

PATENT AND TRADEMARK LAW

Expert Analysis

Death of the DJ: The Decline of Declaratory Judgment Actions in Patent Disputes

Declaratory judgment actions, commonly referred to as “DJ actions,” have historically provided a mechanism for companies threatened with a patent infringement claim, e.g., through a cease and desist letter sent by a patent holder, to preemptively file a lawsuit seeking a court ruling declaring the patent invalid or not infringed. These DJ actions for years had been a popular tool for accused infringers, but recent changes in the patent litigation landscape have resulted in a shift away from these DJ actions, and a corresponding shift in the way patent holders approach infringers.

Background

The Declaratory Judgment Act provides “in a case of actual

ROB MAIER is an intellectual property partner in the New York office of Baker Botts, and the head of its intellectual property group in New York. JOE AKALSKI, a Baker Botts senior associate, assisted in the preparation of this article.

By
**Robert L.
Maier**



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

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any interested party seeking such declaration.” 28 U.S.C. 2201(a). To bring a DJ action, a party must therefore demonstrate the existence of an actual case or controversy. In the patent context, that requirement is most often

satisfied by an explicit or implicit threat of a patent lawsuit—for example, a letter from the patent holder putting the prospective defendant on notice of the its claim for infringement, and offering a license. Faced with the threat of a patent infringement suit, the accused party in these circumstances could then preemptively bring a DJ action to challenge the charge of infringement, or the validity of the subject patent.

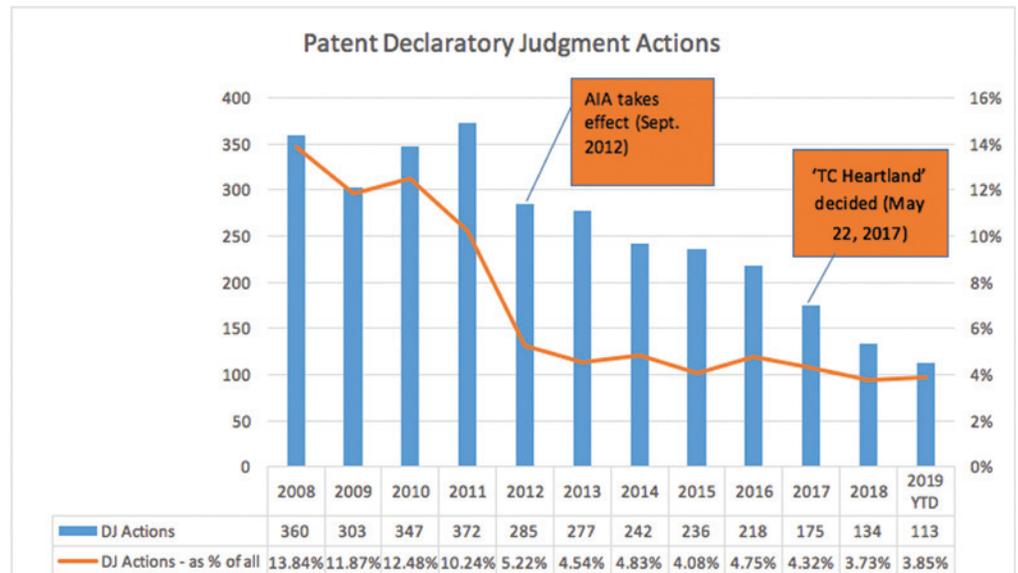
These DJ actions were typically motivated, at least in part, by litigation strategy. Rather than being dragged into a court of the patent holder’s choosing and on the patent owner’s terms, the DJ action allowed the accused infringer to take charge of the dispute and bring the fight in a jurisdiction it chooses.

Previously, patent holders enjoyed nearly unlimited venue choices across district courts in the United States, and would

often file in a district known to be friendly to patent holders, either procedurally or in terms of favorable jury pools and large damages awards. The DJ allowed an alleged infringer to seize the patent holder's ability to forum shop, and instead file in a hometown court or other court it deemed advantageous. So significant was this strategy point that patent holders historically considered with great care what they said in communications with alleged infringers—and how they said it—stopping short of threats that would trigger an “actual case or controversy” that would otherwise allow an accused infringer to bring a DJ action.

Decline in Patent DJ Action Filings

Two factors in recent years have taken the teeth out of DJ actions and triggered a steep decline in DJ action filings. These filings first declined in 2012, immediately following passage of the Leahy-Smith America Invents Act, which established a Patent Trial and Appeals Board (PTAB) at the U.S. Patent and Trademark Office that hears expedited patent validity challenges. These proceedings, such as Inter Partes Review (IPR), make it easier, faster, and less expensive to invalidate patents than in a district court, and have therefore



become a tool of choice in patent defense strategy.

How do these PTAB proceedings impact DJ action filings? By statute, these proceedings may not be instituted if “before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.” 35 U.S.C. §315(a). In other words, if an accused infringer were to file a DJ action in a district court seeking a declaration of invalidity, it could not thereafter invalidate the patent at the PTAB. The steep decline in DJ actions filed in 2012 and continuing thereafter is a direct result of the rise of PTAB proceedings as the preferred mechanism for challenging the validity of a patent.

The second contributing factor came some years later. In May 2017, the Supreme Court decided *TC Heartland v. Kraft*

Foods Grp. Brands, 137 S. Ct. 1514 (2017). In *TC Heartland*, the Supreme Court interpreted the patent venue statute, 28 U.S.C. §1400(b), and held that patent holders would no longer enjoy virtually unlimited venue choices nationwide, but rather could only sue in the state in which the defendant is incorporated, or “where the defendant has committed acts of infringement and has a regular and established place of business.” *TC Heartland*, 137 S. Ct. at 1516-17. The Supreme Court thus stripped patent holders of their ability to forum shop. And, accordingly, parties threatened with a patent suit no longer have to be as concerned about being dragged into a faraway district that is highly plaintiff-friendly—instead, parties know they can only be sued in a limited number of places, one often being the District of Delaware, a sophisticated patent

court where most companies are incorporated, and others being a party's home court jurisdictions where they conduct meaningful business operations. As a result, the strategic advantage in affirmatively filing a DJ action to avoid an unfavorable jurisdiction no longer applies.

The filing data supports these points. In 2017 the number of patent DJ actions dropped below 200 for the first time since 2008. In fact, the number of DJ action filings have not been this low since 2002—133 DJ actions were filed in 2002, nearly matching the 134 filed in 2018. (*See Table 1 below*)

Given this shift in the landscape, patent holders now can be more direct in their communications to would-be licensees. In the past, parties and their attorneys would take great care in drafting letters to potential licensees, doing so softly and in a way that would, they hoped, fall short of creating a case or controversy for DJ purposes, but which, at the same time, still conveyed sufficient gravity that the alleged infringer would be prompted to consider paying for a license. Sometimes this dance resulted in a slow and protracted escalation before any serious licensing discussions proceeded. Now, given the diminishing of this strategy concern, a patent holder is free to be more forceful at the outset,

and can thereby accelerate the discussions.

Are Rumors of DJ's Death Greatly Exaggerated?

While DJ action filings are down, they are not necessarily out. In some unique circumstances, the DJ action may still have strategic value. For example, accused infringers with regular and established places of business in multiple districts may still seek to file a DJ action to control selection of venue from among the multiple districts in which they could be sued.

There may even be room for an alleged infringer to have its cake and eat it too. While the filing of a DJ action asserting invalidity of a patent will preclude a subsequent PTAB proceeding, a DJ action asserting *only* non-infringement will not, because it does not constitute "a civil action challenging the validity of a claim of the patent" for purposes of the statute. 35 U.S.C. §315(a)(1)). And further still, at least one PTAB panel has acknowledged in a non-precedential decision that a party that files a DJ action seeking only a declaration of non-infringement, which is met with an infringement counterclaim by the patent holder, can then in response bring a counterclaim for invalidity and still maintain the ability to subsequently invalidate the patent at the PTAB. *Canfield Sci.*

Melanoscan, IPR2017-02125, 2018 WL 1628565, Paper No. 15 (P.T.A.B. Mar. 30, 2018). In *Canfield*, the PTAB found that an IPR petition was not barred because, as specified in 35 U.S.C. §315(a)(3)), "[a] counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent [for purposes of subsection (a)(1)]." *Id.* at *2; see also *Diagnostics v. Ltd.*, IPR2012-00022, 2013 WL 2181162, at *6 (P.T.A.B. Feb. 12, 2013).

The bottom line: Use of the DJ has rapidly declined in recent years, as a direct result of meaningful changes brought by both Congress and the Supreme Court. In the vast majority of cases, a DJ action will no longer bring the strategic advantages it once did. That said, practitioners and patent litigants should not discount the value of DJ actions entirely—instead, they should be considered in every case, based on the specific facts and circumstances and party objectives. In some cases, the DJ action may still be a useful tool for responding to a charge of patent infringement.