

# DECLARATORY JUDGMENT JURISDICTION IN PATENT CASES: RESTORING THE BALANCE BETWEEN THE PATENTEE AND THE ACCUSED INFRINGEMENT†

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Congress enacted the Federal Declaratory Judgment Act ("Act") to provide a remedy to accused patent infringers, whose enterprises were potentially crippled by the threat of possible infringement liability, but who lacked a cause of action to initiate judicial resolution of the patentee's claim or the patent's validity.<sup>1</sup> For half a century the federal courts, mindful of the Act's purpose, liberally construed its jurisdictional requirement of an "actual controversy" between the patentee and the accused infringer.<sup>2</sup> In its efforts to stabilize United States patent law, the Court of Appeals for the Federal Circuit has unduly impeded accused infringers' access to the declaratory judgment remedy. It has interpreted the Act to effectively require the accused infringer to prove that the patentee's infringement action is imminent.<sup>3</sup> Neither the Act nor its legislative history contemplate such a requirement, which undermines the Act's intended utility.

The Federal Circuit's restrictive interpretation of the Act is particularly disturbing when considered in light of the patent statute's provisions concerning the recovery of damages for infringing acts.<sup>4</sup> Under the statute, a party who is charged with infringement begins to

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<sup>1</sup> 28 U.S.C. § 2201 (1994). The Act states, in relevant part, that:

[i]n a case of actual controversy . . . 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.

*Id.*

<sup>2</sup> See *infra* notes 90–116 and accompanying text.

<sup>3</sup> See *infra* notes 135–77 and accompanying text.

<sup>4</sup> See 35 U.S.C. § 287(a) (1994).

accrue liability for damages.<sup>5</sup> While pre-Federal Circuit cases made clear that a patentee's assertion of infringement enabled the accused infringer to invoke the declaratory judgment jurisdiction of the federal courts, recent Federal Circuit decisions have held such assertions of infringement to be jurisdictionally insufficient.<sup>6</sup> Thus, an accused infringer can again, as before the passage of the Act, find itself at the mercy of a patentee, accruing potential liability for damages while the patentee controls whether, when and where to sue for infringement. This asymmetry between the standards for notice of infringement and declaratory judgment jurisdiction thwarts the purpose of the Act.<sup>7</sup>

This article advocates a return to a more liberal interpretation of the "actual controversy" predicate for declaratory judgment jurisdiction. At a minimum, a charge of infringement sufficient to trigger the accrual of damages should be held, as a matter of law, to confer declaratory judgment jurisdiction on a court. This test would better serve Congressional intent underlying the Act and promote consistent judicial decision-making.

The federal policy in favor of encouraging innovation through government grant and enforcement of patents is as old as the country itself.<sup>8</sup> Congress has furthered this policy by authorizing the federal courts<sup>9</sup> to punish infringement by enjoining infringing acts<sup>10</sup> and awarding compensatory and exemplary damages<sup>11</sup> including, in "exceptional cases," attorney fees.<sup>12</sup> The economic power patentees possess is an integral part of the United States patent system, which has received significant credit for the technological advances and standard of living enjoyed by most Americans.<sup>13</sup>

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

<sup>6</sup> See *infra* notes 110-77 and accompanying text.

<sup>7</sup> See *infra* notes 238-49 and accompanying text.

<sup>8</sup> See U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").

<sup>9</sup> The federal courts have exclusive jurisdiction over cases arising under the patent laws. See 28 U.S.C. § 1338(a) (1994).

<sup>10</sup> See 35 U.S.C. § 283 (1994).

<sup>11</sup> See *id.* § 284 (1994).

<sup>12</sup> *Id.* § 285 (1994).

<sup>13</sup> See, e.g., Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. LEGAL STUD. 247, 250 (1994); Thomas G. Field, Jr., *Intellectual Property: Some Practical and Legal Fundamentals*, 35 IDEA 79, 87 (1994) (quoting Fritz Machlup, AN ECONOMIC REVIEW OF THE PATENT SYSTEM, STUDY NO. 15 OF THE SENATE SUBCOMM. ON PATENTS, TRADEMARKS AND COPYRIGHTS OF THE COMM. ON THE JUDICIARY, 85TH CONG., 2d Sess. (1958)); Proclamation No. 6013, 54 Fed. Reg. 34,125 (1989) ("During the past 200 years, our Nation's patent and copyright laws have, as Abraham Lincoln once observed, 'added the fuel of interest to the fire of genius' . . . . Our

Prior to 1934, the patentee's economic power was unchecked in one highly significant respect: there was nothing to prevent a patentee from effectively paralyzing an alleged infringer's enterprise with the threat of enforcement at some indefinite time in the future.<sup>14</sup> Patents are complex legal documents,<sup>15</sup> and even with the help of competent patent counsel, it is often not possible for an accused infringer to determine whether it will ultimately be found liable.<sup>16</sup> Consequently, when faced with a patentee's assertion of infringement, an accused infringer was forced to choose between continuing the allegedly infringing enterprise, uncertain as to whether it was accruing increasing liability for damages, and abandoning its business enterprise.<sup>17</sup> Even if the accused infringer had a legal basis to attack the applicability or validity of the patent, there was no way for the accused infringer to remove the cloud which hung over its enterprise.<sup>18</sup>

In 1934, Congress sought to balance the tremendous economic leverage enjoyed by patentees by providing accused infringers with the opportunity to seek judicial resolution of claims of non-infringement and/or invalidity.<sup>19</sup> By demonstrating the existence of an "actual controversy"—the jurisdictional prerequisite for the Act<sup>20</sup>—an accused infringer is afforded an opportunity to "clear the air" by removing the uncertainty and insecurity which results from a patentee's coercive but extra-judicial efforts to enforce its patent.<sup>21</sup>

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standard of living, which is in part the result of American technology and innovation, has long been the highest in the world.").

<sup>14</sup> See *infra* notes 52–54 and accompanying text.

<sup>15</sup> See Thomas J. Stueber, *Insurance Coverage for Patent Infringement*, 17 WM. MITCHELL L. REV. 1055, 1057 (1991).

<sup>16</sup> See generally Rick D. Nydegger, *Traversing the Section 112, Paragraph Six Field of Land Mines: Does In re Donaldson Adequately Defuse the Problems? (Part II)*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 30, 56 (1995) ("As any judge knows who has been called upon to render a decision on a question of claim infringement, one of the most difficult exercises in legal patent analysis is the question of claim interpretation.").

<sup>17</sup> See *Arrowhead Indus. Water, Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988). As has been observed, the accused infringer has a third alternative. He can continue to make and sell the product but pay an amount in settlement to the patentee to induce the patentee to refrain from interfering with his enterprise. See Stephen H. Case & Mitchell A. Harwood, *Current Issues in Prepackaged Chapter 11 Plans of Reorganization and Using the Federal Declaratory Judgment Act for Instant Reorganizations*, A.L.I.-A.B.A. COURSE OF STUDY, (Apr. 27, 1992), available in WESTLAW at C685 ALI-ABA 1, 98 (noting that "[t]he patentee, on the other hand, is in the position of being able to maintain the threat and choosing when, if ever, to bring the action").

<sup>18</sup> See *infra* note 100 and accompanying text.

<sup>19</sup> Providing a party accused of patent infringement with an opportunity to obtain judicial resolution of its dispute with a patentee was one of the primary purposes for the enactment of the Act. See *infra* notes 51, 52 and accompanying text.

<sup>20</sup> 28 U.S.C. § 2201 (1994).

<sup>21</sup> See *id.*

For half a century the federal courts, including the regional courts of appeals, interpreted the Act's "actual controversy" jurisdictional standard liberally.<sup>22</sup> An alleged infringer was able to demonstrate the requisite controversy by showing, for example, that its customers had been threatened with enforcement by the patentee,<sup>23</sup> that the patentee had notified it of the alleged infringement,<sup>24</sup> or even that the patentee had publicly declared a construction of its patent that would encompass the alleged infringer's activities.<sup>25</sup> The courts' willingness to entertain declaratory judgment actions brought by alleged infringers in such circumstances was based on their recognition of the "business realities" the alleged infringers faced.<sup>26</sup>

In 1982, Congress created the Court of Appeals for the Federal Circuit<sup>27</sup> and vested the new court with jurisdiction over appeals in all cases arising under the patent laws.<sup>28</sup> The Federal Circuit has brought stability and uniformity to many patent law doctrines and improved confidence in the value of patents.<sup>29</sup> The court's recent decisions on declaratory judgment jurisdiction, however, raise concerns regarding the availability of the declaratory judgment remedy. These decisions suggest that the Federal Circuit is increasing its scrutiny of communications and conduct asserted to give rise to declaratory judgment jurisdiction.<sup>30</sup> The court has articulated a different standard from its earlier decisions,<sup>31</sup> making jurisdiction more difficult to establish. These changes conflict with the liberal construction of the standard

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<sup>22</sup> See *infra* notes 91–113 and accompanying text.

<sup>23</sup> See, e.g., *Sticker Indus. Supply Corp. v. Blaw-Knox Co.*, 367 F.2d 744, 747 (7th Cir. 1966) (holding that a patentee's notice to plaintiff's customers indicating that their unlicensed use of the plaintiff's product would make them infringers gave rise to an actual controversy under the Act).

<sup>24</sup> See, e.g., *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96 (1993) ("If . . . a party has actually been charged with infringement of the patent, there is, *necessarily*, a case or controversy adequate to support jurisdiction of a complaint, or a counterclaim, under the Act." (emphasis added)); see also *infra* note 202.

<sup>25</sup> See, e.g., *Wallace & Tiernan, Inc. v. General Elec. Co.*, 291 F. Supp. 217, 220–21 (S.D.N.Y. 1968) (finding the presence of an actual controversy in a patentee's assertion that its patent covered a composition whose component was being developed by the plaintiff, even where it was undisputed that the patentee had never charged the plaintiff with infringement); see also *Tremond Co. v. Schering Corp.*, 122 F.2d 702, 703, 705–06 (3d Cir. 1941) (allowing a manufacturer to maintain an action for declaratory judgment based on a patentee's trade journal notice that its patent covered the process of making a chemical made by the manufacturer).

<sup>26</sup> See *infra* note 113.

<sup>27</sup> See Federal Courts Improvement Act of 1982, Pub. L. No. 97–164, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.).

<sup>28</sup> See 28 U.S.C. §§ 1295(a)(1), (4), 1338 (1994).

<sup>29</sup> See *infra* note 204.

<sup>30</sup> See discussion *infra* Part III.A.

<sup>31</sup> See *infra* notes 179–203 and accompanying text.

for declaratory judgment jurisdiction that has existed since passage of the Act,<sup>32</sup> and are contrary to its underlying policies.<sup>33</sup> At the very least, the court's unexplained alteration of the standard for determining whether an actual controversy exists has led to differing views in the district courts regarding the significance of the change.<sup>34</sup> These differing views illustrate the potential for confusion and inconsistency in the interpretation of the patent laws, in contravention of the Federal Circuit's mission.<sup>35</sup>

Moreover, interpreting the Act to place declaratory relief beyond the reach of accused infringers is directly contrary to Congressional intent.<sup>36</sup> The problem is most clearly seen when considered in conjunction with the statutory requirement that a patentee, in some circumstances, give notice of an alleged infringement to begin the accrual of damages against the alleged infringer.<sup>37</sup> Under current Federal Circuit law, a patentee's assertion that a specific act or product of another infringes a particular patent, when made to the alleged infringer, will trigger liability for damages, assuming the infringement is later proved in court.<sup>38</sup> Some recent Federal Circuit cases, however, have held that such assertions of infringement, even when repeated, fall short of creating the "actual controversy" required by the Act.<sup>39</sup>

For example, suppose that LensCorp, a hypothetical manufacturer of eyeglass lenses, receives a letter from ChemCo, owner of a patent on a chemical composition that ChemCo believes LensCorp is using to produce lenses. In the letter, ChemCo asserts that LensCorp is using "the composition falling within" a specific ChemCo patent. LensCorp's attorney then meets with the attorney for ChemCo to obtain additional information about ChemCo's infringement allegation and to discuss possible license terms, should LensCorp determine that taking a license from ChemCo is necessary. Several meetings take place. During one meeting, ChemCo's attorney repeats the allegation of infringement, and subsequently sends LensCorp another letter "regarding LensCorp's operations under ChemCo's U.S. Patent." During

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<sup>32</sup> See discussion *infra* Part II.

<sup>33</sup> See discussion *infra* Part I.

<sup>34</sup> See *infra* note 178.

<sup>35</sup> See S. REP. NO. 97-275, at 4 (1981) ("The creation of the Court of Appeals for the Federal Circuit provides . . . a forum for appeals from throughout the country in areas of the law where Congress determines that there is special need for . . . uniformity."); see also *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1437 (Fed. Cir. 1984).

<sup>36</sup> See *infra* notes 238-49 and accompanying text.

<sup>37</sup> See 35 U.S.C. § 287(a) (1994); see also discussion *infra* Part IV.B.

<sup>38</sup> See discussion *infra* Part IV.B.

<sup>39</sup> See discussion *infra* Part III.A.

the course of the negotiations, LensCorp's attorney advises LensCorp that its operations probably do infringe ChemCo's patent, but, in her opinion, the patent is invalid because it does not satisfy the legal requirements for patentability. LensCorp is confident in its attorney's abilities but cognizant of the potentially severe consequences of some future judgment of patent infringement. It thus decides to file an action seeking a declaratory judgment of patent invalidity and non-infringement to resolve its right to continue manufacturing the lenses.

Under recent decisions of the Federal Circuit, LensCorp's declaratory judgment complaint will probably be dismissed on the ground that there is no "actual controversy" between LensCorp and ChemCo. Yet, there is no doubt that damages for patent infringement began accruing against LensCorp at least as early as ChemCo's first letter to LensCorp. LensCorp thus finds itself unable to obtain judicial resolution of its claims of non-infringement and invalidity, but potentially accrues additional liability for patent infringement with every day it continues to manufacture lenses. LensCorp and its shareholders cannot bear the risks associated with the resulting uncertainty, and are forced to choose between paying ChemCo royalties under a patent LensCorp believes in good faith to be invalid, and ceasing manufacture of its lenses.

Instead of viewing the alleged infringer's declaratory judgment complaint which, as in the above hypothetical, states that the patentee has asserted infringement, as giving rise to a concrete, immediate controversy sufficient to satisfy the Act and the constitutional requirement for a "case or controversy," the Federal Circuit has focused on whether the patentee's conduct evidences an intent to institute an infringement action *imminently*.<sup>40</sup> This latter evaluation is difficult for courts to make. More importantly, it skews the balance Congress intended to strike by passing the Act, once again placing accused infringers at the mercy of patentees.

This article discusses the development and status of declaratory judgment jurisdiction in patent cases. Furthermore, this article shows that the Federal Circuit, by applying its recently developed jurisdictional standard, has limited access to the declaratory judgment remedy.<sup>41</sup> Part I discusses the Federal Declaratory Judgment Act, the policies the Act is intended to serve, and the legal standards which have

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<sup>40</sup> See discussion *infra* Part III.

<sup>41</sup> See *infra* notes 179-200 and accompanying text.

been developed through interpretation of the Act.<sup>42</sup> This Part further describes the courts' statutory authority to decline to exercise jurisdiction even where a controversy is found.<sup>43</sup> Part II discusses the significant cases in the historical development of the governing legal standards under the Act, providing examples of the liberal construction the jurisdictional aspect received prior to the institution of the Federal Circuit.<sup>44</sup> Part III examines the Federal Circuit's declaratory judgment jurisprudence, highlights the tests the court has used to determine whether jurisdiction exists, and discusses, in particular, several recent decisions which limit the availability of the declaratory judgment remedy for alleged infringers.<sup>45</sup> This Part further argues that the Federal Circuit's heightened jurisdictional standard is unwarranted, inconsistent with business realities, and incompatible with the Act's policy.<sup>46</sup> Part IV discusses the relationship between the Act and the statutory marking and notice requirements to show how an accused infringer can, under current interpretations of the law of notice and declaratory judgment jurisdiction, find itself in precisely the predicament Congress intended to ameliorate in passing the Act.<sup>47</sup> Finally, Part V advocates a more liberal construction of the Act than is presently applied and suggests an approach for determining jurisdiction in particular factual circumstances. This approach will promote consistent application of the notice and declaratory judgment jurisdiction standards, result in increased fairness for accused infringers and better serve the policies underlying the relevant statutes. Specifically, courts should examine the conduct and communications of patentees relied on for declaratory judgment jurisdiction to determine whether such conduct would constitute notice of infringement for purposes of triggering damage liability. If so, the conduct should be held sufficient to give rise to jurisdiction under the Act as a matter of law. The recommended approach will also serve as a helpful rule of decision for trial judges, and, in accordance with the mission of the Federal Circuit, impart greater uniformity and consistency to judicial decision-making.

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<sup>42</sup> See *infra* notes 48–65 and accompanying text.

<sup>43</sup> See *infra* notes 66–87 and accompanying text.

<sup>44</sup> See *infra* notes 90–116 and accompanying text.

<sup>45</sup> See *infra* notes 117–77 and accompanying text.

<sup>46</sup> See *infra* notes 184–208 and accompanying text.

<sup>47</sup> See *infra* notes 209–37 and accompanying text.

## I. THE FEDERAL DECLARATORY JUDGMENT ACT

### A. *A Policy of Protection for Accused Patent Infringers*

The Declaratory Judgment Act is codified at 28 U.S.C. § 2201.<sup>48</sup> In relevant part, it provides:

#### § 2201. Creation of remedy

(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.<sup>49</sup>

The statute was enacted in 1934.<sup>50</sup> The legislative history<sup>51</sup> shows that Congress was primarily concerned with the plight of parties confronted with uncertainties in their legal and business relations, but who had no resort to the courts because the other party possessed the cause of action. In particular, Congress heard about the di-

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<sup>48</sup> 28 U.S.C. § 2201 (1994).

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

<sup>50</sup> Act of June 14, 1934, ch. 512, 48 Stat. 955.

<sup>51</sup> The legislative history from the 1934 Congressional session is very limited because there were no debates in either the House or the Senate on the bill that year. *See* 78 CONG. REC. 10,564-65, 10,919 (1934) (Senate consideration); 78 CONG. REC. 8224 (1934) (House consideration). However, a bill proposing a federal declaratory judgment remedy had been introduced in every Congressional session from 1919 to 1932, and the corresponding hearings demonstrate that the primary purpose of the statute was to eliminate uncertainty. *See, e.g., 1928 Hearings on H.R. 5623 Before a Subcomm. of the Senate Comm. on the Judiciary*, 70th Cong., 1st Sess. 34-35 (1928) [hereinafter "*1928 Senate Hearings*"] (testimony of Professor Edson R. Sunderland, whose 1917 law review article (Edson R. Sunderland, *A Modern Evolution in Remedial Rights—The Declaratory Judgment*, 16 MICH. L. REV. 69 (1917)) was instrumental in instituting the effort to pass a federal declaratory judgment statute in the United States, contending that, without the declaratory judgment remedy, parties must undergo great risks without knowledge of their respective entitlements, and concluding that the declaratory judgment "removes all that peril"); *1928 Senate Hearings, supra* at 16 (letter from Judge Cardozo, then Chief Judge of the New York State Court of Appeals, describing the remedy as "a useful expedient to litigants who would otherwise have acted at their peril, or at best would have been exposed to harrowing delay."); *Hearing on H.R. 10143 Before the House Comm. on the Judiciary*, 67th Cong., 2d Sess. 16 (1922) [hereinafter "*1922 House Hearings*"] (statement of Rep. Summers) (the purpose of the declaratory judgment statute is "[t]o remove uncertainty. It seems to me the individual citizen has as much right to be reasonably certain as to what the courts would determine his rights to be as he has to be reasonably certain what the legislature has determined his rights to be.").

lemma of the alleged patent infringer, described in testimony by Professor Edson R. Sunderland, an advocate of the Act:

I assert that I have a right to use a certain patent. You claim that you have a patent. What am I going to do about it? There is no way that I can litigate my right, which I claim, to use that device, except by going ahead and using it, and you [the patent holder] can sit back as long as you please and let me run up just as high a bill of damages as you wish to have me run up, and then you may sue me for the damages, and I am ruined, having acted all the time in good faith and on my best judgment, but having no way in the world to find out whether I had a right to use that device or not.<sup>52</sup>

The Federal Circuit has referred to this dilemma as "the sad and saddening scenario that led to enactment of the Declaratory Judgment Act."<sup>53</sup> In the court's evocative description, "a patent owner engages in a *danse macabre*, brandishing a Damoclean threat with a sheathed sword."<sup>54</sup>

In providing a route for an alleged infringer to challenge the applicability and validity of a patent, the Act also serves the policies underlying the patent laws.<sup>55</sup> Throughout history, courts have construed the patent laws with regard to the strong public policy of promoting free access to unpatented subject matter.<sup>56</sup> The Act affords an opportunity for judicial scrutiny of patents that the patentee is using to interfere with what is in actuality lawful conduct potentially beneficial to society.<sup>57</sup>

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Professors Doernberg and Mushlin have prepared an excellent discussion of the jurisdictional effect of the Declaratory Judgment Act, which includes a thorough review of the legislative history of the Act. See Donald L. Doernberg & Michael B. Mushlin, *The Trojan Horse: How the Declaratory Judgment Act Created a Cause of Action and Expanded Federal Jurisdiction While the Supreme Court Wasn't Looking*, 36 UCLA L. REV. 529 (1989).

<sup>52</sup> 1928 Senate Hearings, *supra* note 51, at 35.

<sup>53</sup> *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 734 (Fed. Cir. 1988).

<sup>54</sup> *Id.* at 734-35. The court further refers to the patentee in such a situation as "[g]uerrilla-like" and engaging in "scare-the-customer-and-run tactics." *Id.* at 735.

<sup>55</sup> See *id.* at 734-35.

<sup>56</sup> See, e.g., *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-32 (1964) (holding that a state's attempt to extend protection under state unfair competition laws to an unpatentable article encroaches on the federal patent law policy of granting to the public that which is unpatentable).

<sup>57</sup> Such patents have been referred to by Judge Learned Hand as "scarecrow[s]." See *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943). The Supreme Court has also emphasized the importance to the public of resolving questions of patent validity. *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 338-47 (1971).

## B. *The Jurisdictional Test*

### 1. The "Actual Controversy" Requirement

The Act's sole prerequisite for jurisdiction is the presence of an "actual controversy," a requirement of constitutional dimensions.<sup>58</sup> Anything short of an actual controversy would result in the court rendering a forbidden advisory opinion.<sup>59</sup> The Supreme Court has described the difficulty in constructing a specific test for divining the existence of an actual controversy:

The difference between an abstract question and a "controversy" contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy. Basically, 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>60</sup>

Nevertheless, a test for determining whether there is an actual controversy in suits requesting a declaration of patent non-infringement or invalidity<sup>61</sup> has been developed. The Federal Circuit has essentially stated this test consistently throughout its history:

First, the [declaratory judgment] plaintiff must actually produce or be prepared to produce an allegedly infringing product. Second, the patentee's conduct must have created an objectively reasonable apprehension on the part of the plaintiff that the patentee will initiate suit if the activity in question continues.<sup>62</sup>

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<sup>58</sup> See *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-40 (1937).

<sup>59</sup> See *id.* at 240-41.

<sup>60</sup> *Maryland Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941).

<sup>61</sup> Suits by accused infringers represent the traditional use of the declaratory judgment remedy in patent cases, and are the subject of this article. In recent years, patent owners have begun to use the declaratory judgment statute to obtain relief against potential infringers. For a discussion of this nontraditional application of the statute, see Lawrence M. Sung, *Intellectual Property Protection or Protectionism? Declaratory Judgment Use By Patent Owners Against Prospective Infringers*, 42 AM. U. L. REV. 239 (1992).

<sup>62</sup> *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996), *cert. denied*, 117 S. Ct. 789 (1997). The first prong of the test is obviously intended, like the second, to ensure that the

Thus, the first prong of the test focuses on the plaintiff's conduct; the second looks to the conduct of the patentee.<sup>63</sup>

The reasonable apprehension must be objective, must exist at the time suit is filed<sup>64</sup> and must continue after the complaint is filed because "Article III of the Constitution requires that there be a live case or controversy at the time that a federal court decides the case."<sup>65</sup>

## 2. A Discretionary Remedy

The Declaratory Judgment Act provides that, in the case of an actual controversy, the court "may declare the rights and . . . legal relations" of a party.<sup>66</sup> This language has been interpreted to make the exercise of declaratory judgment jurisdiction discretionary.<sup>67</sup> The Supreme Court has recently noted that the Act's "textual commitment to discretion, and the breadth of leeway we have always understood it to suggest, distinguish the declaratory judgment context from other areas of the law in which concepts of discretion surface."<sup>68</sup> The trial court is

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declaratory judgment plaintiff has a sufficient stake in the matter to establish a real conflict with the defendant-patentee. This article is concerned with the communications and conduct required to establish the "reasonable apprehension" referred to in the second prong and assumes without further discussion that the first prong is satisfied for any given factual scenario described in the balance of the article.

<sup>63</sup> See *Arrowhead Indus. Water, Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988).

<sup>64</sup> See *Indium Corp. of Am. v. Semi-Alloys, Inc.*, 781 F.2d 879, 883 (Fed. Cir. 1985); see also *Spectronics Corp. v. H.B. Fuller Co.*, 940 F.2d 631, 635 (Fed. Cir. 1991) ("[L]ater events may not create jurisdiction where none existed at the time of filing."). This rule has been applied to deny jurisdiction where, for example, the complaint in the declaratory judgment action was filed before the subject patent issued. See *GAF Bldg. Materials Corp. v. Elk Corp.*, 90 F.3d 479, 481-82 (Fed. Cir. 1996) (holding that the traditional two-prong test for jurisdiction was met; however, in the absence of a patent, the dispute was purely hypothetical and any decision would have been an impermissible advisory opinion); see also *Spectronics*, 940 F.2d at 636 ("[T]he existence of issued patent claims, presently enforceable . . . , are a requisite to litigation of a declaratory judgment action.").

<sup>65</sup> *Spectronics*, 940 F.2d at 635 (quoting *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1549 (Fed. Cir. 1987) (quoting *Burke v. Barnes*, 479 U.S. 361, 363 (1987))). The court in *Spectronics* held that the defendant-patentee's filing of a covenant not to sue the declaratory judgment plaintiff on the patent at issue following the filing of the complaint rendered the controversy moot. *Id.* at 637-38.

<sup>66</sup> 28 U.S.C. § 2201 (1994) (emphasis added).

<sup>67</sup> See *Public Serv. Comm'n v. Wycoff Co.*, 344 U.S. 237, 241 (1952).

<sup>68</sup> *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286-87 (1995). *Wilton* arose from an insurer's federal declaratory judgment action for a determination that its policy did not cover its insured's liability. *Id.* at 280. The insured filed a state court action on the policy one month after the insurer's federal declaratory judgment action was instituted, and simultaneously moved to dismiss or stay the federal action. See *id.* The Supreme Court affirmed the decision of the Court of Appeals for the Fifth Circuit, which upheld the district court's decision to stay the declaratory judgment action. *Id.* at 281, 282. The Court held that district courts enjoy a "unique breadth" of discretion to decline jurisdiction under the Declaratory Judgment Act and need not identify "exceptional

thus authorized to determine whether its time and resources will be well-spent in deciding a particular dispute.<sup>69</sup> The criteria which favor the issuance of a declaratory judgment include "(1) when the judgment will serve a useful purpose in clarifying and settling the legal relations in issue, and (2) when it will terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceeding."<sup>70</sup> A reviewing court may reverse a lower court's decision exercising discretion under the Act when "(1) the court's decision was clearly unreasonable, arbitrary, or fanciful; (2) the decision was based on an erroneous conclusion of law; (3) the court's findings were clearly erroneous; or (4) the record contains no evidence upon which the court rationally could have based its decision."<sup>71</sup>

In *Minnesota Mining & Manufacturing Co. v. Norton Co.*, the Federal Circuit reviewed a district court's discretionary dismissal of a declaratory judgment action.<sup>72</sup> The defendant, Norton, was the owner of U.S. Patent No. 4,623,364 (the "'364 patent"), which covered an aluminum-based process for making "grains" used in sandpaper and grinding wheels.<sup>73</sup> The plaintiff, Minnesota Mining & Manufacturing Co. ("3M"), had also filed a patent application covering an aluminum-

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circumstances" to justify staying district court proceedings in favor of parallel state proceedings. *Id.* at 287.

The Federal Circuit recently upheld a district court's decision to decline to hear an accused infringer's declaratory judgment action, relying in part on the Supreme Court's decision in *Wilton*. *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 814-15 (Fed. Cir. 1996), *cert. denied*, 117 S.Ct. 789 (1997). Noting that the Supreme Court in *Wilton* chose the deferential "abuse of discretion" standard over the more probing "de novo" standard the Federal Circuit employed in *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936 (Fed. Cir. 1993), the court in *EMC* upheld the district court's refusal to hear the accused infringer's declaratory judgment suit. *EMC*, 89 F.3d at 813-15.

The 8-0 decision of the Supreme Court in *Wilton* left no doubt about its view that district courts enjoy broad discretion in deciding whether to hear declaratory judgment cases. However, *Wilton* concerned an exercise of discretion in the face of parallel state court proceedings involving matters of state law, thereby "presenting opportunity for ventilation of the same state law issues." 515 U.S. at 290. In this regard, the Court expressly stated "[w]e do not attempt at this time to delineate the outer boundaries of that discretion in other cases, for example, cases raising issues of federal law or cases in which there are no parallel state proceedings." *Id.* Most declaratory judgment claims in patent cases are based on federal law, and there will rarely be related coincident state court proceedings, as the federal courts have exclusive jurisdiction in patent cases. See 28 U.S.C. § 1338(a) (1994). Thus, it is not clear that the Supreme Court would uphold a broad exercise of discretion to decline to hear an accused infringer's action for a declaration of patent invalidity or non-infringement where a patentee has asserted infringement and the accused infringer has access to no other forum.

<sup>69</sup> See *Minnesota Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 672 (Fed. Cir. 1991).

<sup>70</sup> E. BORCHARD, *DECLARATORY JUDGMENTS* 299 (2d ed. 1941), *quoted in Minnesota Mining & Mfg. Co.*, 929 F.2d at 672-73.

<sup>71</sup> *Minnesota Mining & Mfg. Co.*, 929 F.2d at 673.

<sup>72</sup> *Id.* at 671.

<sup>73</sup> See *id.*

based process for making grains and had instituted an interference proceeding<sup>74</sup> in the U.S. Patent & Trademark Office, seeking a determination as to which of the parties was the first to invent the process and thus entitled to the patent.<sup>75</sup> 3M had used an aluminum-based process prior to the issuance of the '364 patent but switched to an iron-based process after the patent issued to avoid the potential accrual of infringement damages.<sup>76</sup> During the parties' discussions concerning their rights to the grain-making processes, Norton notified 3M that the '364 patent covered both the aluminum- and iron-based processes.<sup>77</sup> Norton also sent letters to 3M's customers, demanding that they cease use or sale of 3M's grain products.<sup>78</sup> 3M then filed a declaratory judgment action, seeking a declaration that its iron-based process did not infringe the '364 patent.<sup>79</sup> Norton moved to dismiss the action on the ground that the pending interference could moot any declaration issued by the court.<sup>80</sup> The district court agreed and dismissed the action based solely on its discretion under the Act.<sup>81</sup>

On appeal, the Federal Circuit first observed that the case presented competing policy considerations.<sup>82</sup> On the one hand, the court was concerned with conserving limited judicial resources.<sup>83</sup> On the other hand, the court was to consider the predicament of the party in 3M's position who seeks an "early adjudication of its rights and liabilities" via the Act, which, the court noted, "was enacted precisely for circumstances such as these."<sup>84</sup> The court stated:

Norton has threatened 3M and its customers with the prospect of infringement liability. As 3M continues to sell products it believes do not infringe, its potential liability grows. These are among the problems the Declaratory Judgment Act

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<sup>74</sup> See 35 U.S.C. § 135 (1994). An interference proceeding is an inter-parties proceeding conducted in the U.S. Patent & Trademark Office to decide which of two or more parties claiming to have made a particular invention was first in time. See ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT § 15.2 (3d ed. 1994). The prior inventor, assuming all other questions of patentability have been resolved in his favor, is awarded the patent. See *id.*

<sup>75</sup> See *Minnesota Mining & Mfg. Co.*, 929 F.2d at 671.

<sup>76</sup> See *id.* at 671-72.

<sup>77</sup> See *id.* at 672.

<sup>78</sup> See *id.*

<sup>79</sup> See *id.*

<sup>80</sup> See *Minnesota Mining & Mfg. Co.*, 929 F.2d at 672. Norton's argument was based on the possibility that the U.S. Patent & Trademark Office could declare the '364 patent invalid and issue a patent for the aluminum-based process to 3M.

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 673.

<sup>83</sup> See *id.*

<sup>84</sup> *Id.*

sought to alleviate. . . . It surely would serve a "useful purpose" for 3M and Norton to have a court decide whether use of the iron-based process infringes a patent claiming an aluminum-based process. Moreover, resolution of that question will "afford relief from the uncertainty, insecurity, and controversy" which the conflict between the parties has engendered. Failure to do so may cause significant harm to 3M.<sup>85</sup>

The Federal Circuit thus held that the district court abused its discretion in declining to hear 3M's action, despite the fact that, as the court acknowledged, an award of priority in the interference to 3M would moot the declaratory judgment action.<sup>86</sup> The court declined to theorize regarding an appropriate situation for a court to decline to exercise jurisdiction, asserting only that "3M should have had its rights and obligations determined in a court, . . . based on the rights provided to it by the Declaratory Judgment Act . . . . To allow [3M's] harms to go unremedied would undermine the intended purpose of the Declaratory Judgment Act."<sup>87</sup>

Circumstances justifying an appropriate discretionary declination of jurisdiction will not be present in the great majority of declaratory judgment actions brought by alleged infringers seeking judgments of invalidity or non-infringement. As noted by the Federal Circuit, jurisdiction should be exercised when the declaratory judgment will "serve a useful purpose in clarifying and settling the legal relations in issue," and "terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceeding."<sup>88</sup> Given these criteria, and the strong congressional policy of providing relief from uncertainty and insecurity to those charged with infringing a patent, a court should refuse to exercise jurisdiction only in the most exceptional circumstances. Yet, in *EMC Corp. v. Norand Corp.*, the Federal Circuit recently upheld a district court's refusal to exercise declaratory judgment jurisdiction<sup>89</sup> where such a refusal was unwarranted. This result, together with the Federal Circuit's recent unwillingness to afford the Act the

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<sup>85</sup> *Minnesota Mining & Mfg. Co.*, 929 F.2d at 673-74.

<sup>86</sup> *Id.* at 674.

<sup>87</sup> *Id.* at 675.

<sup>88</sup> *Id.* at 672-73 (quoting BORCHARD, *supra* note 70, at 299).

<sup>89</sup> 89 F.3d 807, 815 (Fed. Cir. 1996), *cert. denied*, 117 S.Ct. 789 (1997). The district court had declined to consider whether an actual controversy existed between the parties, holding that, in any event, it would decline to exercise jurisdiction. *See id.* at 809. The Federal Circuit held that Norand's conduct was sufficient to create the constitutionally and statutorily required actual controversy conferring jurisdiction on the district court. *Id.* at 811. The court then found no abuse of discretion in the district court's refusal to exercise jurisdiction. *Id.* at 815.

liberal construction intended by Congress and given by the courts in pre-Federal Circuit patent cases, threatens the effectiveness of the remedy and undermines the purposes for which the statute was enacted.

## II. INTERPRETATION OF THE DECLARATORY JUDGMENT ACT IN PRE-FEDERAL CIRCUIT PATENT CASES

The first courts to interpret the Act, in actions brought by potential infringers to resolve their liability for patent infringement, were mindful of the Act's origin and purpose.<sup>90</sup> For example, in one of its early decisions applying the Act in a case for a declaration of patent invalidity,<sup>91</sup> the Third Circuit held that an actual controversy existed between a patentee and a potential infringer, where the patentee had neither threatened the plaintiff with suit nor charged the plaintiff with infringement.<sup>92</sup> The plaintiff in *Dewey & Almy Chemical Co. v. American Anode, Inc.* relied upon the following conduct of the patentee as evidence of an actual controversy: (1) the patentee had sued a third party for infringement based on the third party's practice of a process "similar" to the plaintiff's process;<sup>93</sup> (2) the suit against the third party was brought following license negotiations between the third party and the patentee, which culminated in the third party's refusal to take a license from the patentee;<sup>94</sup> (3) license negotiations between the patentee and plaintiff had broken down as a result of the parties' inability to agree upon terms;<sup>95</sup> and (4) outside the courtroom during the trial of the patentee's litigation with the third party, plaintiff's in-house patent counsel heard the patentee's president state, in effect, that "it was a disappointment to him that the manufacturers did not recognize the

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EMC, the alleged infringer in *EMC*, was not a particularly sympathetic declaratory judgment plaintiff. The facts suggested that EMC may have filed its action in order to interfere with attempts by Norand, which was not a competitor of EMC, to sell its patent to a competitor of EMC. *See id.* at 809. In addition, EMC's counsel admitted to Norand's counsel that the declaratory judgment complaint had been filed as "merely a defensive step" and that "EMC's management decided to file suit because 'they just thought it was in their interest to protect themselves first and continue discussions.'" *Id.* at 815. The Federal Circuit also credited the district court's observation that a party in EMC's position could use the declaratory judgment procedure as a tactic to improve its bargaining position in negotiations with the patentee. *Id.* at 811. Nevertheless, the decision in *EMC* is troubling because it demonstrates how a court can, through an exercise of its discretion, close off access to declaratory relief even in the presence of an actual controversy.

<sup>90</sup> *See supra* notes 48-57 and accompanying text.

<sup>91</sup> *See Dewey & Almy Chem. Co. v. American Anode, Inc.*, 137 F.2d 68 (3d Cir. 1943).

<sup>92</sup> *Id.* at 70-71.

<sup>93</sup> *Id.* at 70.

<sup>94</sup> *See id.* at 69.

<sup>95</sup> *See id.*

great contribution which [the patentee] had made to the rubber dipping art and now that the manufacturers were ganging up on them they had to put a stop to it."<sup>96</sup> It was undisputed that the patentee had never threatened the plaintiff with suit nor charged the plaintiff with infringement.<sup>97</sup> In fact, it was the patentee's uncontroverted assertion that it "had no knowledge or reason to know that plaintiff was using or had used any [relevant] process commercially."<sup>98</sup>

On this record, the district court in *Dewey & Almy* granted summary judgment in favor of the patentee, dismissing the plaintiff's complaint for a lack of jurisdiction under the Act.<sup>99</sup> On appeal, the Third Circuit began its analysis by recounting the perceived inequities that led to the enactment of the Act:

Prior to the passage of the Declaratory Judgment Act, the patentee was in a position to make oppressive use of his asserted monopoly while carefully avoiding the test of litigation with an alleged infringer . . . . Further, the patentee might, in his own good time, sue the alleged infringer for an accounting, after large damages on account of a possible infringement had accrued . . . . The alleged infringer could not take the initiative in litigation to challenge the validity or scope of the patent.<sup>100</sup>

To remedy this problem, Congress intended the Act "to avoid accrual of avoidable damages to one not certain of his rights and to afford him an early adjudication without waiting until his adversary should see fit to begin suit, after damage had accrued."<sup>101</sup> The Third Circuit thus held that the Act should be liberally interpreted to give effect to Congress' remedial purpose.<sup>102</sup>

On the facts before it in *Dewey & Almy*, the Third Circuit held that the patentee's enforcement of its patent against *another* alleged infringer who declined to take a license was sufficient evidence of a "substantial controversy" between the patentee and the plaintiff "of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."<sup>103</sup> In so holding, the court dismissed the notion that a

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<sup>96</sup> *Dewey & Almy*, 137 F.2d at 69.

<sup>97</sup> *See id.*

<sup>98</sup> *Id.*

<sup>99</sup> *See id.* at 68.

<sup>100</sup> *Id.* at 69 (citing BORCHARD, *supra* note 70, at 803).

<sup>101</sup> *Dewey & Almy*, 137 F.2d at 69 (quoting *E. Edelmann & Co. v. Triple-A Specialty Co.*, 88 F.2d 852, 854 (7th Cir. 1937)).

<sup>102</sup> *Id.* at 70.

<sup>103</sup> *Id.* (quoting *Maryland Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)). The

direct threat from the patentee to the plaintiff was necessary.<sup>104</sup> The court found sufficient evidence of a controversy in the patentee's suit against another alleged infringer "doing the same thing" as the plaintiff.<sup>105</sup> In dicta, however, the court indicated its willingness to construe the Act even more freely:

If [the patentee] had published a printed notice or circular asserting that use of the described . . . processes constitutes an infringement of its patents this would undoubtedly mark the existence of an actual controversy between the patentee and all persons who engaged in practising [sic] the process, whether they were known to the patentee or not.<sup>106</sup>

Other courts construing the new Act were also of the view that jurisdiction would lie even where the patentee had never threat-

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court supported its holding that the Declaratory Judgment Act's jurisdictional requirements were met by itemizing the plaintiff's choices given a contrary holding. The patentee, the court said, had put the plaintiff "in the position where it must either (1) abandon the use of the process, (2) accept a license on terms which it deems disadvantageous, or (3) persist in piling up potential damages against the day when it may fit [the plaintiff's] purposes to bring an infringement suit against it."

*Id.* at 71.

<sup>104</sup> *Id.* at 70 ("Certainly the fact that [the defendant] had never made any direct threat to sue [the plaintiff] is not conclusive of the problem.").

<sup>105</sup> *Id.* at 71.

<sup>106</sup> *Dewey & Almy*, 137 F.2d at 71; see also *Treemond Co. v. Schering Corp.*, 122 F.2d 702, 703, 706 (3d Cir. 1941) (holding that a patentee's publication of a notice in a trade journal of its patent and the fact that the process of making, and "all uses of," a chemical known as "Estradiol" were covered by its patent was sufficient to give rise to an actual controversy between it and another manufacturer of the chemical). The court in *Treemond* rebuked the district court for taking a less permissive view of the Declaratory Judgment Act's jurisdictional requirement stating that "[s]ome District Courts seem to have found difficulty in freeing themselves from the strait-jacket of the 'adversary' conception. They exhibit a tendency toward a narrow and technical interpretation of an Act intended to be construed in accordance with its broad and wise purpose." 122 F.2d at 703. The *Treemond* court maintained that a more limited construction of the Act "would . . . destroy its entire usefulness in patent litigation." *Id.* The court described the plight of the pre-Act alleged infringer as follows:

Before the passage of that Act patentees received greater protection from the law than was warranted by their patent monopoly. Competitors desiring to introduce an article somewhat similar to one already patented met with much difficulty. The patentee could, without bringing suit, publicly claim an infringement and threaten to sue the manufacturer or anyone who dealt with the product in issue. Unless the patentee's actions were of such a character that he might be shackled with the sanctions of the law of unfair competition, he had his alleged infringer at his mercy. Although the competitor's business was gravely injured, he was remediless and in order to survive, he might be forced to make a settlement with a patentee whose claim of infringement was absolutely unfounded.

*Id.* at 703-04.

ened the plaintiff with litigation or accused the plaintiff of infringement.<sup>107</sup>

Prior to the creation of the Court of Appeals for the Federal Circuit, the courts continued the tradition of liberally construing the requirement for declaratory judgment jurisdiction.<sup>108</sup> They began to consider whether a patentee's conduct in a given set of circumstances had given rise to a "reasonable apprehension" of liability<sup>109</sup> on the part

<sup>107</sup> See, e.g., *Alfred Hofmann, Inc. v. Knitting Mach. Corp.*, 123 F.2d 458 (3d Cir. 1941); see *Leach v. Ross Heater & Mfg. Co.*, 104 F.2d 88, 91 (2d Cir. 1939) (stating in dicta that "[w]here a patentee notifies the trade that a competitor is infringing, the competitor may bring an action under the [Declaratory Judgment] Act . . . to have his rights and those of the patentee in respect of the claimed infringement declared"); *E.W. Bliss Co. v. Cold Metal Process Co.*, 102 F.2d 105, 108-09 (6th Cir. 1939) (holding that an actual controversy existed where a patentee notified the trade that the plaintiff's product was infringing and brought an infringement action against one of the plaintiff's customers).

<sup>108</sup> See, e.g., *Sherwood Med. Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 727 (8th Cir. 1975) ("the requirement of a charge of infringement is liberally construed"); *Sweetheart Plastics, Inc. v. Illinois Tool Works, Inc.*, 439 F.2d 871, 874 (1st Cir. 1971) ("[w]here the patent by its terms raises a reasonable doubt as to whether or not plaintiff's activities constitute an infringement . . . [t]o deny that a 'case or controversy' is present is to ignore the realities of business life") (quoting 6A JAMES W. MOORE ET AL., *MOORE'S FEDERAL PRACTICE* ¶ 57.20 (2d ed. 1966); *Muller v. Olin Mathieson Chem. Corp.*, 404 F.2d 501, 504 (2d Cir. 1968) (finding a "threat of infringement" from numerous patent interference proceedings involving the parties, a hold harmless agreement that the plaintiff's licensee requested, and a letter from the patentee to the plaintiff's licensee "coming very close" to charging infringement); *Sücker Indus. Supply Corp. v. Blaw-Knox Co.*, 367 F.2d 744, 746-47 (7th Cir. 1966) (asserting the necessity of liberally interpreting the Act in order to give effect to its purpose, and holding that a patentee's notice to plaintiff's customers indicating that their unlicensed use of the plaintiff's product would make them infringers gave rise to an actual controversy under the Act); *Blessings Corp. v. Altman*, 373 F. Supp. 802, 806 (S.D.N.Y. 1974) ("any lingering possibility of an infringement charge is sufficient to support the finding of an actual controversy so long as the plaintiff can demonstrate some actual harm to its business"); *Wallace & Tiernan, Inc. v. General Elec. Co.*, 291 F. Supp. 217, 221-22 (S.D.N.Y. 1968) (finding the presence of an actual controversy in a patentee's assertion that its patent covered a composition whose component was being developed by the plaintiff, even where it was undisputed that the patentee had never charged the plaintiff with infringement).

<sup>109</sup> The "reasonable apprehension" test has evolved over the 30 years in which it has been used in patent cases. Prior to the creation of the Federal Circuit, the Circuit Courts of Appeals often looked for a "reasonable apprehension of liability" on the part of the alleged infringer. See, e.g., *Societe de Conditionnement en Aluminium v. Hunter Eng'g Co.*, 655 F.2d 938, 944 (9th Cir. 1981) ("[a]n action for a declaratory judgment that a patent is invalid, or that the plaintiff is not infringing, is a case or controversy if the plaintiff has a real and reasonable apprehension that he will be subject to liability if he continues to manufacture his product"). In contrast, the Federal Circuit has required that the plaintiff demonstrate a "reasonable apprehension that it will face an infringement suit" if it commences or continues the activity in question." *Indium Corp. of Am. v. Semi-Alloys, Inc.*, 781 F.2d 879, 883 (Fed. Cir. 1985) (emphasis added) (citing *Jervis B. Webb Co. v. Southern Sys., Inc.*, 742 F.2d 1388, 1398-99 (Fed. Cir. 1984)); see also *Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1159 (Fed. Cir. 1996) ("[A]n actual controversy exists if there is . . . an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit . . ."). The Federal Circuit's formulation of the reasonable apprehension test requires the declaratory judgment

of the alleged infringer, but made clear that a threat of suit on the part of the patentee was not required. For example, the actual controversy requirement was held to be satisfied in circumstances similar to those found in *Dewey & Almy*, where the defendant patentee had publicly espoused a construction for its patent that would embrace the plaintiff's product, had issued warnings, and had sued other parties for infringement, even though the defendant disclaimed any knowledge of the plaintiff's design before the declaratory judgment action was commenced.<sup>110</sup> Similarly, a plaintiff's substantial investment in the development of a product, whose principal use was in a chemical composition claimed by the patentee to be covered by its patent, gave rise to the requisite controversy.<sup>111</sup> An exclusive licensee's letter to a declaratory judgment plaintiff stating that "plaintiff's customers' right to continue using plaintiff's [product] would remain 'to be settled'" if its licensor's patent application were granted, coupled with the licensee's notices to customers that the patent had issued and that licenses were available, was held to give rise to jurisdiction.<sup>112</sup> Jurisdiction was also found where a patentee, who had brought an infringement suit against another competitor four years before learning of the plaintiff's product, requested a sample of the product in order to "examine the same and assure [itself] that there is no infringement" and the patentee's director of new products orally informed the plaintiff's product engineer that counsel had advised the patentee that the plaintiff's product infringed.<sup>113</sup>

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plaintiff to establish a reasonable fear of imminent litigation, rather than a fear of ultimate liability. See *infra* note 144.

<sup>110</sup> See *Japan Gas Lighter Assoc. v. Ronson Corp.*, 257 F. Supp. 219, 238-42 (D.N.J. 1966).

<sup>111</sup> See *Wallace & Tiernan, Inc.*, 291 F. Supp. at 220-21.

<sup>112</sup> *Sticker Indus. Supply Corp. v. Blaw-Knox Co.*, 367 F.2d 744, 745-46 (7th Cir. 1966). The court also quoted Professor Moore's endorsement of a "very liberal interpretation of infringement charges because the Declaratory Judgment Act is designed to prevent the necessity of acting at one's peril." *Id.* at 747 n.2 (quoting 6 MOORE, *supra* note 108, ¶ 57.20).

<sup>113</sup> *Sherwood Med. Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 726 & n.3 (8th Cir. 1975). The *Sherwood* court observed that "the requirement of a charge of infringement is liberally construed" and stated that in determining whether or not an actual controversy exists, "courts should make a pragmatic judgment, aware of the business realities that are involved." *Id.* at 727, 728. The court continued:

To view the facts of this case any differently would be to totally ignore the realities of business life. It would also contravene the well settled rule that the Declaratory Judgment Act should be liberally construed to accomplish its purpose of providing a speedy and inexpensive method of adjudicating legal disputes without invoking coercive remedies and that it is not to be interpreted in any narrow or technical sense.

*Id.* at 729.

These cases illustrate the historical willingness to find jurisdiction, consistent with the purposes of the Act and the "business realities"<sup>114</sup> involved, whenever a patentee indicates its intent to enforce its patents, even if only by conduct directed at third parties, and whenever a potential infringer's activities place it at risk of liability. Clearly, the courts did not require a threat of suit. Further, even a requirement for a charge of infringement, to the extent imposed,<sup>115</sup> was interpreted liberally.<sup>116</sup> An examination of the declaratory judgment cases of the

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The court in *Research Institute for Medicine and Chemistry, Inc. v. Wisconsin Alumni Research Foundation, Inc.*, adopted a similar view of the reasonable apprehension standard:

I take the test to be how most business people in the position of the declaratory plaintiff would react to the information plaintiff might reasonably be expected to have gathered at the time. The accent is on information, the nature, sources and quantity of which are the sort upon which business people normally rely in making decisions. Business people are not bound by rules of evidence. They do not leave it to others to resolve issues of credibility. They learn from experience. They develop intuition. A perceived threat of an infringement suit is real if it would be a substantial factor for most business people in their choice to proceed in one direction and not in another.

The considerations which prompted passage of the Declaratory Judgments [sic] Act and rendered it peculiarly appropriate in patent litigation continue today to justify emphasis upon those apprehensions of declaratory plaintiffs shown to be reasonable in a business world. This is the path to testing the definiteness, reality, and controversy required by Article III, section 2.

647 F. Supp. 761, 768 (W.D. Wis. 1986). The *Research Institute* court acknowledged the Federal Circuit's requirement that the reasonable apprehension be objectively reasonable. *See id.*; *see also* Indium Corp. of Am. v. Semi-Alloys, Inc., 781 F.2d 879, 883 (Fed. Cir. 1985) ("[a] purely subjective apprehension of an infringement suit is insufficient to satisfy the actual controversy requirement"). Based on its view of business realities, however, the court rejected the view that the declaratory judgment plaintiff must convince the court that it risks suit: "[i]t is not necessary that the evidence received in court, having survived the rules of evidence, persuade the court itself that the declaratory plaintiff probably will be sued by the declaratory defendant . . . ." *Research Inst.*, 647 F. Supp. at 768.

<sup>114</sup> *See Research Inst.*, 647 F. Supp. at 768.

<sup>115</sup> The courts were particularly willing to overlook the absence of a threat of suit, or even a charge of infringement, when the parties had previously been involved in litigation. For example, in *Broadview Chemical Corp. v. Loctite Corp.*, several of the declaratory judgment plaintiff's products had been held to infringe the defendant-patentee's patents during litigation which occurred over a five-year period. 417 F.2d 998, 999 (2d Cir. 1969). The plaintiff then designed and began to market a new line of products, and sought a declaration of non-infringement. *See id.* The court sustained the complaint against the defendant's challenge after considering the history of litigation and the defendant's letters to the plaintiff and its customers asserting that the plaintiff was not capable of producing a non-infringing product. *Id.* at 999, 1001. Similarly, a patentee's acknowledgment that "all past infringements were forgiven" in a settlement agreement between the patentee and a direct infringer was held not to bar the alleged contributory infringer's declaratory judgment action. *See Blackman v. Hadron, Inc.*, 450 F.2d 781, 782-83 (2d Cir. 1971).

<sup>116</sup> *See generally Sherwood Med. Indus.*, 512 F.2d at 727 ("the requirement of a charge of infringement is liberally construed"); *Muller v. Olin Mathieson Chem. Corp.*, 404 F.2d 501, 504 (2d Cir. 1968) ("the requirement that there has been a 'charge of infringement' has been given

Federal Circuit reveals a significant departure from this liberal construction of the Act.

### III. THE FEDERAL CIRCUIT TREATMENT OF THE "ACTUAL CONTROVERSY" REQUIREMENT

#### A. *The Evolution of the Federal Circuit's Declaratory Judgment Jurisprudence*

The Court of Appeals for the Federal Circuit has had the opportunity to consider the availability of declaratory relief to potential patent infringers in a variety of factual contexts. For the most part, the Federal Circuit's decisions during its first decade on the issue of whether declaratory judgment jurisdiction existed in particular circumstances were not controversial. In general, the cases presented relatively uncomplicated situations in which a straightforward application of the Act's requirement for an actual controversy would lead to a conclusion that the requisite controversy did or did not exist.<sup>117</sup>

A comparatively more complex case was presented to the court in *Arrowhead Industrial Water, Inc. v. Ecolchem, Inc.*<sup>118</sup> In early 1986, Ecolchem, a competitor of Arrowhead, filed suit against a third party for

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a very liberal interpretation"); *Blessings Corp. v. Altman*, 373 F. Supp. 802, 806 (S.D.N.Y. 1974) ("it appears that any lingering possibility of an infringement charge is sufficient to support the finding of an actual controversy so long as the plaintiff can demonstrate some actual harm to its business").

<sup>117</sup> For example, in *C.R. Bard, Inc. v. Schwartz*, the patentee had brought a state court action to recover damages from its licensee, which had ceased payments under the parties' license. 716 F.2d 874, 875 (Fed. Cir. 1983). In concluding that jurisdiction existed under the Declaratory Judgment Act in the licensee's suit against the patentee, the court relied upon the pending state court action and the patentee's allegations in its state court complaint that the licensee's sublicensee was selling a product covered by the patent at issue, a claim which could render the licensee liable for inducement of patent infringement and contributory infringement. *Id.* at 880-81. In *Indium Corp. of America v. Semi-Alloys, Inc.*, the court refused to find the presence of an actual controversy based on the patentee's offer of a non-exclusive license to the declaratory judgment plaintiff. 781 F.2d 879, 883 (Fed. Cir. 1985). The court held that prior patent litigation initiated by the patentee seven years earlier against two parties unconnected with the plaintiff was too remote to confer standing on the plaintiff, even considered with the license offer. *Id.* Two years after its decision in *Indium*, the court determined that an actual controversy existed between a patentee and a declaratory judgment plaintiff where a state court suit brought by the patentee against the plaintiff for trade secret misappropriation was pending at the time that the patentee's patents issued. *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953, 955-56, 956 n.5 (Fed. Cir. 1987). The patentee's representative also had told the plaintiff's in-house counsel that the parties "would have to talk about infringement of the patents by [the plaintiff] and possible licensing since [the plaintiff] might be liable for past patent infringement" and "the parties might end up in Federal Court on these issues." *Id.*

<sup>118</sup> 846 F.2d 731 (Fed. Cir. 1988).

infringement of the patent at issue.<sup>119</sup> A few months later, Ecolochem's president sent a cautionary letter to an Arrowhead customer, Virginia Power, which had contracted for Arrowhead's water treatment services.<sup>120</sup> The letter read, in part:

Please be advised that Arrowhead Industrial Water is not licensed to use our process and we would therefore consider any use a direct patent infringement. Unfortunately, any such infringement could possibly involve Virginia Power as well so I believe it is valuable for you to have information on this patent in order to protect yourself and eliminate any potential conflict.<sup>121</sup>

Reacting to Ecolochem's letter, Arrowhead's customer demanded and obtained an indemnity from Arrowhead, which then received a letter from Ecolochem's counsel stating that Ecolochem "has reason to believe that Arrowhead is contemplating or has initiated the practice of the patented process."<sup>122</sup> Ecolochem's letter further sought, within twenty days, Arrowhead's confirmation that any "unauthorized" practice, "if such practice exists" be "immediately" discontinued, and warned that Ecolochem "has in the past not hesitated to protect its patent rights whenever appropriate."<sup>123</sup> Ecolochem's attorney subsequently confirmed that the latter statement referred to "federal patent infringement litigation brought by our client in respect of its patents."<sup>124</sup>

Shortly after Arrowhead began providing its services to its customer, it filed a declaratory judgment action against Ecolochem, contending that Ecolochem's patent was invalid, unenforceable and not infringed.<sup>125</sup> The district court dismissed the action as not predicated on an actual controversy.<sup>126</sup> Arrowhead refiled its declaratory judgment action, re-alleging the above facts, and quoting from Ecolochem's suit against the third party, in which Ecolochem proposed a finding of fact that "Arrowhead [has] practiced . . . a process that infringes" Ecolochem's patent.<sup>127</sup>

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<sup>119</sup> See *id.* at 733.

<sup>120</sup> See *id.*

<sup>121</sup> *Id.*

<sup>122</sup> *Id.*

<sup>123</sup> *Arrowhead*, 846 F.2d at 733.

<sup>124</sup> *Id.*

<sup>125</sup> See *id.*

<sup>126</sup> See *id.*

<sup>127</sup> *Id.* at 734.

The Federal Circuit reversed the district court's dismissal of the second action for lack of jurisdiction.<sup>128</sup> The court began its analysis by eloquently describing the plight of the accused patent infringer prior to the passage of the Act.<sup>129</sup> Applying the familiar "reasonable apprehension" test<sup>130</sup> to the circumstances at hand, the court concluded that the facts presented "a clear actual controversy," and required a reversal of the district court's determination.<sup>131</sup>

The Federal Circuit's opinion in *Arrowhead* is replete with references to the policies underlying the Act<sup>132</sup> and to the "realities of business life"<sup>133</sup> a potential infringer must confront.<sup>134</sup> Through these references and other comments throughout the opinion, the court conveys a relatively expansive, permissive attitude toward the availability of declaratory judgment jurisdiction. This expansive attitude contrasts with the court's approach in more recent cases.

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<sup>128</sup> *Arrowhead*, 846 F.2d at 737-38. The issue of whether a patentee's conduct gives rise to an actual controversy under the Declaratory Judgment Act is a question of law, subject to de novo review. See HARMON, *supra* note 74, § 8.1(a)(ii).

<sup>129</sup> *Arrowhead*, 846 F.2d at 734-35; see also *supra* notes 48-57 and accompanying text.

<sup>130</sup> See *Arrowhead*, 846 F.2d at 736.

<sup>131</sup> *Id.* at 736-39.

<sup>132</sup> For example, the court noted that "Ecolochem's brief says it merely considered litigation a 'reasonable alternative,' leaving unanswered the question, 'alternative to what?' The only alternative appearing in the record would be [Arrowhead's customer's] transfer of its order from Arrowhead to Ecolochem and Arrowhead's capitulation to Ecolochem's 'alternative' method of enforcing its patent." *Id.* at 737 n.7. Elsewhere, rejecting the district court's conclusion that Ecolochem's proposed finding of fact in its other litigation was of no significance because it was not communicated directly to Arrowhead, the court stated that "a requirement for communicating a specific charge to Arrowhead would free Ecolochem to employ forever its thinly veiled threat and its patent-enforcement-by-letter tactics attempted here, thereby defeating the very purpose of the Act." *Id.* at 737.

<sup>133</sup> *Id.*

<sup>134</sup> Regarding the proposed finding of fact submitted by Ecolochem in its other litigation, the court observed:

It is difficult, if not impossible, to imagine how a prudent Arrowhead executive confronted with the totality of Ecolochem's conduct could resist the onset of a most reasonable apprehension that Arrowhead is next. Indeed, considering the realities of business life, such an executive could incur the wrath of stockholders if he or she either continued to offer Arrowhead's process without seeking a resolution of the obvious conflict of interests or supinely and unjustifiably abandoned the process.

*Id.* Thus, the court took the view in *Arrowhead* that the accused infringer, cognizant of "business realities," in effect had no choice but to file an action for a declaratory judgment. See *id.* Later in the opinion, the court again indicated its appreciation for Arrowhead's predicament:

That a competitor is suing a third party and asking the court to find one's company a co-infringer can hardly contribute to euphoria. The law does not require enterprises to keep their heads in the sand while a patentee picks them off one by one and at its leisure.

*Id.* at 738.

The Federal Circuit's opinion in *Shell Oil Co. v. Amoco Corp.*<sup>135</sup> illustrates this contrast. Shell manufactured catalysts for making polyolefins.<sup>136</sup> Before beginning production of one particular catalyst, Shell initiated discussions with Mobil, which held a patent on compositions related to those used by Shell to produce its catalyst.<sup>137</sup> Over the course of about nine months, attorneys for Shell and Amoco held three face-to-face meetings, had numerous telephone conversations and exchanged correspondence concerning the proposed terms of a license under Amoco's patent.<sup>138</sup> During the course of these negotiations, Amoco's attorney made several assertions concerning the relevance of the Amoco patent to Shell's proposed product.<sup>139</sup> In one letter, Amoco referred to Shell's product as "the catalyst falling within the Amoco patent."<sup>140</sup> Amoco's attorney also allegedly stated that Shell's catalyst would infringe even if it did not contain a particular component recited in the patent claims as long as it was made from that component.<sup>141</sup> Following the parties' final meeting prior to Shell's filing of its declaratory judgment complaint, Amoco wrote to Shell, referring to the meeting as "regarding Shell's operations under Amoco's U.S. Patent."<sup>142</sup>

Notwithstanding these assertions by Amoco concerning its patent and Shell's product, the Federal Circuit in *Shell Oil* upheld the district court's dismissal of Shell's declaratory judgment action.<sup>143</sup> The court stated that the plaintiff must demonstrate that it has a "reasonable apprehension that it will be sued" to satisfy the requirement for an actual controversy.<sup>144</sup> Although the court indicated that "express

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<sup>135</sup> 970 F.2d 885 (Fed. Cir. 1992).

<sup>136</sup> See *id.* at 886.

<sup>137</sup> See *id.*

<sup>138</sup> See *id.* at 886-87.

<sup>139</sup> See *id.* The court notes that Shell began commercial production of its catalyst in May 1990, about two months into the negotiations, satisfying the first prong of the "actual controversy" test. See *id.* at 887 n.2.

<sup>140</sup> *Shell Oil*, 970 F.2d at 886.

<sup>141</sup> See *id.*

<sup>142</sup> *Id.* at 887. Amoco's letter also stated that "although Shell disagrees that Amoco's patent covers Shell's operations, it recognizes that the claims of such patent may be read to do so." *Id.* It further offered Shell a limited license wherein "Shell would obtain a right to manufacture its specific catalyst but not a general right to manufacture any other catalyst which may be covered under the patent." *Id.*

<sup>143</sup> *Id.* at 889.

<sup>144</sup> See *id.* at 888. In its articulations of the standard for establishing the existence of an actual controversy under the Declaratory Judgment Act, the Federal Circuit has consistently referred to a "reasonable apprehension of suit" or, as in *Shell Oil*, a "reasonable apprehension that [the

charges of infringement" can create the requisite apprehension,<sup>145</sup> it held none of Amoco's statements concerning the application of its patent to Shell's product to be an express infringement charge.<sup>146</sup> The court relied primarily on (1) Shell's initiation of the negotiations with Amoco,<sup>147</sup> and (2) Amoco's statements being made in the context of

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plaintiff] will be sued." See, e.g., *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1052 (Fed. Cir. 1995) ("there must be . . . 'an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit'"); *Arrowhead*, 846 F.2d at 736 ("the defendant's conduct must have created on the part of plaintiff a reasonable apprehension that the defendant will initiate suit if the plaintiff continues the allegedly infringing activity") (quoting *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953, 955 (Fed. Cir. 1987)); *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879 (Fed. Cir. 1983) ("[c]ourts have interpreted the controversy requirement in the patent field to generally mean that . . . there is a reasonable threat that the patentee . . . will bring an infringement suit against the alleged infringer"). As is discussed further *infra* at Part III.B., this formulation of the test is neither consistent with the pre-Federal Circuit case law, nor compelled by the Act.

<sup>145</sup> *Shell Oil*, 970 F.2d at 888. In a previous case, the court had indicated that, without question, an express charge of infringement is sufficient to vest a court with declaratory judgment jurisdiction:

If defendant has expressly charged a current activity of the plaintiff as an infringement, there is clearly an actual controversy, certainty has rendered apprehension irrelevant, and one need say no more. In light of the subtleties in lawyer language, however, the courts have not required an express infringement charge. When the defendant's conduct, including its statements, falls short of an express charge, one must consider the 'totality of the circumstances' in determining whether that conduct meets the first prong of the test. If the circumstances warrant, a reasonable apprehension may be found in the absence of any communication from defendant to plaintiff.

*Arrowhead*, 846 F.2d at 736 (citations omitted).

<sup>146</sup> *Shell Oil*, 970 F.2d at 888-89 ("We agree . . . that a statement that Shell's activities 'fall within' Amoco's claims in the context of the parties' licensing negotiations can hardly be considered an express charge of infringement"; "Amoco's use of language to indicate that Shell's activities 'fall within,' are 'covered by,' and are 'operations under' Amoco's patent fall short of alleging infringement.").

<sup>147</sup> *Id.* at 889 ("[Amoco's statements] were responses, characterizations, and arguments arising from discussions Shell initiated."). Although the court made repeated reference to Amoco's initially responsive posture in the negotiations ("Amoco took no action against Shell; it made no assertive contact concerning the patent . . . We will not encourage litigation by finding a threat to sue only because a non-threatening party, when approached by a possible infringer, asserted its best arguments in discussions."), it also characterized Shell's conduct as "an exercise of prudent good business citizenship" and "praiseworthy." *Id.* The court noted that the alternative for Shell was to "wait to be caught in a possibly infringing posture." *Id.* Thus, the court recognized Shell as a potential infringer seeking certainty in the face of assertions of infringement—precisely the situation Congress sought to address with the Declaratory Judgment Act—but refused access to the remedy Congress authorized, in part because Shell ascertained the existence of the controversy through its own initiative. See *id.* When, however, an actual controversy between a patentee and a potential infringer on the issue of infringement or validity or both, is evidenced, as in *Shell Oil*, by well-developed, concrete, and opposing positions held by the parties on these issues, which party initiated the process by which the positions were developed should be irrelevant.

license negotiations.<sup>148</sup> Apparently concerned, however, about the future effect of its holding in *Shell Oil*, the court also stated:

[w]e do not hold that in every instance in which a potential infringer approaches a patentee that an actual controversy cannot arise. Whether an actual controversy exists depends on either an express charge of infringement or, if none, the totality of the circumstances. A reasonable apprehension of an intent to initiate an infringement suit may be found from statements made during licensing negotiations, since the possibility of litigation may objectively appear to compel acceptance of offered terms. This is not the case here; Amoco's conduct did not rise to the level of a threat of an infringement suit.<sup>149</sup>

Thus, despite the court's professed view that an express charge of infringement satisfies the reasonable apprehension standard,<sup>150</sup> the court indicated its implicit requirement for the presence of a *threat* of suit—a higher threshold of conduct for the patentee before declaratory judgment jurisdiction will be found. The court repeatedly referred to the absence of a “threat,”<sup>151</sup> focused on whether Amoco would sue,<sup>152</sup> refused to regard Amoco's multiple assertions of the applicability of its patent to Shell's activities as express

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<sup>148</sup> See *id.* (agreeing with Amoco that its statements were merely “‘jawboning’ which typically occurs in licensing negotiations”).

<sup>149</sup> *Id.* During Shell's final pre-litigation meeting with Amoco, Shell indicated that the negotiations were at an impasse and that litigation seemed likely. See *id.* Amoco's attorney gave his view that Shell could not initiate a declaratory judgment action before it began manufacturing its catalyst. See *id.* Shell's representative informed Amoco's attorney that Shell had begun commercial manufacture and asked, “I assume you will enforce your patent?,” to which an Amoco representative responded, “Yes.” *Id.* at 887. The court viewed Amoco's response as “reflexive and obligatory,” “necessary,” and insufficient to create a reasonable apprehension in Shell. *Id.* at 889. However, this exchange indicates Amoco's belief, as of the time of the exchange, that its statements and conduct were sufficient to satisfy the “reasonable apprehension” prong of the declaratory judgment test. See *id.*

<sup>150</sup> See *id.* at 887–88.

<sup>151</sup> *Shell Oil*, 970 F.2d at 889. The court noted, for example:

[Amoco] issued no threats . . . [I]t should not be considered to have threatened Shell with suit . . . The language closest to constituting a threat occurred when Shell asked if Amoco intended to enforce its patent . . . [Amoco's] answer was reflexive and obligatory . . . We will not encourage litigation by finding a threat to sue only because a non-threatening party . . . asserted its best arguments in discussions . . . Amoco's conduct did not rise to the level of a threat of an infringement suit.

*Id.*

<sup>152</sup> See *id.* (“It is possible that, even after the conversations reached an impasse, Amoco might never have sued, either because the validity of its patent was doubtful or its infringement

charges of infringement<sup>153</sup> and emphasized the license negotiations context.<sup>154</sup> The court paid lip service to the established disjunctive, two-part inquiry into, first, the existence of any "express charges of infringement," and second, "if none, then to the totality of the circumstances."<sup>155</sup> The court, however, effectively read the former out of the test by concluding that, at least for this case, charges of infringement made during license negotiations are insulated under a "totality of the circumstances" analysis.<sup>156</sup>

These two aspects of *Shell Oil*—the implicit requirement of a threat of suit on the part of the patentee and the insulating effect of license negotiations—were important factors in the Federal Circuit's refusal to find declaratory judgment jurisdiction in subsequent cases. A year after *Shell Oil*, the court incorporated its implicit requirement for a threat of suit into its jurisdictional test.<sup>157</sup> Without explanation, the court replaced the "express charge of infringement" prong of its familiar two-prong reasonable apprehension test<sup>158</sup> with a requirement of "*an explicit threat . . . which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit.*"<sup>159</sup> In *BP Chemicals Ltd. v. Union Carbide Corp.*, the court applied this test to uphold a district court's determination that it lacked jurisdiction to hear a licensor's declaratory judgment action against a patentee. The licensor had contended that statements made

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argument was too weak."). The court's focus on whether Amoco "might never have sued" following the breakdown of negotiations with Shell is misplaced because the patentee's unexpressed, subjective view of the strength of its litigation position cannot logically be a factor in determining the potential infringer's objective, reasonable apprehension. Furthermore, the court seems to condone the knowing use of a patent of dubious validity and/or applicability to coerce or, at best, influence a potential infringer's acquiescence or behavior. Yet, the Declaratory Judgment Act was directed precisely at eliminating such use of "scarecrow" patents. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96 (1993).

<sup>153</sup> See *Shell Oil*, 970 F.2d at 888.

<sup>154</sup> See *id.* at 889.

<sup>155</sup> *Id.* at 888.

<sup>156</sup> *Id.* at 888–89.

<sup>157</sup> *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993).

<sup>158</sup> See, e.g., *Shell Oil*, 970 F.2d at 888 ("[w]e must look for any express charges of infringement, and if none, then to the 'totality of the circumstances'"); see also *Arrowhead Indus. Water, Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988) ("If defendant has expressly charged a current activity of the plaintiff as an infringement, there is clearly an actual controversy . . . . When the defendant's conduct, including its statements, falls short of an express charge, one must consider the 'totality of the circumstances' . . . .").

<sup>159</sup> *BP Chems.*, 4 F.3d at 978 (emphasis added). As an alternative to an explicit threat, the court stated that "other action of the patentee" may create the requisite apprehension on the part of the potential infringer. *Id.* This alternative parallels and is presumably consistent with the "totality of the circumstances" prong of the court's earlier formulations of the reasonable apprehension test. See *supra* note 157.

by the patentee concerning the strength of its patent and its intent to enforce the patent placed the licensor's licensees in reasonable apprehension of suit and led them to deal with the patentee instead of the licensor.<sup>160</sup>

The Federal Circuit considered the presence of "ongoing license negotiations" between a patentee and a potential infringer to be a significant factor in negating the existence of an actual controversy between the parties in its decision in *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*.<sup>161</sup> Kato, the patentee, had contacted Phillips through its counsel in October 1987, stating that certain fasteners made by Phillips were "covered by" Kato's patent.<sup>162</sup> At the same time, Kato offered Phillips a license under the patent.<sup>163</sup> Following Phillips' response that the patent was invalid in view of certain prior art, there was no further communication between the parties until 1992.<sup>164</sup> In the meantime, Kato successfully reissued its patent.<sup>165</sup> In a letter to Phillips in 1992, Kato's attorney again offered Phillips a license, contingent upon the parties' ability to reach agreement as to terms. Subsequent communications between the parties<sup>166</sup> did not result in an agreement, and Phillips filed a declaratory judgment action in December 1992.<sup>167</sup>

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<sup>160</sup> See *BP Chems.*, 4 F.3d at 978-80. BP Chemicals and Union Carbide were competitors in the business of licensing technology for the manufacture of ethylene polymers. See *id.* at 976. During an evidentiary hearing conducted by the district court on the issue of subject matter jurisdiction, witnesses testified that Union Carbide, in the course of marketing its patented "condensing mode" technology to customers, including licensees of BP Chemicals, had emphasized the advantages of the technology, referred to the strength of its patent, and "made clear to BP Chemicals and the potential licensees that Union Carbide would enforce the condensing mode patent against infringers." *Id.* at 978-79. At least one of BP Chemicals' licensees subsequently took a license from Union Carbide, which, according to BP Chemicals, demonstrated the licensee's apprehension of suit. See *id.* The Federal Circuit, despite its view that the case presented a "close factual question," held that neither BP Chemicals nor its licensees had a reasonable apprehension of suit. *Id.* at 980. *BP Chemicals* is noteworthy for the unexplained revision of the reasonable apprehension test. See *supra* note 109.

<sup>161</sup> 57 F.3d 1051, 1053-54 (Fed. Cir. 1995).

<sup>162</sup> See *id.* at 1052.

<sup>163</sup> See *id.*

<sup>164</sup> See *id.*

<sup>165</sup> See *id.* The patent laws authorize the U.S. Patent and Trademark Office ("PTO") to reissue a patent "for the invention disclosed in the original patent" to correct certain errors made during the original prosecution if the patentee can show that the error was made without deceptive intent. See 35 U.S.C. § 251 (1994). Only a patent's owner may apply for its reissue. See *id.* However, members of the public may "protest" the reissuance of the patent, by providing the PTO with patents or other publications that the protestor contends invalidate the patent. See 37 C.F.R. §§ 1.11(b), 1.291(b) (1995). Phillips participated as a protestor in the Kato reissue procedure. See *Phillips Plastics*, 57 F.3d at 1052.

<sup>166</sup> Phillips had by this time sold its fastener business to Illinois Tool Works, but it remained liable for patent infringement pursuant to a contractual indemnification obligation. See *Phillips Plastics*, 57 F.3d at 1052.

<sup>167</sup> See *id.*

The district court held that Kato's assertion that Phillips' products were "covered by" its patent did not constitute a charge of infringement,<sup>168</sup> and that Phillips had not otherwise established a reasonable apprehension of suit.<sup>169</sup> The Federal Circuit affirmed the decision of the district court<sup>170</sup> without explicitly approving, or even commenting on, the district court's determination that Kato did not charge Phillips with infringement.<sup>171</sup> As in *BP Chemicals*,<sup>172</sup> the court required "an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit."<sup>173</sup> The court made no reference to its previous "express charge" standard and again offered no explanation as to the reason for, or the significance of, the substitution of "explicit threat" for "express charge" in its jurisdictional test.<sup>174</sup> While stating that "access to declaratory procedures in patent cases does not necessarily require an explicit threat of suit,"<sup>175</sup> and "the requirement that the declaratory plaintiff be under a reasonable apprehension of suit does not require that the patentee be known to be poised on the courthouse steps,"<sup>176</sup> the Federal Circuit clearly measured Kato's conduct against a threshold of threat.<sup>177</sup>

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<sup>168</sup> See *id.* Later in its opinion, the Federal Circuit did note that no reasonable apprehension of suit was found in *Shell Oil*, "despite the patentee's statements that the alleged infringer's activities 'fall within,' are 'covered by,' and are 'operations under' the patent." *Id.* at 1054.

<sup>169</sup> See *id.* at 1052.

<sup>170</sup> *Id.* at 1053-54.

<sup>171</sup> See *Phillips Plastics*, 57 F.3d at 1053-54. As further discussed *infra* in Part III.B., it is difficult to comprehend how a patentee's assertion that particular operations of a potential infringer are "covered by" a particular patent of the patentee is not an "express charge of infringement," given the plain meaning of the words themselves and the historical judicial interpretation of the Declaratory Judgment Act. See *supra* notes 91-116 and accompanying text.

<sup>172</sup> See *supra* note 155.

<sup>173</sup> *Phillips Plastics*, 57 F.3d at 1052.

<sup>174</sup> See *id.* at 1052-54.

<sup>175</sup> *Id.* at 1053. The court was presumably referring to the "other action of the patentee" alternative to the explicit threat requirement of its reasonable apprehension test. See *supra* note 158.

<sup>176</sup> *Phillips Plastics*, 57 F.3d at 1054.

<sup>177</sup> *Id.* at 1052-54. The court never addressed the issue of whether jurisdiction could be found under the "express charge of infringement" standard. Instead, the court confined its opinion to a consideration of whether Kato had threatened Phillips with suit. The court's approach is well-summarized by the opinion's concluding sentence: "Kato's activity was not a threat of suit, and did not create a justiciable controversy." *Id.* at 1054. Having established a *de facto* "threat of suit" as the requirement for jurisdiction and characterizing Kato's conduct as nothing more than an "offer of a patent license," the court, without difficulty, concluded that the jurisdictional standard had not been met. See *id.* at 1053-54. Indeed, the opinion's implication is that the case did not present a close question. See *id.*

## B. Criticism of the Federal Circuit's Recent Decisions on Declaratory Judgment Jurisdiction

The Federal Circuit's unexplained departure from its own settled expression of the "express charge of infringement" standard, even if it were without legal effect, would be worthy of criticism merely for its potential unsettling effect on the lower courts.<sup>178</sup> However, as the decision in *Phillips Plastics*<sup>179</sup> most clearly illustrates,<sup>180</sup> the Federal Circuit has in fact imposed a higher standard on declaratory judgment plaintiffs in recent years. The more rigorous requirement for a threat of suit is a clear departure from pre-Federal Circuit case law<sup>181</sup> and even from the Federal Circuit's own early decisions.<sup>182</sup> It is also inconsistent with the goals of the Act.<sup>183</sup>

The Federal Circuit's treatment of two of the accused infringer's arguments in *Phillips Plastics* is illustrative. First, Phillips contended that an actual controversy between the parties existed because negotiations between them had broken down.<sup>184</sup> The court rejected this argument, noting that Phillips had not so notified Kato.<sup>185</sup> The court distinguished the situation in *Phillips Plastics* from that in *Océ-Office Systems, Inc. v. Eastman Kodak Co.*,<sup>186</sup> where the district court found jurisdiction because the accused infringer had terminated the parties' discussions at their last meeting before filing its declaratory judgment action.<sup>187</sup> Clearly, a requirement that one of the parties declare an end

<sup>178</sup> At least two lower courts, in opinions written since the Federal Circuit's decision in *Shell Oil*, have taken opposing positions on the issue of whether an "express charge" is a lower standard than an "explicit threat." See *Wright Med. Tech., Inc. v. Osteonics Corp.*, 914 F. Supp. 1524, 1529 n.4 (W.D. Tenn. 1995); *Océ-Office Sys., Inc. v. Eastman Kodak Co.*, 805 F. Supp. 642, 645-46 (N.D. Ill. 1992).

<sup>179</sup> 57 F.3d 1051; see *supra* notes 161-77 and accompanying text.

<sup>180</sup> The court's decision in *Shell Oil* is also based on a requirement, albeit an implicit one, that the patentee threaten suit. See *supra* notes 151-52 and accompanying text.

<sup>181</sup> See *supra* Part II.

<sup>182</sup> See *supra* notes 117-34 and accompanying text.

<sup>183</sup> See *supra* notes 51-57 and accompanying text.

<sup>184</sup> See *Phillips Plastics*, 57 F.3d at 1053.

<sup>185</sup> *Id.*

<sup>186</sup> 805 F. Supp. 642 (N.D. Ill. 1992).

<sup>187</sup> See *Phillips Plastics*, 57 F.3d at 1054; *Océ-Office Sys.*, 805 F. Supp. at 645, 647. Significantly, the court in *Océ-Office Systems* expressly rejected Kodak's contention that no actual controversy existed because it had never "directly or indirectly threatened to sue Océ for infringement." 805 F. Supp. at 645. The court observed that:

this reliance is misplaced because an express threat to sue is not necessary in order for there to be a justiciable controversy in . . . patent cases. . . . Requiring an express charge [sic] of litigation would destroy the purpose of the Declaratory Judgment Act, which in patent cases is to provide the allegedly infringing party relief from uncertainty and delay with regard to its legal rights.

to negotiations before a declaratory judgment suit can be brought would, at best, encourage gamesmanship among the parties. It would also likely lead to litigation over whether and when negotiations have in fact been terminated. Such a rule would force the patentee to consider carefully its vocabulary when discussing the potential for further meetings or communications with the potential infringer, adding a layer of formality to legal standards which already lead courts to unduly scrutinize the patentee's choice of words for evidence of "threats." It would also potentially negate the availability of declaratory relief for the accused infringer, who would either be forced to wait until the patentee terminated negotiations or assume the burden of notifying the patentee of its intent not to participate further. In either case, the benefit of the Act for the accused infringer would be effectively lost because the patentee would presumably not declare an end to negotiations before its infringement complaint was prepared, if not filed. Furthermore, the accused infringer's termination of negotiations would unambiguously signal the patentee to file suit before the accused could do so. Thus, the accused infringer would remain essentially at the mercy of the patentee, who would enjoy the tactical advantage of being able to choose, if not the time, then at least the forum for litigating its dispute with the accused infringer. Yet, the opinion in *Phillips Plastics*,<sup>188</sup> especially when considered in combination with the

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In fact, there does not even need to be an express charge of infringement in order for a justiciable controversy to exist.

*Id.* at 645-46 (citations omitted).

The court in *Océ-Office Systems* thus clearly distinguished between the legal effect of a standard requiring an express or implied charge of infringement and one requiring a threat of suit. *Id.*; see also *Societe de Conditionnement en Aluminium v. Hunter Eng'g Co.*, 655 F.2d 938, 944 (9th Cir. 1981) (concluding that the Constitution requires less than an actual threat of litigation for jurisdiction under the Act, and that a charge of infringement, liberally construed, suffices). At least one other lower court, however, in the wake of the unexplained evolution of the Federal Circuit's reasonable apprehension test, has taken the view that there is no difference. See *Wright Med. Tech., Inc. v. Osteonics Corp.*, 914 F. Supp. 1524, 1529 n.4 (W.D. Tenn. 1995) (noting that "[t]he Federal Circuit has only recently adopted the 'explicit threat' moniker, using it to replace the phrase 'express charge of infringement' in the test for jurisdiction," and concluding that both formulations express the same standard). These cases illustrate that one of the potential deleterious effects of the change in the Federal Circuit's jurisdictional test is confusion and potentially inconsistent decisions in the lower courts, in contravention of the court's mission. See *supra* notes 27-35 and accompanying text.

The *Wright* court's view that "explicit threat" and "express charge" are the same was based on its belief that "intimidation and extra-judicial enforcement . . . are necessarily present in an express charge of infringement." 914 F. Supp. at 1529 n.4. For the reasons discussed below in Part V, intimidation and extra-judicial enforcement should not be considered a constitutional requirement for jurisdiction, and such a requirement would potentially undermine the Declaratory Judgment Act even if every charge of infringement is treated as inherently embodying the requisite intimidation.

<sup>188</sup> 57 F.3d at 1053-54.

opinion in *Shell Oil*,<sup>189</sup> seems to place an unwarranted premium on the pendency of license negotiations. The court's emphasis on the existence of license negotiations between the parties is particularly problematic in the context of determining whether an actual controversy exists. As the court has recently acknowledged,<sup>190</sup> the potential infringer's participation in the negotiations is often principally attributable to the patentee's unspoken threat of litigation.

Second, Phillips argued that, as one who may become liable for patent infringement, it "should not be subject to manipulation by a patentee who uses careful phrases in order to avoid explicit threats, thus denying recourse to the courts while damages accrue."<sup>191</sup> In response, the Federal Circuit professed "[w]e agree,"<sup>192</sup> and acknowledged that "the practical effect of denying access to the courts is the concern of the Declaratory Judgment Act."<sup>193</sup> Nonetheless, the court held there to be no actual controversy because Phillips "was not risking a shutdown of its business."<sup>194</sup> The court's rejoinder is significant because the legislative history of the Act clearly shows that resolving a potential infringer's uncertainty regarding the accrual of damages was the primary purpose of the Act.<sup>195</sup> Furthermore, the court's response to the argument that Phillips was potentially incurring liability for damages while being refused access to the courts clearly illustrates the difference between considering a concrete dispute over *liability* to be an actual controversy, as did both the proponents of the Act<sup>196</sup> and the pre-Federal Circuit courts,<sup>197</sup> and refusing to find an actual controversy in the absence of an immediate threat of *litigation*, which is the ap-

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<sup>189</sup> 970 F.2d at 889.

<sup>190</sup> *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996), *cert. denied*, 117 S.Ct. 789 (1997). In the court's words:

To be sure, any time parties are in negotiation over patent rights, the possibility of a lawsuit looms in the background. No patent owner with any sense would open negotiations by assuring his opposite party that he does not intend to enforce his patent rights under any circumstances. The threat of enforcement—either directly by the patentee or indirectly by a third party to whom the patentee licenses or sells the patent—is the entire source of the patentee's bargaining power. . . . Thus, it is unrealistic to suggest that some negotiating patentees intend to enforce their patents while some do not, and that the first group is subject to declaratory judgment jurisdiction while the second is not.

*Id.*

<sup>191</sup> *Phillips Plastics*, 57 F.3d at 1053.

<sup>192</sup> *Id.*

<sup>193</sup> *Id.*

<sup>194</sup> *Id.*

<sup>195</sup> See *supra* notes 48–57 and accompanying text.

<sup>196</sup> See *supra* notes 51–57 and accompanying text.

<sup>197</sup> See *supra* Part II.

proach taken in recent Federal Circuit decisions.<sup>198</sup> Applying the latter "litigation" standard, as in *Phillips Plastics*, the uncertainty and potential liability endured by an accused infringer is of no significance unless and until a court can be convinced that the patentee's infringement suit is imminent.<sup>199</sup> This approach necessarily fosters precisely the kind of "[g]uerilla-like" tactics the Act sought to reduce,<sup>200</sup> where patentees manipulate and intimidate potential infringers. It also unfairly favors the patentee.

In contrast, under the previous "liability" approach, an actual controversy arises as soon as a patentee accuses another of infringement, assuming the accused infringer has a good faith basis for disputing the charge. This is the proper interpretation of the Act, given its unambiguous legislative history.<sup>201</sup> Furthermore, there is no basis, even without the weight of the intent of the Act's drafters, for holding that a concrete dispute between a patentee and an accused infringer, as evidenced by the patentee's public assertion of infringement and the accused's good faith allegations of invalidity or non-infringement, is not a legally or constitutionally sufficient controversy.<sup>202</sup> Notably, the Federal Circuit has not attempted to articulate such a basis in its

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<sup>198</sup> See *supra* notes 144, 151-52 and accompanying text.

<sup>199</sup> See 57 F.3d at 1053-54.

<sup>200</sup> See *Arrowhead*, 846 F.2d at 734-35 (noting that the Act was intended to provide accused infringers relief from patentees who "brandish[] a Damoclean threat with a sheathed sword" and engage in "[g]uerilla-like" and "scare-the-customer-and-run tactics").

<sup>201</sup> See *supra* notes 51-52 and accompanying text.

<sup>202</sup> In fact, the Federal Circuit's recent emphasis on the need for a threat of suit is even more remarkable given its unqualified assertion a few years earlier that "[i]f defendant has expressly charged a current activity of the plaintiff as an infringement, *there is clearly an actual controversy*, certainty has rendered apprehension irrelevant, and one need say no more." *Arrowhead*, 846 F.2d at 736 (emphasis added).

Indeed, the Federal Circuit's recent imposition of a threat of suit requirement is inexplicably contrary to the Supreme Court's 1993 statement, in dicta, that "[i]f . . . a party has actually been charged with infringement of the patent, there is, *necessarily*, a case or controversy adequate to support jurisdiction of a complaint, or a counterclaim, under the Act." *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96 (1993). The Supreme Court in *Cardinal Chemical* held that the Federal Circuit need not vacate a district court's declaratory judgment of invalidity if it affirms the lower court's finding of non-infringement. *Id.* at 102-03. The Court reasoned that jurisdiction over the declaratory judgment claim persists on appeal even where the appellate court affirms a determination of non-infringement, as long as the district court had jurisdiction over the independent declaratory judgment claim. *Id.* at 96. The Court quoted liberally from the *Arrowhead* court's account of the purpose of the Declaratory Judgment Act (see *supra* note 132 and accompanying text). The Court also indicated its willingness, based on that account, to find declaratory judgment jurisdiction even absent a charge of infringement: "[i]n]erely the desire to avoid the threat of a 'scarecrow' patent . . . may therefore be sufficient to establish jurisdiction under the Declaratory Judgment Act." *Cardinal Chem.*, 508 U.S. at 96 (quoting from Judge Learned Hand's opinion in *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239, 242 (2d Cir. 1943)).

unexplained escalation of the jurisdictional threshold from "express charge" to de jure or de facto "explicit threat."<sup>203</sup>

The Federal Circuit's restrictive application of the Act ironically comes as the court is enjoying accolades for its success in imparting uniformity and stability to the field of patent law.<sup>204</sup> Prior to the creation of the Federal Circuit, patentees may justifiably have feared being forced to defend the validity of their patents. The decisions of the regional circuit courts of appeals on many patent law issues were inconsistent,<sup>205</sup> and for all practical purposes, there existed no court of last resort<sup>206</sup> for resolving whether patents, which have nationwide

<sup>203</sup> In this regard, it is notable that as recently as 1988, the court indicated its approval of the "liability" approach: "[t]he high cost of litigation makes the bringing of a declaratory judgment action a step not lightly undertaken, yet [the patentee's] conduct has obviously created a most reasonable and compelled apprehension that continuing to sell its process could subject [the accused infringer] to liability for substantial damages." *Arrowhead*, 846 F.2d at 739 (emphasis added).

<sup>204</sup> See, e.g., HARMON, *supra* note 74, at ix ("[The Federal Circuit's] job was to increase doctrinal stability in the field of patent law . . . . It would be chauvinistic in the extreme for this author to suggest that the court has in any way failed to do that job"); Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 10-11 (1989) (asserting that the Federal Circuit has resolved extreme differences among the regional circuit courts of appeals, particularly with respect to issues of patent validity, including nonobviousness, double patenting, anticipation and public use); Harry F. Manbeck, Jr., *The Federal Circuit—First Ten Years of Patentability Decisions*, 14 GEO. MASON L. REV. 499, 504 (1992) (Commissioner of Patents and Trademarks, asserting that "[t]he first ten years of Federal Circuit jurisprudence has restored efficiency and reliability to the patent law"); Jon F. Merz & Nicholas M. Pace, *Trends in Patent Litigation: The Apparent Influence of Strengthened Patents Attributable to the Court of Appeals for the Federal Circuit*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 579, 579 (1994) ("[i]n the last 10 years, the Court has made a good deal of progress towards the goal of uniformity and predictability").

<sup>205</sup> See, e.g., *Japan Gas Lighter Assoc. v. Ronson Corp.*, 257 F. Supp. 219, 240 (D.N.J. 1966) (discussing *Dewey & Almy Chem. Co. v. American Anode, Inc.*, 137 F.2d 68 (3d Cir. 1943), and noting that the accused infringer in *Dewey & Almy*, even if convinced that it did not infringe the asserted patent, "hardly could have faced the accrual of potential damages with equanimity and with confidence in the eventual outcome of a lawsuit; the history of judicial interpretation of patent claims, after all, presents a case law developing with something less than undeviating clarity"); Dreyfuss, *supra* note 204, at 6-7.

<sup>206</sup> See Kevin Rhodes, Comment, *The Federal Circuit's Patent Nonobviousness Standards: Theoretical Perspectives on Recent Doctrinal Changes*, 85 NW. U. L. REV. 1051, 1054 n.17 (1991) (noting that significant conflicts among the lower courts on issues of patent law resulted from the Supreme Court's disinclination to grant certiorari in patent cases) (citing H.R. REP. NO. 97-312, at 22 (1981)). The Supreme Court has continued its reluctance to hear patent cases throughout most of the Federal Circuit's tenure. See David W. Whealan, Note, *Atlantic Thermoplastics v. Faytex: The Federal Circuit Debate Over the Scope of Product-By-Process Claims*, 20 RUTGERS COMPUTER & TECH. L.J. 633, 633 n.1 (1994); see also Michael Paul Chu, Note, *An Antitrust Solution to the New Wave of Predatory Patent Infringement Litigation*, 33 WM. & MARY L. REV. 1341, 1351 (1992) ("The Federal Circuit is effectively the court of last resort for patent appeals because very few patent cases reach the Supreme Court."). However, the Supreme Court has now considered patent cases in both the 1995-96 and 1996-97 terms. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040 (1997); *Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996).

effect, would be evaluated and interpreted consistently throughout the nation. In addition, most validity challenges were successful.<sup>207</sup> However, the Federal Circuit has both improved doctrinal stability and generally revitalized the patent system by construing the law more favorably toward patentees.<sup>208</sup> If anything, the Act now merits a more liberal interpretation, given the increased confidence and certainty patentees enjoy as a result of the court's efforts.

#### IV. NOTICE OF INFRINGEMENT AND DECLARATORY JUDGMENT JURISDICTION

##### A. Notice as a Predicate for Jurisdiction

Under United States patent law, a patentee is encouraged to mark its patented products with the corresponding patent numbers.<sup>209</sup> Failure to mark precludes the patentee from recovering damages for patent infringement for infringing sales occurring prior to the time the patentee gives notice of the infringement.<sup>210</sup> A non-marking patentee will thus typically be eager to promptly give an infringer notice, in order to maximize the patentee's potential damage recovery. By giving effective notice of infringement, the patentee will begin the accrual of damages recoverable from the infringer before bringing an infringement action.<sup>211</sup>

Traditionally, courts have judged the legal sufficiency of communications or conduct alleged to constitute notice of infringement under the patent notice and marking statute<sup>212</sup> without regard to whether the acts in question would satisfy the "actual controversy" requirement for jurisdiction under the Act.<sup>213</sup> Similarly, courts have evaluated communications or conduct asserted to give rise to an actual controversy

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<sup>207</sup> See, e.g., Karen G. Bender, et al., *Patent Decisions of the United States Court of Appeals for the Federal Circuit: The Year 1985 in Review*, 35 AM. U. L. REV. 995, 997 (1986) (regional courts of appeal were holding only about 35% of patents valid). In contrast, the Federal Circuit has upheld most patents. See Mark A. Lemley, *An Empirical Study of the Twenty-year Patent Term*, 22 AIPLA Q.J. 369, 419 (1994).

<sup>208</sup> See Lemley, *supra* note 207 at 421; see also Lawrence G. Kastriner, *The Revival of Confidence in the Patent System*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 5, 9-10 (1991).

<sup>209</sup> See 35 U.S.C. § 287(a) (1994).

<sup>210</sup> See *id.*

<sup>211</sup> See *id.*

<sup>212</sup> *Id.*

<sup>213</sup> See, e.g., *Maxwell v. K Mart Corp.*, 880 F. Supp. 1323, 1337-39 (D. Minn. 1995); *Cecco Mach. Mfg., Ltd. v. Intercole, Inc.*, 817 F. Supp. 979, 984-87 (D. Mass. 1992); *In re Yarn Processing Patent Validity Litig.*, 602 F. Supp. 159, 169-70 (W.D.N.C. 1984); *Lemelson v. Fisher Price Corp.*, 545 F. Supp. 973, 975-77 (S.D.N.Y. 1982).

between the alleged infringer and the patentee, thus creating jurisdiction under the Act,<sup>214</sup> to determine whether they evidence the "real and immediate" conflict<sup>215</sup> which confers jurisdiction on the court, without considering whether the acts relied upon would constitute effective notice of infringement according to the legal standards established under the patent marking and notice statute.<sup>216</sup> Yet, the two legal issues (notice of infringement and declaratory judgment jurisdiction) are factually linked because the steps a patentee takes to provide notice of infringement are the same acts which, alone or in combination with other acts, can precipitate the filing of a declaratory judgment action by the accused infringer. Furthermore, the issues of notice of infringement and declaratory judgment jurisdiction should be treated as jurisprudentially connected because of the policies each legal principle is intended to serve<sup>217</sup> and the practical realities that would-be litigants must consider in the operation of their enterprises.

### B. *The Patent Marking and Notice Statute*

The patent marking and notice statute is codified at 35 U.S.C. § 287. It provides, in relevant part:

§ 287. Limitation on damages and other remedies; marking and notice

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered

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<sup>214</sup> 28 U.S.C. § 2201 (1994).

<sup>215</sup> See *Maryland Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941) ("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>216</sup> 35 U.S.C. § 287(a).

<sup>217</sup> See *infra* Part V.

only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.<sup>218</sup>

Thus, the statute applies only to patentees who make or sell patented articles and "persons making, offering for sale, or selling . . . any patented article for or under them."<sup>219</sup> Such persons are authorized to mark the patented articles with the word "patent," or its abbreviation, and the patent number. If the "character of the article" precludes such marking, the statute authorizes the patentee to mark the product's label or container instead.<sup>220</sup> Compliance with the marking provision permits the patentee to recover damages for all past infringements, assuming infringement is shown and the patent survives any challenges to its validity.<sup>221</sup> If a patentee fails to mark its products as provided by statute, the patentee will be precluded from recovering damages for infringement which occurred prior to the time the patentee gave notice of the infringement.<sup>222</sup>

The notice and marking statute provides that filing an infringement action constitutes notice of infringement.<sup>223</sup> The Federal Circuit, in *Amsted Industrial Inc. v. Buckeye Steel Casting Co.*, recently clarified what type of conduct or communication is sufficient to satisfy the statute.<sup>224</sup> In *Amsted*, the court strictly construed the requirement for notice of infringement, holding that "[a]ctual notice requires the affirmative communication of a specific charge of infringement by a

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<sup>218</sup> 35 U.S.C. § 287(a).

<sup>219</sup> *Id.* The "for or under" language of the statute has been interpreted to include both express and implied licensees. See *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 185 (Fed. Cir. 1994) ("[i]n view of the purpose of section 287, 'to encourage the patentee to give notice to the public of the patent,' . . . there is no reason why section 287 should only apply to express licensees and not to implied licensees") (citing *American Med. Sys., Inc. v. Medical Eng'g Corp.*, 6 F.3d 1523, 1538 (Fed. Cir. 1993)).

<sup>220</sup> 35 U.S.C. § 287(a). Package or label marking has been considered an acceptable substitute for marking the article itself when, for example, the article was too small to be marked, direct marking would deface the article, direct marking was prohibitively expensive, or industry custom dictated package marking. Cf. *Calmar, Inc. v. Emson Research, Inc.*, 850 F. Supp. 861, 868 (C.D. Cal. 1994) (holding that marking of instructional literature alone does not satisfy the statute); *Rutherford v. Trim-Tex, Inc.*, 803 F. Supp. 158, 163 (N.D. Ill. 1992) (noting that the presence of markings other than the patent number on a patented article suggests that the patent number could also have been marked on the article); *Creative Pioneer Prod. Corp. v. K-Mart Corp.*, 5 U.S.P.Q.2d (BNA) 1841, 1848 (S.D. Tex. 1987) (holding that marking of packages, but not product itself when product could have been marked, did not satisfy statute). See generally *Wayne-Gossard Corp. v. Sondra, Inc.*, 434 F. Supp. 1340, 1363-64 (E.D. Pa. 1977) (noting factors to be considered in evaluating the permissibility of package marking).

<sup>221</sup> See 35 U.S.C. § 287(a).

<sup>222</sup> See *id.*

<sup>223</sup> *Id.*

<sup>224</sup> 24 F.3d 178, 187 (Fed. Cir. 1994).

specific accused product or device."<sup>225</sup> Some courts had previously taken a more liberal approach to the notice requirement, holding the view that an offer of a license under the patent,<sup>226</sup> or even mere

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<sup>225</sup> *Id.*

<sup>226</sup> See *MacPike v. American Honda Motor Co.*, 29 U.S.P.Q.2d (BNA) 1526, 1532 (N.D. Fla. 1993) (stating that "[a]rguably, plaintiffs satisfied the legal standard of actual notice through MacPike's testimony that he mailed a sample kit, together with a letter containing an offer to license the patent, to the defendant," but finding the testimony in question insufficient to survive the defendant's motion for a directed verdict).

In at least one case, the view that an offer of a license without more is sufficient for purposes of 35 U.S.C. § 287 seemed to result from confusion between two doctrines concerning actual notice and patent damages. See *Konstant Prod. Inc. v. Frazier Indus. Co.*, 25 U.S.P.Q.2d (BNA) 1223, 1226-27 (N.D. Ill. 1992) ("an offer of a license of the patented article has been held to constitute actual notice under Section 287."). The first principle, the subject of this article, is the requirement under 35 U.S.C. § 287 that a patentee that fails to mark its products with its patent number provide notice of infringement to recover damages. The other principle is that a party who has actual notice of a patent has an affirmative duty to exercise due care to determine whether or not he is infringing, including, *inter alia*, the duty to obtain competent legal advice before the initiation or continuation of infringing activities. See *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983). Failure to satisfy the duty of due care can result in a finding that the infringement was willful, an enhanced damage award of up to three times the actual damages and, if the case is determined to be "exceptional," an award of the patentee's reasonable attorney fees. See 35 U.S.C. §§ 284, 285. For purposes of this article, the fundamental difference between the two notice requirements concerns the content of the notice. 35 U.S.C. § 287 requires that the patentee provide the alleged infringer with notice of the infringement, i.e., that the patentee affirmatively communicate a specific charge of infringement by identifying a specific infringing product or device. See *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 186-87 (Fed. Cir. 1994). In contrast, the potential for incurring liability for willful infringement arises as soon as the potential infringer has notice of the patent. See *Underwater*, 717 F.2d at 1389-90. Such notice can arise from a patentee's offer of a license. See *Ralston Purina Co. v. Far-Mar-Co.*, 772 F.2d 1570, 1577 (Fed. Cir. 1985).

The difference between notice that can give rise to liability for willful infringement and notice that is required before non-marking patentees can become eligible for compensatory damages is illustrated by the Federal Circuit's treatment of the facts in *Amsted*. The evidence showed that the defendant, Buckeye, knew of the existence of the Amsted patent at issue at least as early as 1976, when Buckeye procured the first of a series of written opinions concerning the patent from its outside counsel. See *Amsted*, 24 F.3d at 182. Buckeye relied in part on the various opinions to demonstrate its good faith in attempting to copy the patented invention, and to refute Amsted's charge that Buckeye's infringement was willful. See *id.* at 181. Nevertheless, the Federal Circuit affirmed the district court's finding that Buckeye's infringement was willful. *Id.* at 182-83. The Federal Circuit further held that Amsted's customers, who purchased one element of the patented combination from Amsted for incorporation with the rest of the invention and resale, made and sold the patented invention "for or under" Amsted within the meaning of 35 U.S.C. § 287. *Id.* at 184-85; see also 35 U.S.C. § 287. Accordingly, the court held that Amsted had a duty to mark its product or require its customers to mark the completed combination, which it had not done. *Amsted*, 24 F.3d at 185. Having failed to mark, Amsted was relegated to eligibility for actual damages only as of its 1989 letter in which it specifically charged Buckeye with infringement. See *id.* at 187. Thus, although the court held Buckeye liable for willful infringement based in part upon its knowledge of the Amsted patent as early as 1976, Amsted's damages, which were trebled as a result of the determination of willfulness, were calculated only from 1989. See *id.* at 187-88. In so holding, the Federal Circuit specifically stated, "[i]t is irrelevant . . . whether the

notification of the existence of the patent,<sup>227</sup> was sufficient. The court in *Amsted* held that a letter sent by the patentee to the accused infringer, which merely advised the infringer of the existence of the patent and the patentee's general intent to enforce its patent rights, did not provide notice of infringement. The court supported this view, in part, by noting that "[j]ust as such letters tend not to be threats sufficient to justify a declaratory judgment action, they also are not charges of infringement for 'notice' purposes."<sup>228</sup>

Notice of infringement "must be an affirmative act on the part of the patentee which informs the defendant of his infringement."<sup>229</sup> The statute requires "affirmative communication of a specific charge of infringement by a specific accused product or device."<sup>230</sup> The emphasis is on the patentee providing notice *of the infringement*.<sup>231</sup> The accused infringer's knowledge of the patent, or even of its own infringement, is irrelevant for 35 U.S.C. § 287 purposes.<sup>232</sup> The statute was designed to encourage marking to provide notice to the public regarding the patent status of items in commerce.<sup>233</sup> Accordingly, failure to mark in compliance with the statute can have severe consequences for the patentee, who is then relegated to a damage recovery limited to in-

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defendant knew of the patent or knew of his own infringement." *Id.* at 187; *see also* *Loral Fairchild Corp. v. Victor Co. of Japan*, 906 F. Supp. 813, 817 (E.D.N.Y. 1995) (applying *Amsted* to limit similarly the patentee's damage recovery, despite the fact that the defendants had taken licenses under the patent, and therefore clearly had notice both of the patent and its relevance to their products).

In strictly construing the notice requirement of 35 U.S.C. § 287, the Federal Circuit has thus emphasized that in evaluating compliance with the statute, the court "must focus on the action of the patentee, not the knowledge or understanding of the infringer." *Amsted*, 24 F.3d at 187. In contrast, an infringer's *knowledge* of the patent is enough to raise the duty of due care for willful infringement purposes. *See Power Lift, Inc. v. Lang Tools, Inc.*, 774 F.2d 478, 482 (Fed. Cir. 1985). Giving *notice* of the patent to a potential infringer is merely an effective way of ensuring, and proving, that the infringer had the requisite knowledge.

<sup>227</sup> *See Konstant Prod.*, 25 U.S.P.Q.2d (BNA) at 1226 (stating that the notice provision of 35 U.S.C. § 287 is "liberally construed" and "is satisfied whenever the infringer is notified of the same information which the statute requires for patent marking, which need only include the word 'patent,' or its abbreviation, and the patent number").

<sup>228</sup> *Amsted*, 24 F.3d at 187. The court's holding was based primarily on *Dunlap v. Schofield*, where the Supreme Court held that a patentee must give notice to "particular defendants by informing them of [the] patent *and of their infringement of it*." 152 U.S. 244, 247-48 (1894) (emphasis added).

<sup>229</sup> *Amsted*, 24 F.3d at 187 (citing *Dunlap*, 152 U.S. at 247-48, as "highly persuasive, if not controlling, on the meaning of the notice requirement of section 287").

<sup>230</sup> *Id.*

<sup>231</sup> *See id.*

<sup>232</sup> *See id.*

<sup>233</sup> *See id.* at 185 (citing *American Med. Sys., Inc., v. Medical Eng'g Corp.*, 6 F.3d 1523, 1537 (Fed. Cir. 1993)).

fringement which occurred after it gave notice of infringement in compliance with *Amsted*.<sup>234</sup>

Examples of communications from patentees which satisfy the *Amsted* standard include:

On January 10, 1986 I wrote to you and advised of AMSTED Industries' ownership and enforcement policy respecting the ['269 patent] . . . .

In our view [your center plate, a photocopy of which is attached,] or the intended application thereof to a freight car infringes the ['269 patent]. Accordingly we demand that you immediately cease and desist from any further unauthorized production and sales of such castings that . . . include features covered by our patents.

We expect to . . . enforce our patent rights against your company should the matter remain unresolved.<sup>235</sup>

We represent Susan M. Maxwell in her efforts to enforce her U.S. Patent No. 4,624,060, covering a SYSTEM FOR ATTACHING MATED PAIRS OF SHOES TOGETHER, a copy of which is attached.

Ms. Maxwell has previously notified you of her patent and that shoes sold in your stores with loops attached inside through which filaments are used to join pairs infringe her patent. Ms. Maxwell has also offered a license to practice her patent.

We are writing to confirm Ms. Maxwell's commitment to enforce her patent rights. Her patent gives the exclusive right to make, use and sell shoes joined together with her system in the United States.

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<sup>234</sup> *Amsted*, 24 F.3d at 187-88 (affirming the district court's holding that Amsted had a duty to mark, or to insist that its customers (implied licensees) mark, and thus was precluded from recovering treble damages for the period before proper notice was given).

<sup>235</sup> *Id.* at 186 (alterations in original). In contrast, the court in *Amsted* held that the following letter, sent to a number of companies, including Buckeye, did not satisfy 35 U.S.C. § 287, because it did not explicitly charge Buckeye with infringement of the specific Amsted patent in question:

This is to advise you that Amsted . . . has acquired a number of properties [from Dresser] . . . including [the '269 patent] . . . .

It is our understanding that Dresser Industries actively sought to enforce its patent . . . and those rights have been heretofore respected in the industry. AMSTED-ASF expects to continue to enforce those rights which it has acquired and similarly expects our industry to respect its patents.

Accordingly, you should acquaint yourself with the ['269 patent] and refrain from supplying or offering to supply component parts which would infringe or contribute to the infringement of the patent[.]. You should not offer to supply items which are copies of or designed to replace our LOW PROFILE center plate.

*Id.* at 186 (alterations in original).

We have already filed a patent infringement action against J. Baker, Inc. This lawsuit, Civil Action No. 4-90-941, is now pending in the U.S. District Court in Minnesota.

Because of our involvement in the case against J. Baker, we do not intend to bring suit against your company in the near future. However, we assure you that your sales of infringing shoes remain a concern and may give rise to a legal action after the termination of the J. Baker litigation.<sup>236</sup>

These examples illustrate the elements of satisfactory notice; they (1) were communicated to a specific alleged infringer, (2) identified the specific patent alleged to be infringed, and (3) identified the specific products alleged to be infringing. The Federal Circuit has strictly construed the notice statute. In so doing, it has provided a clear legal standard that will lead to greater certainty and security in business relations and promote consistent judicial treatment. The Federal Circuit's indication that conduct relied upon for notice of infringement must rise to the level required to create declaratory judgment jurisdiction<sup>237</sup> is also laudable because it tends to "level the playing field" for alleged infringers by diminishing the likelihood that they will incur liability for damages without access to the declaratory judgment remedy. The *Amsted* standard, therefore, also decreases the potential for abusive, coercive tactics on the part of

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<sup>236</sup> *Maxwell v. K Mart Corp.*, 880 F. Supp. 1323, 1338-39 (D. Minn. 1995).

<sup>237</sup> In a few cases prior to the Federal Circuit's decision in *Amsted*, courts had recognized and commented on the connection between notice of infringement and declaratory judgment jurisdiction. For example, in *Union Carbide Corp. v. Graver Tank & Manufacturing Co.*, the court affirmed the trial court's refusal to award damages for infringement occurring prior to the patentee's filing of its infringement action, based on the trial court's finding that the failure of the patentee to give notice to the defendant "was the result of a deliberate corporate policy on the plaintiff's part, undertaken on advice of counsel" adopted out of concern that such notice would "enable [the defendant] . . . to obtain a decision on the issues of validity and infringement" by filing a declaratory judgment action. 282 F.2d 653, 676 (7th Cir. 1960). The court observed that the patentee:

determined for its own purposes to keep its patent from the scrutiny of the courts as long as possible. By doing so it was enabled to collect large royalties on its patent (asserted by [the defendant] to have amounted to more than \$7,000,000) which, with the exception of the . . . claims in suit, was later held invalid by the courts. The hardship, if such it be, placed upon Union Carbide by reason of the Master's conclusion is the direct result of its own action, deliberately planned and carried out for its own purpose and gain. Such being the situation, we think it cannot now escape the consequences of its intentional refusal to give Lincoln the statutory notice of infringement.

*Id.*; see also *American Med. Sys. Inc. v. Medical Eng'g Corp.*, 794 F. Supp. 1370, 1392 (E.D. Wis. 1992) (refusing to award damages before the time the patentee specifically accused the defendant of infringement, noting that the patentee "[c]learly . . . felt it advantageous to withhold making an explicit accusation of infringement to prevent a declaratory judgment suit from being filed

the patentee and gamesmanship on the part of the patentee's lawyers.

The *Amsted* standard for notice, however, is only one half of the equation. The exacting, precise requirement for notice established by the Federal Circuit—a specific charge of infringement concerning a specific accused product or device—enables the patentee to give notice without threatening suit. In such circumstances, the accused infringer is potentially liable for damages but may be unable to bring a declaratory judgment action to challenge validity and infringement. This inequity should be corrected.

#### V. A RECONSIDERED APPROACH TO DETERMINING DECLARATORY JUDGMENT JURISDICTION IN PATENT CASES

The concerns that led to the passage of the Act in 1934 are no less real or relevant in today's business climate. Patents are valuable because they provide potent legal ammunition.<sup>238</sup> However, the use of a patent as an "economic weapon"<sup>239</sup>—against an accused infringer who asserts, in good faith, that the patent is either invalid or not infringed<sup>240</sup>—is contrary to the public policy on which the patent system is based.<sup>241</sup>

A more liberal construction of the Act than that given by the Federal Circuit in recent years is warranted by the legislative history of

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by [the defendant] . . . This was a calculated risk"), *modified on other grounds*, 6 F.3d 1523 (Fed. Cir. 1993).

<sup>238</sup> Upon a finding of patent infringement, a court is authorized to grant an injunction against further infringement. See 35 U.S.C. § 283 (1994). In addition, a patentee who prevails on a claim of patent infringement is entitled to an award of compensatory damages "in no event less than a reasonable royalty," as well as attorneys fees and costs in "exceptional cases." See *id.* §§ 284, 285 (1994); see also *Mathis v. Spears*, 857 F.2d 749 (Fed. Cir. 1988). Pre- and post-judgment interest on damages, fees and costs is also available. See 28 U.S.C. § 1961 (1994); *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657 (1983). Finally, the patent statute authorizes a court to "increase the damages up to three times the amount found or assessed." 35 U.S.C. § 284. Increased damage awards are typically based on a determination that the infringement was willful. See HARMON, *supra* note 74, § 14.1; see also *supra* note 226.

<sup>239</sup> See *Dewey & Almy Chem. Co. v. American Anode, Inc.*, 137 F.2d 68, 71 (3d Cir. 1943) (observing that such use forces the accused infringer to either (1) abandon its activities, (2) take a license on unfavorable terms, or (3) "persist in piling up potential damages against the day when it may fit [the patentee's] purposes to bring an infringement suit against it").

<sup>240</sup> See *Treemond Co. v. Schering Corp.*, 122 F.2d 702, 705 (3d Cir. 1941) ("Manifestly, the threat is as unjust if the plaintiff is not infringing a valid patent as it is if he is infringing an invalid one.").

<sup>241</sup> See *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 349-50 (1971) (stating that "[t]he holder of a patent should not be insulated from the assertion of defenses and thus allowed to exact royalties for the use of an idea that is not in fact patentable or that is beyond the scope of the patent monopoly granted"). See generally *Lear, Inc. v. Adkins*, 395 U.S. 653,

the Act,<sup>242</sup> the pre-Federal Circuit judicial interpretation of the Act,<sup>243</sup> the business realities faced by patentees and potential infringers,<sup>244</sup> and the impact of the Federal Circuit on doctrinal stability and patent vitality.<sup>245</sup> Specifically, the courts, including the Federal Circuit, should guard against placing significant weight on the existence of pending license negotiations. To do otherwise is to unduly emphasize the particular language employed by the parties and to unfairly handicap the accused infringer, in contravention of the policies underlying the Act. More importantly, the courts should return to the view that a reasonable apprehension of *liability* on the part of the accused infringer is sufficient to satisfy the Act's requirement for an actual controversy—without regard to the imminence of the patentee instituting patent infringement litigation. For the reasons discussed above, the liability standard better reflects the legislative intent and the business realities. It is also consistent with the law of marking and notice.

For example, to the extent that the courts regard actions on the part of a patentee as effective notice of infringement, but not sufficient to create the objectively reasonable apprehension of suit now required for declaratory judgment jurisdiction,<sup>246</sup> the patentee enjoys an unfair advantage. Liability for damages begins to accrue against the accused infringer as of the date notice of infringement is given,<sup>247</sup> while the patentee retains complete control over when, and sometimes more significantly, where to subject its patent to judicial scrutiny. The unavailability of declaratory judgment relief in such circumstances can therefore impose significant hardship on the accused infringer,<sup>248</sup> who is left at the mercy of the patentee.<sup>249</sup>

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670–71 (1969) (repudiating the doctrine of licensee estoppel, recognizing that “[i]f [licensees] are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification . . . [T]he technical requirements of contract doctrine must give way before the demands of the public interest”).

<sup>242</sup> See *supra* notes 51–52 and accompanying text.

<sup>243</sup> See *supra* Part II.

<sup>244</sup> See *supra* notes 113, 133 and accompanying text.

<sup>245</sup> See *supra* notes 204, 208 and accompanying text.

<sup>246</sup> See, e.g., *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996), *cert. denied*, 117 S.Ct. 789 (1997) (reciting requirement that “the patentee’s conduct must have created an objectively reasonable apprehension on the part of the [declaratory judgment] plaintiff that the patentee will initiate suit if the [allegedly infringing] activity . . . continues”).

<sup>247</sup> See 35 U.S.C. § 287(a) (1994).

<sup>248</sup> See the *LensCorp/ChemCo* hypothetical discussed above.

<sup>249</sup> See Edward W. Remus & Thomas A. Fairhall, *Prerequisites to Recovery of Damages: Importance of Marking and Notice of Infringement*, A.L.I.-A.B.A. COURSE OF STUDY, (Nov. 9, 1995), available in WESTLAW at CA15 ALI-ABA 413, 441–42 (asserting that the legal standards governing notice of infringement and declaratory judgment jurisdiction are different and arguing that

Any inconsistency between the standards for notice of infringement and declaratory judgment jurisdiction is also contrary to the policies underlying the patents clause of the Constitution<sup>250</sup> and the patent statute,<sup>251</sup> in that a potentially invalid patent<sup>252</sup> may be used to deter the accused infringer from pursuing activities that are potentially beneficial to society. At the same time, the accused infringer is powerless to litigate and resolve the merits of the patent. A perceived "gap" between what is required for notice and what is sufficient for declaratory judgment jurisdiction also disproportionately emphasizes the significance of particular language in written and oral notice communi-

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no communication of a patentee should be considered to constitute notice of infringement in compliance with the patent notice and marking statute if it would not have met the requirements for declaratory judgment jurisdiction).

<sup>250</sup> U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"). As the Supreme Court has observed on several occasions, the constitutionally enshrined policy in favor of promoting the progress of useful arts must be tempered with regard for the public interest:

A patent by its very nature is affected with a public interest. . . . [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.

*Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945). For this reason, "the prerequisites to obtaining a patent are strictly observed." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964).

<sup>251</sup> 35 U.S.C. §§ 100-376 (1994).

<sup>252</sup> An issued United States patent is presumed valid. *See id.* § 282. Nevertheless, a patent may be declared invalid for failure to comply with any of the statutory requirements of patentability, whether or not such issues were considered by the U.S. Patent & Trademark Office prior to issuance of the patent. *See American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1360 (Fed. Cir. 1984) ("All evidence bearing on the validity issue, whether considered by the PTO or not, is to be taken into account by the tribunal in which validity is attacked."). The statutory requirements include requirements that the invention claimed in the patent fall within the categories Congress considers appropriate for patent protection, and be useful, novel, and nonobvious. *See* 35 U.S.C. §§ 101-103. In addition, the patent specification must provide a written description of the invention, which would both enable a person skilled in the art to which the invention pertains to make and use the invention and set forth the "best mode" perceived by the inventor for carrying out the invention. *See id.* § 112. The claim language used to define the invention must also be definite. *See id.*; *PPG Indus., Inc. v. Guardian Indus. Corp.*, 75 F.3d 1558, 1562 (Fed. Cir. 1996) (noting that "paragraph two of section 112 'is essentially a requirement for precision and definiteness of claim language'" (quoting *In re Borowski*, 422 F.2d 904, 909 (C.C.P.A. 1970))).

In addition to these statutory patentability issues, a patent may be declared unenforceable on the basis of a variety of non-statutory defenses to a charge of patent infringement, including inequitable conduct in the procurement of the patent from the U.S. Patent & Trademark Office, patent misuse, laches, and equitable estoppel. *See generally ABB Robotics v. GMFanue Robotics Corp.*, 34 U.S.P.Q.2d (BNA) 1597 (Fed. Cir. 1995) (equitable estoppel); *Advanced Cardiovascular*

cations. The disproportionate emphasis occurs as patentees and their counsel carefully attempt to satisfy the notice statute without triggering the declaratory judgment statute,<sup>253</sup> promoting inefficiency in the use of legal and business resources.

The factual circumstances that bring a patentee and a potential infringer before a judge on opposite sides of a motion to dismiss a declaratory judgment claim are varied. Moreover, as the Federal Circuit has recently admonished, "[t]he relationships are rarely as simple as they appear in judicial opinions."<sup>254</sup> However, many cases that raise the issue of a potential infringer's access to declaratory relief share a common factual predicate: the patentee has asserted that a present activity of the potential infringer invades the patentee's statutory right to exclude.<sup>255</sup> Such an assertion evidences the existence of a constitutionally sufficient actual controversy, when met in the accused infringer's declaratory judgment complaint by the accused's good faith allegations<sup>256</sup> that the patent asserted by the patentee is invalid, unenforceable,<sup>257</sup> and/or not infringed. The focus is not on the particular language chosen by the patentee, but rather rests on the substance of

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Sys., Inc. v. SciMed Life Sys., 988 F.2d 1157 (Fed. Cir. 1993) (laches); Gardco Mfg., Inc. v. Herst Lighting Co., 820 F.2d 1209, 1213 (Fed. Cir. 1987) (inequitable conduct, patent misuse).

<sup>253</sup> In the author's experience, prior to the *Amsted* decision, many practitioners held the view that notice of infringement sufficient to trigger the accrual of damages could be given without creating an actual controversy with the accused infringer. See Ronald B. Coolley, *Notifications of Infringement and Their Consequences*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 246, 252 (1995). The patentee's goal was to hold the patent over the head of the accused while dangling it just out of the accused's reach.

The patentee has great incentive to avoid, if possible, actually bringing an infringement action. Aside from the expense and delay of litigation, the patentee seeks to avoid judicial scrutiny of the patent's validity or a potentially unfavorable construction of the patent's coverage or scope. Once these issues have been litigated and decided in a manner unfavorable to the patentee, the patentee is precluded from re-litigating them in cases involving other defendants and allegedly infringing products. See *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 349-50 (1971). Thus, the patentee generally prefers an agreement on the part of the accused infringer to pay royalties for its use of the patented invention over judicial resolution of its claim.

<sup>254</sup> *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 980 (Fed. Cir. 1993).

<sup>255</sup> See 35 U.S.C. § 271(a).

<sup>256</sup> Good faith allegations are those which would satisfy the requirements of Federal Rule of Civil Procedure 11, which provides its own measure of protection for the patentee against the assertion of baseless, unsupportable defenses to patent infringement. FED. R. CIV. P. 11.

<sup>257</sup> The patent statute distinguishes between the affirmative defenses of invalidity and unenforceability. See 35 U.S.C. § 282. According to the statute, invalidity results from the failure of the patent or any claim in suit to comply with the statutory requirements of patentability, including the requirements concerning the sufficiency of the patent specification, specificity of the claims, and conditions for reissue. See *id.* One or more claims of a patent can be held invalid without invalidation of the entire patent. See *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1561-62 (Fed. Cir. 1984). On the other hand, a patentee's inequitable conduct, for example, in the procurement of the patent, renders the entire patent unenforceable. See *id.* at 1560-61.

the charge: has the patentee asserted that the conduct of the accused infringer renders it liable for infringement?<sup>258</sup>

This test should facilitate judicial decision-making and promote consistency in the process. An inquiry into whether the patentee has made a charge of infringement or not is substantially easier for a court to make than a searching and subjective analysis of whether the patentee is ready to commence an infringement suit.<sup>259</sup>

Of course, a grant of jurisdiction merely provides a forum to litigate the issues of validity and infringement. Litigation is undoubtedly expensive and time-consuming. Nevertheless, the parties involved in a declaratory judgment proceeding will each have the opportunity to advance or defend their positions. Presumably, a court will reach the right result on disputed issues of validity and/or infringement. It is worth noting, however, that even where one or more of the parties is not satisfied with the correctness of the result, the parties will at least have the certainty which was the promise of the Act.

## VI. CONCLUSION

The Federal Circuit has clearly and consistently resolved many of the issues confronted by parties engaged in disputes involving patents. The Federal Circuit's imposition of a rigorous requirement that a threat of suit exist before a declaratory judgment action may be brought, however, encourages patentees to engage in the "guerrilla-like" conduct criticized in the *Arrowhead* decision, leaving potential infringers at a distinct disadvantage.

The time has come for the Federal Circuit to apply a standard for declaratory judgment jurisdiction that recognizes business realities and can be fairly and consistently applied. A standard that recognizes jurisdiction when the patentee asserts a charge of infringement is consistent with the policy and purpose of the Act and properly places patentees and alleged infringers on equal footing.

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<sup>258</sup> A court applying this test to the LensCorp/ChemCo hypothetical discussed above would properly accept jurisdiction of LenCorp's declaratory judgment action.

<sup>259</sup> As discussed *supra* in Part III.B, the Federal Circuit has improperly focused in recent decisions on whether the patentee intends to imminently file suit.