

## Accused Infringers Rethink Declaratory Judgment Strategies

By Erin Coe

*Law360, San Diego (November 25, 2015, 7:43 PM ET)* -- With the Patent Trial and Appeal Board becoming a more popular avenue for attacking the validity of patents, accused infringers are filing fewer declaratory judgment actions in court, but attorneys say this type of preemptive suit still serves as an important litigation tool for gaining a favorable jurisdiction in a patent fight.

Declaratory judgment actions, in which an accused infringer files suit first, are on the decline since the America Invents Act in 2012 created an accelerated pathway for patent challenges.

Data on new patent filings in all U.S. district courts from Lex Machina shows 362 declaratory judgment actions in 2011; 310 cases in 2012; 275 cases in 2013 and 233 cases in 2014. So far, there have been 200 declaratory judgment filings this year, and the total number is projected to be lower or about the same as last year.

The AIA bars an accused infringer from filing a petition for an inter partes review or a post-grant review if it has already launched a declaratory judgment action for invalidity on the same patent at issue, and that restriction is causing accused infringers to be more discriminating when they pursue a declaratory judgment strategy, according to attorneys.

"There is no question that litigants are thinking more carefully about whether to file a declaratory judgment action," said Mark Supko, a partner at Crowell & Moring LLP. "Because of the estoppel and stay provisions of Section 315(a), as well as the cost of parallel proceedings, litigants want to make sure that a case is one where the benefits of a declaratory judgment action outweigh the potential impact on the ability to effectively pursue an inter partes review."

In light of the AIA, accused infringers now have to consider the potential strategic advantages of an IPR in the context of deciding whether to control jurisdiction by filing a declaratory judgment action, according to Matthew Duchemin, a partner at Quarles & Brady LLP. Unlike a district court, the PTAB does not presume the patent in dispute is valid, and it applies a lower standard for petitioners to show invalidity while also construing patent claims based on the broadest reasonable interpretation.

"IPRs are an extremely valuable tool when parties are accused of infringement ... and they are the first thing to be considered," Duchemin said. "Accused infringers can't ignore the importance of an IPR review and need to be careful of forfeiting their rights by immediately filing a declaratory judgment

action.”

As recently as five years ago, declaratory judgment filings were one of the main ways to attack the validity of patents, but with the shift from the patent office’s re-examination procedures to the PTAB’s post-grant reviews, accused infringers have the ability to challenge a patent at a lower cost and with a greater chance of success compared to district court, according to Paul Devinsky, a partner at McDermott Will & Emery LLP.

“You’d be shot if you walked into court now just to file a declaratory judgment for invalidity,” he said. “To that extent, the AIA is limiting the full scope of how declaratory judgment actions were traditionally used.”

Though declaratory judgment actions are becoming a less preferred mechanism for invalidity challenges compared to PTAB reviews, they still provide a powerful tool for accused infringers to control the venue in litigation, an advantage that will keep them from becoming obsolete, according to attorneys.

“If every court was statistically equal, declaratory judgment actions would probably have short legs, but that’s not the case,” Devinsky said. “People like to shop for venues. They want to be able to get themselves situated in the place they think they will have the best chance of success or at least avoid venues where they believe the odds may be stacked against them.”

Accused infringers don’t necessarily have to choose between an AIA review and a declaratory judgment action. They can still pursue an IPR if they first file a declaratory judgment action asserting only noninfringement. In that circumstance, once the patent owner brings counterclaims of patent infringement, then the accused infringer can assert invalidity as an affirmative defense.

“You may be able to maintain a declaratory judgment action and maintain review before the PTAB if you only seek a declaratory judgment of noninfringement,” Duchemin said.

In *Ariosa Diagnostics v. Isis Innovations Ltd.*, the PTAB held in 2014 that Ariosa’s declaratory judgment of noninfringement in district court and affirmative defense of invalidity didn’t deprive it of standing to file an IPR petition, finding that the case fell outside the scope of activities that the statute prohibited.

If an accused infringer favors an IPR but wants to control jurisdiction, another strategy might be to file an IPR petition and then file a declaratory judgment action over noninfringement, with the likelihood that the ongoing PTAB proceeding will stay the litigation, according to Duchemin.

“Trying to get a favorable venue is just as important now as before the America Invents Act,” said James Day, a partner at Farella Braun & Martel LLP. “Accused infringers can file both a petition for an AIA review and a declaratory judgment action. They just have to do it correctly.”

Accused infringers, however, may want to opt for a declaratory judgment action over a PTAB proceeding in several instances, such as when a declaratory judgment action can be filed in a “rocket docket” forum that may resolve the dispute faster than at the PTAB or when the patent owner is a competitor that is subject to personal jurisdiction in the accused infringer’s home forum, according to Supko.

“If the accused infringer pursues the IPR route, it could take up to 15 months to get a final decision from the PTAB, but if it has a basis for getting jurisdiction in one of the rocket docket courts, like the Eastern District of Virginia, cases are very often decided on the merits in less than a year,” he said.

Alleged infringers also may determine that they are better off pursuing a declaratory judgment action instead of an IPR if they lack strong prior art or printed publication prior art, if they have a relatively weak noninfringement position or if the patent owner has the ability to assert a relatively large number of patents, according to Supko.

“The more patents and individual claims you need to challenge before the patent office, the more expensive IPR proceedings become,” he said. “There are going to be many cases where an IPR isn’t necessarily the best strategy for successfully resolving a dispute, such as where the advantages of selecting the forum for litigation outweigh the potential loss of the ability to pursue an IPR.”

In addition, accused infringers may find it worthwhile to launch a declaratory judgment action after a patent owner files suit in a court like the Eastern District of Texas, which has a plaintiff-friendly reputation.

“[If] there is a standing issue or other defect in a complaint, defendants are well-advised to do a quick jurisdictional analysis and bring a declaratory judgment [action] for noninfringement in the venue of their choice that will support personal jurisdiction,” Devinsky said.

At the same time, accused infringers that don’t anticipate filing an IPR still may want to hedge their bets when bringing a declaratory judgment action.

“Even in circumstances where pursuing an IPR is unlikely, it is difficult to conceive of a reason why you would not at least keep that option open by only seeking a declaratory judgment of noninfringement,” Supko said.

A case pending before the Federal Circuit has the potential to further whittle away at the number of declaratory judgment actions.

Liquid sweetener company TC Heartland LLC petitioned the appeals court in October to overturn precedent that allows patent suits to be brought in any district. Since then, more than two dozen major companies, including Macy’s and Google Inc., and a handful of public interest groups have backed the petition and urged the court to hear the case.

Patent licensing firm Network-1 and others filed an amicus brief earlier this month that pressed the Federal Circuit to reject TC Heartland’s argument, saying TC Heartland’s petition advocated an interpretation of statutory venue provisions that would create inefficiency and unnecessary burdens on patent holders and the courts.

“If the court finds for [TC Heartland], defendants won’t find themselves dragged to the Eastern District of Texas but rather will be subject to suit in their home venues,” Devinsky said. “That would be a sea change and create much less use of declaratory judgment actions for securing perceived favorable venue.”

--Editing by Christine Chun and Kelly Duncan.

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