

*(This sample memorandum was prepared for a litigation-consulting client in 2011. Square brackets indicate substitutions and insertions, and three asterisks indicate elisions.)*

CONSULTING MEMORANDUM

To: \* \* \*

From: James Daily

Date: \* \* \*

Re: Post-*MedImmune* Declaratory Judgment-Avoidance Best Practices

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This memo explores ways to help avoid the creation of declaratory judgment jurisdiction in the post-*MedImmune v. Genentech* environment, with particular recommendations for [the client]. The first section is a brief summary of the general factual background for a licensing plan being considered by [the client]. The second section provides recommendations derived from an analytical review of Federal Circuit and district court cases and secondary sources. The following sections describe the court cases and secondary sources in more detail. Accompanying the memo is an appendix designed to provide practical guidelines for non-attorneys who may negotiate with or otherwise interact with potential licensees.

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## I. Summary of the Factual Background

This summary is not intended to be a complete history of the [the client’s patent portfolio and related litigation]. Instead, it is a high level overview of the background leading to the presently contemplated licensing program and is intended to inform the reader of the facts presumed while developing the recommendations made in this memo.

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This memo reviews the current legal landscape regarding declaratory judgment jurisdiction and explores some recommendations for concrete steps [the client] may consider taking to reduce the risk of creating declaratory judgment jurisdiction.

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## II. Recommendations

While the risk of declaratory judgment jurisdiction cannot be fully eliminated, it can be reduced. There are limits to the risk reduction available to [the client], \* \* \*. Yet, there are concrete steps that parties like [the client] can take to decrease the risk. \* \* \*

First, [the client] should take steps to announce the end of its active litigation strategy, assuming it has indeed ended. Although disclaimers are not dispositive of the issue, a patentee's past history of litigation is a factor that weighs in favor of declaratory judgment jurisdiction. Distancing new potential licensees from that prior history can only be a benefit. Any communication with potential licensees should endeavor not to reference [the client's] past litigation history. If the litigation history has to feature in a conversation—such as to confirm history—then it should be closely accompanied by unambiguous credible statements proclaiming that the litigation approach was merely historical and that every effort is being made to ensure it will not be pursued again.

The next and perhaps most important step is to avoid any allegation of infringement or suggestion of litigation, whether direct or indirect. Even the most indirect references to infringement or litigation can be enough to demonstrate adverse legal interests. Phrases like “pursue available legal remedies,” “we hope you will respect our intellectual property rights,” and “a license is required” are likely going to be treated by a court as factors that cut in favor of deciding there is declaratory judgment jurisdiction. Instead, any communication with a potential

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licensee should merely identify the patents at issue and inform the potential licensee that licenses are available.

If possible, indirect communication should be favored over direct communication with potential licensees that is initiated by [the client]. Press releases, web site announcements, advertisements in trade publications, and the like should be used to inform potential licensees that licenses are available without naming any specific potential licensees, products, or services. This will hopefully induce potential licensees to initiate direct communication. Communication that is initiated by the potential licensee is less likely to trigger declaratory judgment jurisdiction.

Any communication should be passively worded and stick to publicly available facts (e.g. the ownership of the patents at issue, the availability of licenses). The communication should not contain opinions such as “you may be interested in a license.” The communication should avoid deadlines for responding, claim charts, references to the merits of the patents, and references to specific products. Risk may also be reduced by not involving attorneys on either side, to the extent possible.

The licensing process itself should be as simple and mechanical as possible. Limiting or even eliminating the license negotiation process reduces the chances that a justiciable controversy will be created, whether by accident or by design (e.g. a savvy potential licensee asking questions intended to demonstrate adverse legal interests). Furthermore, an impersonal, arm’s length licensing program makes it more difficult to argue that [the client] took affirmative steps directed towards any particular potential licensee.

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A savvy potential licensee may attempt to create declaratory judgment jurisdiction by asking loaded questions. Anyone communicating with potential licensees should be educated in recognizing these questions and avoiding responses that might create a justiciable controversy. Examples of these kinds of questions include what products the patentee believes are infringed, why the patentee believes there is infringement, what the patentee would do if the licensing negotiations broke down, and if the patentee plans to file suit. Additional guidelines for non-attorneys can be found in the Appendix attached to this memo.

### III. *MedImmune v. Genentech*

*MedImmune v. Genentech*<sup>1</sup> discarded the Federal Circuit's "reasonable apprehension of imminent suit" test. The Supreme Court held that "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."<sup>2</sup> Furthermore, the controversy should be "definite and concrete, touching the legal relations of parties having adverse legal interests; and ... real and substantial and admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical

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<sup>1</sup> 549 U.S. 118 (2007).

<sup>2</sup> *MedImmune*, 549 U.S. at 127.

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state of facts.”<sup>3</sup> More concretely, the Court held that a patent licensee need not cease payments under the license before challenging the validity of the underlying patent.<sup>4</sup>

As it has done in other patent cases, the Supreme Court did not describe the contours of the new rule, leaving that task to the Federal Circuit and district courts.

#### IV. Post-*MedImmune* Federal Circuit Cases

The Federal Circuit has decided multiple declaratory judgment jurisdiction cases since *MedImmune*. Although the Federal Circuit has declined to “define the outer boundaries of declaratory judgment jurisdiction, which will depend on the application of the principles of declaratory judgment jurisdiction to the facts and circumstances of each case,” we can piece together a picture of the court’s jurisprudence by looking at several instructive cases.

Notably, one type of case is not treated here in detail. The Federal Circuit and district courts have dealt with several cases involving Abbreviated New Drug Applications by generic drug manufacturers. Under the law, if an FDA-approved drug is listed as covered by one or more patents in the FDA “Orange Book,” the FDA will not approve an ANDA for a generic version. The Federal Circuit has held that listing a patent in the Orange Book can create declaratory judgment jurisdiction because it prevents the generic manufacturer from bringing a product to market when the generic manufacturer believes it has a right to do so, thus creating a

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<sup>3</sup> *Id.* (quotations omitted).

<sup>4</sup> *Id.* at 130-31.

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justiciable controversy.<sup>5</sup> The Federal Circuit has held that this is an intentional result of the Hatch-Waxman Act, which, among other things, was designed to provoke patent litigation between patent owners and generic manufacturers so that generics could enter the market unimpeded by invalid, not infringed, or unenforceable patents.

While some might suggest that some \*\*\* regulatory systems \*\*\* might in some way be analogous to the Hatch-Waxman Act, the aptness of the analogy is decreased by the Hatch-Waxman Act's explicit goal in creating litigation jurisdiction. Under the Hatch-Waxman approach, the patentee is given strong incentives to bring its own lawsuit and declaratory judgment jurisdiction exists following the filing of an ANDA if the patentee does not file an infringement suit within 45 days. Furthermore, the FDA will not approve a generic version of a patented drug, whereas no government regulatory system forbids [potential licensees] from using [the patented technology] without a license from [the client]. However, a court could decide that \*\*\* [the client] is necessarily adverse to all [potential licensees]. There is little that [the client] could do to reduce the risk of declaratory judgment jurisdiction from such an argument, however.

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<sup>5</sup> See, e.g., *Caraco Pharmaceutical Labs., Ltd. v. Forest Labs., Inc.*, 527 F.3d 1278 (Fed. Cir. 2008); *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, 482 F.3d 1330 (Fed. Cir. 2007).

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### A. *SanDisk v. STMicroelectronics*

The Federal Circuit's first post-*MedImmune* case was *SanDisk v. STMicroelectronics*.<sup>6</sup> In it, the court declined to fully define the limits of declaratory judgment jurisdiction, but held that "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, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights."<sup>7</sup> In that case, the patentee asserted its rights by presenting "a thorough infringement analysis presented by seasoned litigation experts" during license negotiations, and the declaratory judgment plaintiff asserted that it did not have to pay royalties.<sup>8</sup>

Complicating matters further, the patentee's Vice President of IP and Licensing flatly stated during negotiations that "ST has absolutely no plan whatsoever to sue SanDisk."<sup>9</sup> The Federal Circuit held that ST's actions spoke louder than its words, holding that "ST's statement that it does not intend to sue does not moot the actual controversy created by its acts."<sup>10</sup>

The lesson from *SanDisk* is not merely "don't present a detailed infringement analysis to a potential licensee," but also "a justiciable controversy, once created, is not easily defused." While disclaimers, statements of intent, and even waivers may

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<sup>6</sup> *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007).

<sup>7</sup> *SanDisk*, 480 F.3d at 1381.

<sup>8</sup> *Id.* at 1382.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 1383.

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be employed, they should not be relied upon, as made clear by a 9th Circuit trademark case cited by the Federal Circuit in *SanDisk*.<sup>11</sup> In that case, the 9th Circuit noted that “A declaratory judgment action is not moot unless it is absolutely clear that the defendant will never renew its allegedly wrongful behavior.”<sup>12</sup> Such a strongly worded waiver should only be employed as a last resort.

### ***B. Sony v. Guardian Media***

In *Sony*, the patentee “communicated to Sony its position that certain identified Sony products infringed [its patents] ... On the other side, Sony maintained that the asserted claims of [the patents] were invalid in view of certain identified prior art references.”<sup>13</sup> The Federal Circuit held that “The dispute is, without a doubt, definite and concrete, touching the legal relations of parties having adverse legal interests.”<sup>14</sup>

Furthermore, the court rejected the argument that “there can be no jurisdiction in the courts because [the patentee] was at all times willing to negotiate

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<sup>11</sup> *Bancroft & Masters, Inc. v. Augusta Nat'l Inc.*, 223 F.3d 1082, 1085 (9th Cir.2000) (finding declaratory judgment jurisdiction based on trademark owner's cease and desist letter despite the fact that trademark owner offered to waive all trademark infringement and related claims).

<sup>12</sup> *Bancroft & Masters*, 223 F.3d at 1085 (citing *FTC v. Affordable Media, LLC*, 179 F.3d 1228, 1238 (9th Cir. 1999)).

<sup>13</sup> *Sony Electronics, Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285 (Fed. Cir. 2007).

<sup>14</sup> *Sony*, 497 F.3d at 1285.

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a “business resolution” to the dispute.”<sup>15</sup> As the court also recognized in *SanDisk*, “a patentee’s apparent continued willingness to engage in licensing negotiations does not prevent a plaintiff from maintaining a declaratory judgment suit.”<sup>16</sup> The lesson, then, is that keeping communication open and seeking an out-of-court negotiation is no bar to declaratory judgment jurisdiction. To paraphrase the court in *Sony*: Although a patentee may want to negotiate with a potential licensee, the potential licensee is not required to negotiate with the patentee. A potential licensee need not wait for negotiations to break down before filing a declaratory judgment suit, so negotiations must be conducted with even greater care.

### *C. Adenta v. OrthoArm*

This case involved a licensee relationship between the parties but shows how using euphemisms is not adequate to prevent the formation of a case or controversy. “After obtaining legal advice, [the licensee] advised [the patentee] that it believed that the ‘883 patent was invalid and that it would not pay any further royalties .... [The patentee] responded indicating that if [the licensee] breached its license with [the licensee] by not paying royalties, it would “pursue its available legal remedies.” Thus, [the patentee] indicated its intent to assert its rights under the ‘883 patent in the event that [the licensee] failed to pay royalties under the terms of the License Agreement, thereby creating a substantial controversy.”<sup>17</sup> The

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<sup>15</sup> *Id.* at 1286.

<sup>16</sup> *Id.*

<sup>17</sup> *Adenta GmbH v. OrthoArm, Inc.*, 501 F.3d 1364, 1370 (Fed. Cir. 2007).

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court found it irrelevant that “the American Letter only stated that American would pursue its available legal remedies in the event of a breach of the License Agreement, not that it would file an infringement suit.”<sup>18</sup>

The lesson in this case is that euphemisms like “pursue available legal remedies” will not fool a court. The best practice is to avoid any hints of legal action if royalties are not paid or a license is not taken.

#### **D. *Micron v. Mosaid***

The facts of this case are particularly relevant to [the client]:

Beginning in 2001, after receiving several threats itself, Micron watched MOSAID sue each of the other leading DRAM manufacturers. MOSAID devotes considerable attention to the four years that have elapsed since the last letter. This lapse in time is unavailing because MOSAID, during this period, was busy negotiating with other leading DRAM manufacturers. ... MOSAID's recent public statements and annual reports also confirm its intent to continue an aggressive litigation strategy.<sup>19</sup>

The Federal Circuit found jurisdiction was proper, holding that “The Declaratory Judgment Act exists precisely for situations such as this.”<sup>20</sup>

Although the alleged infringer received several outright threats of suit, the patentee’s pattern and announced strategy of license negotiations and litigation were significant factors supporting declaratory judgment jurisdiction.

In order to avoid falling into this fact pattern it may be appropriate to take steps to distance the new license negotiations from the prior litigation-focused

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<sup>18</sup> *Adenta*, 501 F.3d at 1369.

<sup>19</sup> *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 901 (Fed. Cir. 2008).

<sup>20</sup> *Micron*, 518 F.3d at 902.

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strategy. This could include a press release and other public announcements (e.g. on [the client's] website). Following the lesson from *SanDisk*, however, these words must be accompanied by actions (e.g. concluding pending litigation).

#### **E. *Cat Tech v. TubeMaster***

In this case the Federal Circuit noted that “the issue of whether there has been meaningful preparation to conduct potentially infringing activity remains an important element in the totality of circumstances which must be considered in determining whether a declaratory judgment is appropriate. ... If a declaratory judgment plaintiff has not taken significant, concrete steps to conduct infringing activity, the dispute is neither “immediate” nor “real” and the requirements for justiciability have not been met.”<sup>21</sup>

[The client's] potential licensees have all long since been using the patented technology, so this “important element” weighs in favor of declaratory judgment jurisdiction. There is nothing that can be done to eliminate or mitigate this factor, so it is a reminder that [the client] must be particularly cautious when approaching potential licensees.

#### **F. *Prasco v. Medicis***

This case is one of the few that stands against the existence of declaratory judgment jurisdiction. As the court explained “*MedImmune* does not change our

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<sup>21</sup> *Cat Tech LLC v. TubeMaster, Inc.* v. 528 F.3d 871, 880 (Fed. Cir. 2008).

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long-standing rule that the existence of a patent is not sufficient to establish declaratory judgment jurisdiction. ... The mere existence of a potentially adverse patent does not cause an injury nor create an imminent risk of an injury; absent action by the patentee, a potential competitor ... is legally free to market its product in the face of an adversely-held patent.”<sup>22</sup>

The court also held that a declaratory judgment plaintiff’s “paralyzing uncertainty” from fear of an infringement suit is not enough, noting that “the Supreme Court has emphasized that a fear of future harm that is only subjective is not an injury or threat of injury caused by the defendant that can be the basis of an Article III case or controversy.”<sup>23</sup>

Finally, the court quoted *SanDisk*: “jurisdiction generally will not arise merely on the basis that a party learns of the existence of a patent owned by another or even perceives such a patent to pose a risk of infringement, without some affirmative act by the patentee.”<sup>24</sup>

The court went on to give examples of such affirmative acts: creating a reasonable apprehension of an infringement suit, demanding the right to royalty payments, or creating a barrier to regulatory approval that is necessary in order to market a product (e.g. by listing a patent in the FDA Orange Book).<sup>25</sup>

This case demonstrates the line between informing a potential licensee of the existence of a patent (which would not create declaratory judgment jurisdiction)

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<sup>22</sup> *Prasco, LLC v. Medicis Pharmaceutical Corp.*, 537 F.3d 1329, 1338 (Fed. Cir. 2008).

<sup>23</sup> *Prasco*, 537 F.3d at 1338.

<sup>24</sup> *Id.* at 1339.

<sup>25</sup> *Id.*

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and demanding a right to royalty payments (which would). Which side inviting a potential licensee to take a license falls on is the key question, and it is clear that it must be undertaken very delicately. Informing a potential licensee of the existence of a licensing program is preferred to requesting that the licensee take a license, which implies litigation as an alternative. A key point may be to keep the process at arm's length and impersonal (e.g. not engaging in individualized negotiations but instead informing potential licensees of the existence of a mechanical licensing process).

#### ***G. Panavise v. National Products***

Although *Panavise* is an unreported case, the facts are relevant to [the client]. The declaratory judgment plaintiff filed for a declaratory judgment on the basis of the patentee's history of patent enforcement, specifically the filing of six lawsuits between January 2005 and February 2007 against other companies. The Federal Circuit held that "the fact that [the patentee] routinely enforces its patent rights, when viewed under the totality of the circumstances in this case, is insufficient to create an actual controversy and establish subject matter jurisdiction."<sup>26</sup> The court also noted that "the last lawsuit was filed more than a year prior to [the plaintiff's] filing of this declaratory judgment action ... [and while] a device substantially identical to the allegedly "potentially infringing product," has been on the market

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<sup>26</sup> *Panavise Prods., Inc. v. National Prods., Inc.*, 306 Fed.Appx. 570, 573-74 (Fed. Cir. 2009).

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since 1997, NPI has yet to accuse Panavise of infringement or take any actions which may imply such allegation.”<sup>27</sup>

These facts show that enforcement of a patent against others will not typically create declaratory judgment jurisdiction unless the patentee takes an affirmative action adverse to the declaratory judgment plaintiff, especially when the declaratory judgment plaintiff has been practicing the potentially infringing invention for some time. This lack of immediacy and reality is further strengthened by the passage of time. As a result, communication with new potential licensees should begin after a similar amount of time (i.e. more than a year) has passed since the filing of the last suit.

Note also the Federal Circuit’s reference to “actions which may imply [an allegation of infringement].” This emphasizes the hair trigger nature of declaratory judgment jurisdiction.

#### **H. *In re Classic Industries***

This is another unreported case, but its facts are compelling. In the case, Shell Oil Products sought a manufacturer for a fascia motif.<sup>28</sup> It initially worked with Classic Industries, which owned 4 design patents covering the motif. Later, Shell discussed contracting with alternative companies, including one called AGI. When informed of this, Classic stated that “[a]ll any vendor would have to do is pay Classic a license fee to sell Lazy S.” Shell later filed for declaratory judgment. The Federal

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<sup>27</sup> *Panavise*, 306 Fed.Appx. at 573.

<sup>28</sup> *In re Classic Indus., LP*, 345 Fed.Appx. 566 (Fed. Cir. 2009).

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Circuit upheld the finding of declaratory judgment jurisdiction apparently solely on the basis of “the statement that any vendor would have to pay Classic a license.”<sup>29</sup>

This case underscores that a single statement can be enough to create a substantial controversy between parties with adverse legal interests. Any assertion that a license is required in order for a particular entity to practice an invention is likely sufficient. Thus, the offer of a license should be couched in passive, mechanical language that does not refer to any particular entity or technology (e.g. “licenses are available for purchase” and not “a license is required”).

#### ***I. Hewlett-Packard v. Acceleron***

Although the Federal Circuit found that declaratory judgment jurisdiction was proper in this case, it gave some helpful guidance regarding the outer boundaries of such jurisdiction, especially because it involved a patent holding company contacting a practicing entity. Specifically, the court held that “*a communication from a patent owner to another party, merely identifying its patent and the 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.*”<sup>30</sup> This fairly unequivocal statement gives a useful foundation to build upon.

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<sup>29</sup> *In re Classic Indus., LP*, 345 Fed.Appx. at 567.

<sup>30</sup> *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1362 (Fed. Cir. 2009) (emphasis added).

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The court also noted an important pitfall to avoid. The patentee contended that declaratory judgment jurisdiction was inappropriate because “it never asserted its rights under the ‘021 patent because its correspondence with [the DJ plaintiff] did not contain language threatening to sue for infringement or demand a license.”<sup>31</sup> The court disagreed, holding that “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>32</sup> It was sufficient that the patentee had “[asserted] a patent as “relevant” to the other party's specific product line, [imposed] such a short deadline [(two weeks)] for a response, and [insisted] the other party not file suit.”<sup>33</sup>

The lessons from this case are that some minimal communication is acceptable, but it must not impose conditions on the recipient, including a time limit for a response, and should not refer to any particular activity, product, or service used by the potential licensee. Again, passive language is best: “licenses for the ‘123 patent are available for purchase.” Communication should be limited to public facts (e.g. “we are the owners of the ‘123 patent”) and should not include any opinions or assertions, no matter how euphemistically worded (e.g. “you may be interested in a license” or “a license may benefit your company”). If possible, indirect communication should be used, such as press releases and trade publication advertisements rather than contacting potential licensees directly. As indicated in *Innovative Therapies v. Kinetic Concepts*, declaratory judgment jurisdiction is less

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<sup>31</sup> *Hewlett-Packard*, 587 F.3d at 1362.

<sup>32</sup> *Id.*

<sup>33</sup> *Id.* at 1363.

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likely to be found when direct communication is initiated by the potential infringer rather than the patentee.<sup>34</sup> Using indirect communication to induce direct communication initiated by the potential licensee can reduce risk.

## V. Post-MedImmune District Court Cases

There have been hundreds of district court declaratory judgment jurisdiction cases since *MedImmune*, so this memo will not attempt a comprehensive summary. My analysis was limited to district court declaratory judgment jurisdiction decisions in patent cases in the last 12 months. These cases were selected because they were decided after the Federal Circuit had more fully developed its declaratory judgment jurisdiction jurisprudence. Thus, these cases shed some light on the practical outer boundaries of declaratory judgment jurisdiction.

### A. *3M v. Avery Dennison*

This District of Minnesota case found no declaratory judgment jurisdiction despite significant communication between the parties.<sup>35</sup> Counsel for the parties had a series of telephone conversations in which they discussed the patents at issue, and counsel for the patentee stated that the other party “may infringe” the patents, provided the patent numbers, and stated that licenses were available.<sup>36</sup> The allegedly infringing party declined to take a license and informed the patentee; the

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<sup>34</sup> *Innovative Therapies, Inc. v. Kinetic Concepts, Inc.*, 599 F.3d 1377 (Fed. Cir. 2010).

<sup>35</sup> *3M Co. v. Avery Dennison Corp.*, No. 10-3849, slip op. (D.Minn. Mar. 29, 2011).

<sup>36</sup> *3M*, No. 10-3849, slip op. at 3.

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patentee indicated that it had performed a patent analysis and would send claim charts, though it never did.<sup>37</sup>

The district court was unpersuaded: “When viewed under the totality of the circumstances, the Court finds that the alleged statements by [the patentee’s] counsel that [the alleged infringer’s] Diamond Grade product may infringe the Heenan patents, that licenses are available and that [the patentee] conducted an analysis of the Diamond Grade product compared to the Heenan patents, does not demonstrate that there existed “a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.””<sup>38</sup>

The court distinguished *SanDisk*, saying “Here, there is no evidence of repeated and detailed discussions concerning possible infringement or that [the patentee] ever presented [the alleged infringer] with a detailed infringement analysis.”<sup>39</sup> It also distinguished *Hewlett-Packard*, saying “By contrast, [the patentee], a direct competitor, did not impose any deadlines and made no reference to the merits of the Heenan patents and its relevance to [the alleged infringer’s] products.”<sup>40</sup>

This case indicates that some district court judges may be less inclined to find declaratory judgment jurisdiction than the Federal Circuit’s jurisprudence would suggest. The case does suggest that simply stating that licenses are available

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<sup>37</sup> *Id.*

<sup>38</sup> *Id.* at 5.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

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will not necessarily trigger declaratory judgment jurisdiction. The case also emphasizes that detailed infringement analyses, deadlines, references to the merits of the patents at issue, and references to specific products should all be avoided. Any communication between the parties should be couched in broad terms.

### ***B. Infection Prevention Techs. v. UVAS***

The district court in this case found declaratory judgment jurisdiction to be proper.<sup>41</sup> A major piece of evidence considered by the court was a letter from the patentee to the declaratory judgment plaintiff. The patentee characterized the letter as a request for information regarding the declaratory judgment plaintiff's product so that the patentee could determine whether it infringed. The court disagreed with that characterization.

“The letter explicitly identifies the patents-in-suit and tells [the DJ plaintiff] that it “expects” [the DJ plaintiff] to “respect the time and expense that [the patentee] and its licensee have invested.” It informs [the DJ plaintiff] that the patents are directed to devices and methods for “ultraviolet disinfection of areas” and that it has come to [the patentee’s] attention that [the DJ plaintiff] also plans to produce “a device for ultraviolet disinfection of areas.” The letter essentially asks [the DJ plaintiff] to prove why its device “does not infringe one or more claims of [the patentee’s] patents”—and to do so “prompt[ly].” This suggests a belief by [the patentee’s licensee] that the [the DJ plaintiff] product does infringe. Admittedly, the letter does not outright assert infringement, present the claims of the referenced patents, or explain how the patents-in-suit read on [the DJ plaintiff’s] devices. But post-MedImmune, courts must carefully scrutinize artfully crafted attorney letters that omit these red flags.”<sup>42</sup>

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<sup>41</sup> *Infection Prevention Techs., LLC v. UVAS, LLC*, 2011 WL 4360007 (E.D.Mich. July 25, 2011).

<sup>42</sup> *Infection Prevention Techs.*, 2011 WL 4360007 at 17.

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The court’s analysis underscores the point that any communication with potential licensees must be very carefully worded. References to infringement (indirect or otherwise) and specific products should be avoided. There should also be no references to expectations (e.g. “we expect others to respect our intellectual property rights”) or deadlines (e.g. “we look forward to your prompt reply”).

### *C. Renaissance Learning v. Doe*

The district court found declaratory judgment jurisdiction was proper in this case as well.<sup>43</sup> The declaratory judgment action was brought against the unnamed client of IP Navigation Group, a patent monetization company. The most important piece of evidence in favor of jurisdiction was a letter sent by IP Nav to the plaintiff.

“In the letter, IP Nav identified itself as a “global intellectual property advisory firm” and claimed that it was retained by an unnamed holder [Doe] of “valuable patents and related intellectual property directed to the fields of online testing and evaluation.” IP Nav asserted that “[a]n analysis of [Renaissance Learning’s] products shows that your company makes, uses, or sells products or services that would benefit from a license to certain of our client’s patents.” IP Nav continued:

We would very much welcome the opportunity to enter into constructive discussions with your company to determine whether we can agree to a mutually acceptable patent license agreement or determine that you are not using our client’s patents. *We are focused on addressing these issues without the need for costly and protracted litigation.* Of course, if our discussions result in the conclusion that the patents do not read on your products, no license would be necessary and we would immediately conclude licensing discussions.

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<sup>43</sup> Renaissance Learning, Inc. v. Doe No. 1, 2011 WL 5983299 (W.D.Wis. Nov. 29, 2011).

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We are prepared to commence discussions with you or your representative at your earliest convenience. At our first meeting, *we intend to identify specific patents and provide information outlining the basis for the infringement claims against your products or services.* We would also welcome any information or analysis that you may wish to provide rebutting the claims. We are also prepared to set forth our client's basic licensing structure for your consideration at that initial meeting.

In order to proceed, we request that you agree to confidentiality and not to institute litigation against our client on the basis of our client's request to seek amicable licensing discussions. We have enclosed a one page proposed form of agreement addressing these issues.

As we stated above, *our client's preferred approach is to conclude licensing discussions without resorting to litigation.* We hope you share this objective.

The letter advised that IP Nav's client had agreed to keep this offer open for ten days.”<sup>44</sup>

The district court readily looked past the euphemisms and indirect references:

“Some might look at the silky wording of IP Nav's letter to Renaissance and see a close question; this court, however, sees an unmistakable and intentional warning shot across the bow. The actual message is pellucid to any patent litigator, so that IP Nav's use of apophysis is disingenuous and unavailing. Remember Mark Antony's funeral oration in *Julius Caesar*? That's how an experienced business executive or lawyer would view IP Nav's assertions that “we are focused on addressing these issues without the need for costly and protracted litigation” and “our client's preferred approach is to conclude licensing discussions without resorting to litigation. We hope you share this objective.” The implied “or else!” oozes from this letter like lye from lutefisk. To paraphrase an observation attributed

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<sup>44</sup> *Renaissance Learning*, 2011 WL 5983299 at 1-2 (emphasis added).

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to Anton Chekhov, you don't hang a gun over the mantle in Act I unless someone is going to fire it in Act III.”<sup>45</sup>

The court also pointed to the employment of a patent monetization company, the company’s self-proclaimed “aggressive pursuit of patent infringers,” the refusal to identify the client or patents at issue, the 10 day deadline, and the one-sided forbearance agreement as factors supporting declaratory judgment jurisdiction.<sup>46</sup> The court did note that some factors cut on the opposite direction, including the lack of specific patent numbers (note: also cited as favoring declaratory judgment jurisdiction!) and “language suggesting that Doe had not determined conclusively whether it had a basis to assert its patents against Renaissance.”<sup>47</sup>

This case again makes clear that judges will not be fooled by indirect threats of litigation or implications of infringement. Communication with potential licensees should not even mention litigation or deadlines for a response. If a forbearance agreement is offered it should be bilateral.

## VI. Secondary Sources

Several law review and bar journal articles have been written regarding the effects of *MedImmune*. This section analyzes those articles that make specific recommendations applicable to [the client].

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<sup>45</sup> *Id.* at 4.

<sup>46</sup> *Id.*

<sup>47</sup> *Id.* at 5.

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#### *A. Declaratory Actions Post-MedImmune-Can Patent Holders Ever Avoid Suit?*

This *Landslide* article contains several recommendations that are consistent with the lessons and takeaway points discussed elsewhere in this memo. The author recommends that the patent holder “avoid allegations that another's product “infringes” or is “covered by” the patent at issue.”<sup>48</sup> The author acknowledges that the patent at issue must be identified, and gives recommendations for how to do so without creating declaratory judgment jurisdiction: “One thought is to separate the discussion of the patent with respect to discussion of the party's technology. Another option is to subsume mention of the patent among discussion of other mutual benefits that may arise during the proposed transaction.”<sup>49</sup> The author continues with a sample letter:

“We understand that you are active in this generalized field of technology. We too have been active in this field and have gained a great deal of experience and knowledge as evidenced by attached patent no. \_\_\_\_\_. We foresee that there is much room in this emerging field for further development and innovation, and we believe that by combining mutual resources we can jointly participate in this market.”<sup>50</sup>

The author notes that “the letter does not accuse or even identify any particular products or activities or demand payment of a specified royalty. ... A further recommendation for negating the existence of legally adverse positions is that businesspeople, rather than attorneys, should initiate any communication

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<sup>48</sup> J. Karl Gross, *Declaratory Actions Post-MedImmune—Can Patent Holders Ever Avoid Suit?*, 2 No. 3 *LANDSLIDE* 17 (January/February 2010).

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

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between a patent holder and a third party.”<sup>51</sup> This last recommendation is the primary suggestion not already discussed elsewhere in this memo, and I believe it is a good one. The goal should be to present licenses for sale, not to demand a license as an alternative to litigation.

The cases I analyzed have not considered this “merchandising” approach, but if the goal of declaratory judgment is to reduce uncertainty caused by fear of an infringement suit, then anything that can reduce that fear would likewise tend to reduce the resulting uncertainty. At least one pre-*MedImmune* district court case cited ongoing negotiations between the parties—as opposed to their attorneys—as evidence that a suit was not imminent.<sup>52</sup> Although that is no longer the correct test, such evidence remains part of the “totality of the circumstances” considered post-*MedImmune*.

### ***B. Navigating the Declaratory Judgment Minefield to a Patent License***

This article lists several factors that courts have used in deciding whether or not declaratory judgment jurisdiction was proper:

- the patentee's threats to sue the potential infringer;
- were any presentations made by one party to another, including those by the patentee accusing the potential licensee of infringement; presentations by the patentee's technical experts; presentations of the parties' respective patent portfolios; presentations by the patentee showing the operation of its products;
- any offers of a license made by the patentee;

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<sup>51</sup> *Id.*

<sup>52</sup> *Merchandising Techs., Inc. v. Telefonix, Inc.*, 2007 WL 464710, 11 (D.Or. Feb. 7, 2007).

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- indicating a license and/or royalty payments were required for the plaintiff to continue its actions;
- reverse engineering reports on the potential infringer's products or diagrams that show how the patentee's claim elements cover the potential licensee's products were prepared by the patentee;
- whether the patentee stated it had no plans to sue the potential licensee;
- the potential licensee's production and marketing of the potentially infringing products, including whether the potential licensee has actually produced any potentially infringing products ..., whether the accused product can be produced without significant design change, whether the potential infringer has prepared draft sales literature or otherwise begun marketing its products to potential customers;
- the patentee's knowledge of the potential infringer's accused products;
- whether the patentee refused to sign a covenant not to sue;
- has the patentee's possible creation of a barrier to the regulatory approval of the accused infringer's product that is necessary for marketing;
- the patentee's possible mark on its products with its patent numbers; and
- the patentee's past history in enforcing its patent rights.<sup>53</sup>

The article also gives a few recommendations for patentees, who should be careful not to:

- accuse the potential licensee of infringement;
- assert any rights to enjoin sales of or collect a royalty on the potential licensee's products; or
- take any actions which imply such rights.<sup>54</sup>

By way of example the authors cite a district court case in which jurisdiction was found because “the patentee (1) mentioned by name the five companies it had previously sued for infringement; (2) enclosed a file history with its letter; and (3)

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<sup>53</sup> Dugal S. Sickert et al., *Navigating the Declaratory Judgment Minefield to a Patent License*, 27 ACC DOCKET 54, 59 (September 2009).

<sup>54</sup> Sickert, 27 ACC DOCKET at 59.

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required a response by a certain date.”<sup>55</sup> An important takeaway is that [the client] should not reference [the client’s] litigation history and, again, should not require a response by a particular deadline.

The article states that, although declaratory judgment jurisdiction is a moving target (or at least was in 2009 when the article was written), “Review of the cases reveals that it is probably safe for a patentee to provide a potential licensee with a copy of its patent and invite license discussions.”<sup>56</sup> I believe that this is still accurate, particularly in light of *Hewlett-Packard*. Other secondary sources concur with this recommendation.<sup>57</sup>

Perhaps even more importantly, the article gives guidance to potential infringers. [The client] should take care not to fall for any of these recommendations, as they seek to create declaratory judgment jurisdiction:

“As the accused infringer, it is important to ask questions during negotiations that will elicit answers sufficient to establish jurisdiction under the “all the circumstances” test.

The following tips for what to ask the patentee should help:

- Which patents it believes you are infringing;
- What the terms are of the license being offered;
- Which of your products the patentee believes infringe its patents;

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<sup>55</sup> Sickert at 59-60 (citing *Pharmanet, Inc. v. DataSci LLC*, 2009 WL 396180 (D.N.J. Feb. 17, 2009)).

<sup>56</sup> Sickert at 60.

<sup>57</sup> See, e.g., Michael Donovan, *The Impact of MedImmune, Inc. v. Genentech, Inc. and its Progeny on Technology Licensing*, 3 J. BUS. ENTREPRENEURSHIP & L. 39, 58 (Fall 2009) (noting “One possible solution would be to send a very general letter to a potential licensee informing them that licenses are available for the general products they manufacture, making sure to never specify exactly which products and never mentioning infringement. However, no licensee would enter a license agreement without having more specifics, and once those specifics are revealed, based on *Sony* and *SanDisk*, a declaratory action could be instituted.”).

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- Why the patentee believes there is infringement;
- What the patentee would do if the negotiations break down;
- If the patentee would file suit;
- If the patentee would be willing to execute a covenant not to sue in favor of the potential infringer; and
- If the patentee has any claim charts showing how the potential infringer's products infringe the patentee's patents

In addition, you should:

- Present your own claim chart explaining why you do not believe you need a license and/or why you believe the patent is invalid or unenforceable; and
- You should consider supporting your position with a preliminary opinion from an expert.”<sup>58</sup>

Negotiators should be careful not to answer any such questions or respond to such presentations in a way that even implies an adverse legal position or possibility of an infringement suit.

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<sup>58</sup> Sickert at 61.

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## Appendix – Guidelines for Non-attorneys

This Appendix collects a concise set of guidelines for non-attorneys who may communicate directly or indirectly with potential licensees.

### Do:

Identify the patents for which licenses are available.

Identify [the client] as the patent owner.

Indicate that licenses are available.

Consult a supervisor or attorney if you are unsure of what to say or how to respond to a question. The legal environment here requires us to avoid ringing any magic bells and as everyone knows it is hard to un-ring a bell. So, it is better to check first before speaking or writing.

### Don't:

Don't allege or imply infringement, even indirectly. This includes statements like "you need a license," \* \* \* "you may be interested in a license," "a license could benefit your company," and "[the client] defends its intellectual property rights."

Don't refer to litigation or a lawsuit. This includes statements like "we want to keep this out of court," "we don't want to involve attorneys," "we hope to avoid litigation," "a license is cheaper than a lawsuit," and "we hope you will respect our intellectual property rights."

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Don't refer to [the client's] past litigation of these patents. This includes statements like "these patents have been tested in court" and "other [companies] took a license."

Don't impose or refer to a deadline for response. This even includes statements like "we look forward to your prompt reply."

Don't refer to specific products or services offered by the potential licensee. This includes statements like "this covers your [product or service]," "this covers [a particular product or service]," and "your company [offers this particular product or service], right?"

Don't demand license payments, even if the potential licensee has indicated that they will take a license. This includes statements like "we were expecting a license payment from you."

### Traps and Pitfalls

The potential licensee may try to trap you by asking loaded questions about [the client]. Here are some examples:

"What patents are we infringing?" Don't state or imply that the potential licensee is infringing [the client's] patents. Instead, state that [the client] has no opinion regarding any potential infringement and only wishes to inform the company that licenses for [the client's] patents are available.

"What are the terms of the license?" Don't negotiate or list the terms. Refer them to the license itself. Explain that this is set up as an easy retail-like operation designed to avoid complex negotiations between attorneys.

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“Which of our products or services infringe your patents?” or “Why do you think we’re infringing your patents?” Don’t refer to their [specific products or services]. Instead, state that [the client] has no opinion regarding any potential infringement, is unfamiliar with the company’s products and services, and only wishes to inform the company that licenses for [the client’s] patents are available.

“What will you do if we don’t take a license?” or “Are you going to sue us?” Don’t state or imply that [the client] will sue the company or defend its intellectual property rights. Don’t refer to [the client’s] past litigation history or any [defendants] that it has sued. Instead, state that [the client] has no plans to sue anyone and only wishes to inform the company that licenses for [the client’s] patents are available.

A Mantra or Talking Point:

One safe mantra or talking point to return to is: “Our licensing system is set up as an easy retail-like operation designed to avoid complex negotiations between attorneys.”

If the potential licensee contacts you with a claim chart or expert analysis showing that [the client’s] patents are invalid, unenforceable, or not infringed, do not respond. Instead, forward the information to [the client].

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