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IpQ

ENHANCING YOUR IP IQ

Vol.1, No.6 SEPTEMBER 2009

INTELLECTUAL PROPERTY RIGHTS: WHO'S ON FIRST?

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Who Holds the IP Rights?

Declaratory judgments[1] can resolve uncertainty surrounding a legal interest in IP, including ownership or infringement of patents, trademarks or copyrights. When a controversy arises between a rights holder and another party, either party may file a declaratory judgment action.

Prior to 2007, many courts, including the Court of Appeals for the Federal Circuit, applied a "reasonable-apprehension-of-suit" test to determine when a case or controversy sufficient to support an action for declaratory judgment existed. The Supreme Court's opinion in *MedImmune, Inc. v. Genentech, Inc.*,[2] clarified rules relating to declaratory judgments and ought to be a part of your IP IQ.

In a declaratory judgment, a court must address two issues: (1) Whether it has subject matter jurisdiction; and (2) Whether it will exercise its discretion to decline to hear the case, even if subject matter jurisdiction exists.

The declaratory judgment plaintiff must first demonstrate that the court has subject matter jurisdiction by proving an actual controversy exists.[3] If subject matter jurisdiction does not exist, the court cannot hear the case.

What Is an Actual Controversy?

Before *MedImmune, Inc. v. Genentech, Inc.*, the courts' reasonable-apprehension-of-suit test required the declaratory judgment plaintiff to prove the existence of an

1 *See* 28 U.S.C. § 2201(a). "In a case of *actual controversy* within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, *may* declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such." (emphasis added).

2 549 U.S. 118, 137 (2007).

3 This is referred to as an Article III case or controversy. *See* U.S. Const. art. III, § 2. "The judicial power shall extend to all cases, in law and equity, . . .[and] to controversies to which the United States shall be a party . . . between two or more states . . . between a state and citizens of another state;--between citizens of different states;--between citizens of the same state claiming lands under grants of different states, and between a state, or the citizens thereof, and foreign states, citizens or subjects."

actual "Article III" controversy. Plaintiff had to show that (1) acts performed by the rights holder created a reasonable apprehension of an infringement suit being filed against them, and (2) activity by the declaratory-judgment plaintiff constituted alleged infringement, or preparation to infringe.

Pre-*MedImmune* case law held that a "patent licensee in good standing was unable to establish an Article III case or controversy with regard to validity, enforceability, or scope of the patent because the license agreement 'obliterate[s] any reasonable apprehension' that the licensee will be sued for infringement."[4]

Genentech, Inc. used its patent license agreement with MedImmune, Inc. to persuade the District Court to dismiss MedImmune's declaratory judgment claims for lack of an Article III controversy.[5] The CAFC affirmed. In reversing the Federal Circuit, the Supreme Court summarized its declaratory judgment case law but did not expressly overrule the reasonable-apprehension-of-suit test. Rather, according to the Court, the reasonable-apprehension-of-suit test "conflicted" with its prior case law.[6]

In its opinion, the Court invoked *Aetna Life Insurance Co. v. Haworth* to observe that an actual Article III controversy requires that the dispute be "definite and concrete, touching the legal relations of parties having adverse legal interests"; "real and substantial"; and "admi[t] of specific relief through a decree of a conclusive character as distinguished from an opinion advising what the law would be upon a hypothetical state of facts."[7]

The Court decided no bright line tests could be applied to determine whether an actual "Article III" controversy exists.[8] The Court summarized the declaratory judgment case law as follows: "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."[9]

Applying this standard to the facts in *MedImmune*, the Court held that a licensee paying under protest could bring a declaratory judgment to challenge the invalidity of a licensed patent and rejected the rule that a patent licensee in good standing was unable to establish an Article III case or controversy with regard to the patent's validity, enforceability or scope because the license agreement obliterates any "reasonable apprehension" that the licensee will be sued for infringement.

Following *MedImmune*, some courts no longer apply the reasonable-apprehension-of-suit test to declaratory judgment actions.[10] The Federal Circuit, however,

4 *Id*. at 122 (quoting *Gen-Probe, Inc. v. Vysis, Inc.*, 359 F.3d 1381 (2004)).
5 *Id.* at 121-22.
6 *See id.* at 132 n.11.
7 *Id*. at 127 (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 240-41).
8 *Id.*
9 *Id.* (emphasis added).
10 *See, e.g., Vantage Trailers, Inc. v. Beall Corp.*, 567 F.3d 748 (5th Cir. 2009).

continues to allow the reasonable-apprehension-of-suit test as part of the broader all-circumstances analysis. In *Prasco v. LLC v. Medicis Pharmaceutical Corp.,* the Federal Circuit clarified:

> While the Supreme Court rejected the reasonable apprehension of suit test as the sole test for jurisdiction, it did not completely do away with the relevance of a reasonable apprehension of suit. Rather, following MedImmune, proving a reasonable apprehension of suit is one of multiple ways that a declaratory judgment plaintiff can satisfy the more general all-the-circumstances test to establish that an action presents a justiciable Article III controversy.[11]

Additionally, in *Cat Tech, LLC v. TubeMaster, Inc.*, the Federal Circuit elaborated that "whether a declaratory judgment action contains an Article III controversy must be determined based on all the circumstances, not merely on whether the declaratory judgment plaintiff is under a reasonable apprehension of suit."[12] The Federal Circuit also concluded that **"**the issue of whether there has been meaningful preparation to conduct potentially infringing activity [—the second prong of the reasonable-apprehension-of-suit test—] remains an important element in the totality of circumstances which must be considered in determining whether a declaratory judgment is appropriate."[13]

In the wake of *Medimmune,* other courts reject the reasonable-apprehension-of-suit test as the "touchstone" for declaratory judgment actions but acknowledge its relevance in some circumstances.[14] Some lower courts, however, faithfully follow the Federal Circuit's current synthesis of declaratory judgment case law.[15]

Explanation Is Required to Exercise Discretion

Even if subject matter jurisdiction exists, the court may decline to consider the case. However, a court declining to exercise its statutory declaratory judgment authority must articulate a good reason after employing "considerations of practicality and wise judicial administration."[16]

The court should consider two criteria in determining whether to decline jurisdiction over an action seeking declaratory judgment: (1) Whether the judgment will serve a useful purpose in clarifying and settling the legal relations at issue; and (2) Whether the judgment will terminate and afford relief from the uncertainty, insecurity and controversy giving rise to the proceeding.[17]

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11 *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1336 (Fed. Cir. 2008).
12 *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 879-880 (Fed. Cir. 2008) (internal quotations omitted).
13 *Id.*
14 *Surefoot LC v. Sure Foot Corp.*, 531 F.3d 1243 n.3 (10th Cir. 2008).
15 *Ours Tech., Inc. v. Data Drive Thru, Inc.*, No. 3:09-cv-585, 2009 U.S. Dist. LEXIS 64779, at *9 (N.D. Cal. Feb. 9, 2009).
16 *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007).
17 *Photothera, Inc. v. Oron,* No. 3:07-cv-490, 2009 U.S. Dist. LEXIS 22709 (S.D. Cal. Mar. 19, 2009).

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ABOUT SHB

Shook, Hardy & Bacon offers expert, efficient and innovative representation to our clients. We know that the successful resolution of intellectual property issues requires a comprehensive strategy developed in partnership with our clients.

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Standard of Review on Appeal

A party not satisfied with a court's judgment may appeal. A declaratory judgment action is a mixed bag that includes legal questions, factual findings and discretionary assessments. The jurisdictional question is a legal question. It implicates purely legal issues and goes to the court's subject matter jurisdiction. Appellate courts review any dismissal on this basis *de novo*.[18] The factual underpinnings of the legal questions are reviewed for clear error.[19] Then, because the second question in a declaratory judgment action "necessarily involves a discretionary assessment of disparate, often incommensurate, and case-specific concerns," the appellate court reviews the district court's determination to exercise its statutory declaratory judgment authority for abuse of discretion only.[20]

Impact of *Medimmune*

Following *Medimmune*, a flood of declaratory judgment actions was considered imminent. Experience shows that has not been the case. Accused infringers have not besieged the courts with declaratory judgment actions. There are likely several factors explaining this lack of a race to the courthouse. These same factors may also weigh on strategic considerations made prior to suit by patentees and accused infringers.

First, patent litigation is expensive, whether initiated as an infringement claim or as a declaratory judgment action. Most parties resort to litigation only as a last resort.

Second, a primary benefit of proactively filing a declaratory judgment action – choice of venue – has been constrained by recent Federal Circuit opinions.

Third, regardless of where a patent case is filed or by whom, the Federal Circuit will still hear the appeal. Choice of venue may ultimately have little effect on the outcome.

Fourth, considerations of which party bears the burden of proof in the litigation may influence the decision to file suit.

18 *Surefoot LC v. Sure Foot Corp.*, 531 F.3d 1236, 1240 (10th Cir. 2008).
19 *Id.* at n.1.
20 *Id.*