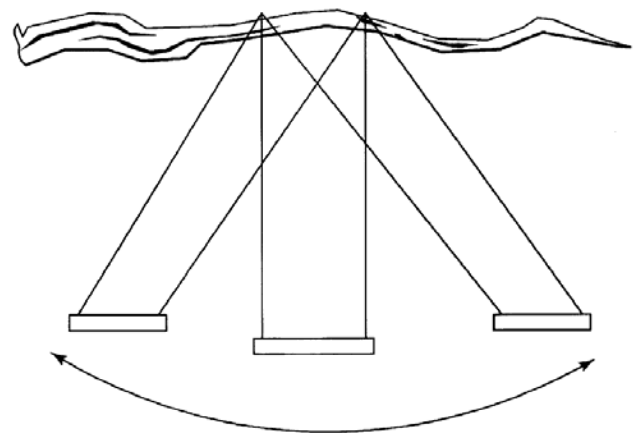


Figure 2

The boundaries of patent protection were defined by independent claim 1, which recited:

1. A method of swinging on a swing, the method comprising the steps of:
 - a) suspending a seat for supporting a user between only two chains that are hung from a tree branch;

- b) positioning a user on the seat so that the user is facing a direction perpendicular to the tree branch;
- c) having the user pull alternately on one chain to induce movement of the user and the swing toward one side, and then on the other chain to induce movement of the user and the swing toward the other side; and
- d) repeating step c) to create side-to-side swinging motion, relative to the user, that is parallel to the tree branch.

U.S. Patent 6,368,227 has come under fire by some as being trivial and not worthy of patent grant or USPTO time and resources. The application was filed and prosecuted by the inventor's father, a patent attorney, who promised his son that he could file a patent application if he thought of an invention. The father has stated that there were no motives for filing the application other than teaching his son how the patent process works. However, others favoring weaker patent protections have used the issued patent in an attempt to illustrate an obviousness bar that is set too low and the difficulty in finding prior art in certain areas, such as business methods and swing-swinging, where many systems and processes are used and performed without any publication that could be used in rejecting patent applications.

Since the patent has come under criticism, all of the claims have been cancelled via reexamination. While patent protection has been given up by the little boy with the big idea, the public still has the benefit of the disclosure U.S. Patent Number 6,328,227, and cause for a chuckle.

FROM THE NEWSLETTER COMMITTEE

We hope you've enjoyed this issue of the 2008/2009 PIPLA News, an informative and hopefully entertaining look at the goings on in IP law. We invite our entire readership to contribute to this endeavor with articles, announcements, and job postings of your own. If you have something you would like included in PIPLA News or have questions about how you can contribute, please contact Matt Johnson at 412-394-9524 or at mwjohnson@jonesday.com.

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