

Keywords: declaratory judgment; case or controversy; jurisdiction; immediacy and reality

Summary: No actual case or controversy underlies plaintiff's claim for declaratory judgment that its power supply device does not infringe defendant's patent, even though defendant's letters accusing plaintiff of infringement manifestly created reasonable apprehension of suit, since dispute lacks sufficient "immediacy and reality" to warrant issuance of declaratory judgment.

Sierra Applied Sciences Inc. v. Advanced Energy Industries Inc.

70 U.S.P.Q.2d 1577 (Fed. Cir. 2004)

April 13, 2004

I. Facts

Advanced Energy Industries (AEI) owns several patents relating to the reduction or elimination of arcs within a direct current plasma processing system. These patents claim reactive sputtering¹ using a direct current power supply and, specifically, reducing the occurrence of electrical discharges or arcs within the chamber by periodically reversing the voltage applied to the sputtering target. At least some of these claims are not limited by a particular wattage of the power supply.

Sierra attempted to develop reactive sputtering power supplies for over ten years. In the early 1990s, Sierra developed a 2kW power supply used primarily for in-house reactive sputtering, although Sierra manufactured and sold a very small number (e.g., 5-10 units) of these power supplies in 1994-95. According to the evidence, Sierra discontinued sales due to the relatively small demand for 2kW power supplies.

In December 1995, AEI's counsel sent a letter to Sierra stating, *inter alia*, "we believe that your equipment infringes ... [and] my client ... intends to protect its position." This letter also concluded by stating "Our client does intend to aggressively protect its rights." In January 1996, Sierra's counsel sent a letter to AEI stating, *inter alia*, "Sierra only manufactured and sold less than five of those power supplies... and is no longer manufacturing those power supplies and has no plans to do so in the future." Sierra did not receive a response from AEI.

In addition to the 2kW power supply, Sierra subsequently began developing 150kW power supplies in 1998. Sierra also advertised its plans to market a 150kW power supply in late 1999. The first prototype was designed by Charlie Coleman and was undergoing development in 1998, 1999, and at least part of 2000.

On December 8, 1999, AEI's counsel sent another letter to Sierra stating, *inter alia*, "it appears that Sierra is now in fact again marketing pulsed power supplies which use some of AEI's technology. It appears that the situation of several years ago is now recurring because it appears that your current design still infringing [*sic*] upon AEI's rights. Unlike the prior situation, however, we are concerned because your actions now appear to present a situation of intentional infringement." On December 15, 1999, Sierra's counsel sent a letter to AEI stating their intent to investigate the matter. However, Sierra did not send a follow-up letter to AEI.

¹ Reactive sputtering may be defined as "a process whereby the surface of an item is coated with a thin film formed through chemical reactions in the presence of a plasma of charged particles in a vacuum chamber." Reactive sputtering is used in, *inter alia*, the fabrication of electrical circuits.

On November 13, 2000, AEI's counsel sent another letter to Sierra reiterating their concerns and stating, *inter alia*, "comments ... must be received by no later than November 28 ... [and] if we do not hear by that date, we will act as and when we deem appropriate without further notice." At the time of this letter, Sierra was in the early stages of developing a second prototype designed by Keith Billings (i.e., the "Billings prototype"). In addition, the first prototype (i.e., the "Coleman prototype") was allegedly destroyed during testing in 2000. On November 27, 2000, Sierra's counsel sent a letter to AEI stating, *inter alia*, "Sierra Applied Sciences was not then and is not now selling any power supplies. ... You should know that Sierra is expecting to market sometime in the next quarter a 150 kW power supply. ... Sierra is confident that its 150 kW power supply does not infringe any AEI patents."

On September 14, 2001, Sierra sued AEI seeking a declaratory judgment of invalidity or noninfringement of the '813 patent. On November 9, 2001, AEI filed an answer, affirmative defenses, and counterclaims. The counterclaims alleged that Sierra had willfully infringed the '813, '717, and '224 patents.

On November 5, 2002, AEI moved to dismiss the case for lack of subject matter jurisdiction, asserting the lack of a case or controversy between the parties. Specifically, AEI argued that Sierra did not have an operational power supply on the filing date of the complaint, Sierra had no immediate plans for manufacturing or selling the 2kW or 150kW power supplies on the filing date of the complaint, and Sierra's in-house use of the 2kW supply was not sufficient to establish a case or controversy.

On April 22, 2003, the district court found that Sierra never had a reasonable apprehension of a patent infringement lawsuit regarding the 2kW power supply, because AEI was satisfied that Sierra was not marketing the 2kW power supply and AEI was unconcerned with in-house use of the 2kW power supply. Regarding the 150kW power supply, the district court found a lack of persuasive evidence of any infringing activity pertaining to the 150kW power supply at the time Sierra filed the original complaint. Specifically, the district court found that the first prototype was destroyed prior to the filing date of the original complaint, and the second prototype was at least a year away from sale.

II. Issues

1. What is necessary for subject matter jurisdiction for a patent-based declaratory judgment lawsuit?
2. Should subject matter jurisdiction be evaluated for each individual allegedly infringing product in a patent-based declaratory judgment lawsuit?
3. Does subject matter jurisdiction exist with regard to the 2kW power supply?
4. Does subject matter jurisdiction exist with regard to the first prototype of the 150kW power supply?
5. Does subject matter jurisdiction exist with regard to the second prototype of the 150kW power supply?

III. Discussion

1. Subject matter jurisdiction² for a patent-based declaratory judgment lawsuit requires:
 - (a) reasonable apprehension of suit – e.g., 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; and
 - (b) infringement – e.g., present activity that constitutes infringement or concrete steps taken to conduct infringing activity.
2. Yes – the court must carefully calibrate its analysis to each of the allegedly infringing products to determine whether subject matter jurisdiction exists for each respective product.

In this case, Sierra developed a 2kW power supply, a first prototype of a 150kW power supply, and a second prototype of a 150kW power supply. According to the evidence, these three power supplies use different technologies. If the court considered these three power supplies as a single technology, then it would risk issuing an advisory opinion on one product or method based on an actual controversy pertaining to the other product. Therefore, the present court applied the two-part case-or-controversy test separately to each of the three products.

3. 2kW Power Supply: First, regarding the first prong (i.e., reasonable apprehension of suit), the present court found that the most recent letters exchanged between the parties established a reasonable apprehension that the ‘813 patent would be asserted against all of Sierra’s power supplies regardless of the wattage. Moreover, the most recent letters established a reasonable apprehension that any infringement suit would be directed to all of Sierra’s activities, including the pre-1996 manufacturing and sales of the 2kW power supplies. The present court noted that an actual controversy must exist at *all stages* of review, not merely at the time of filing the original complaint. AEI argued that any alleged apprehension of suit vanished when AEI asserted that it would not sue for Sierra’s *in-house* use of the 2kW power supply. However, the present court found that AEI’s assertion did not eliminate the reasonable apprehension of suit for other potentially infringing activities, such as the pre-1996 manufacture and sale of the 2kW power supply.

Second, regarding the second prong (i.e., infringing activities), the present court noted that later events may not create jurisdiction where none existed at the time of filing. The present court further explained that the activities must have occurred before the time of filing the original complaint, but the activities can date back no further than a time 6 years prior to filing the complaint (i.e., the 6 year statute of limitations). In view of the evidence, the present court found that the pre-1996 sales activity, while probably *de minimus* in terms of damages, is sufficient to satisfy the jurisdictional threshold. For these reasons, the present court reversed the district court’s dismissal pertaining to the 2kW power supply.

² Article III limits federal jurisdiction to suits that address “a real and substantial controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.” In the declaratory-judgment context, “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, or sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

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4. Coleman Prototype of 150kW Power Supply: First, regarding the first prong (i.e., reasonable apprehension of suit), the present court found that the most recent letters exchanged between the parties established a reasonable apprehension of suit, as noted above.

Second, regarding the second prong (i.e., infringing activities), the present court found that the facts were unclear whether the first prototype (i.e., Coleman prototype) was used for reactive sputtering as set forth in AEI's patent claims. If the Coleman prototype was used for reactive sputtering, then the present court noted that the testing would satisfy the "activity which could constitute infringement" portion of the second prong. However, the present court also found that the first prototype could not be a basis for "concrete steps taken with the intent to conduct such activity," because the first prototype was destroyed during testing. Once a development effort has been wholly abandoned, it can no longer be the basis for an "intent to engage" case or controversy. For these reasons, the present court vacated the district court's dismissal pertaining to the Coleman power supply, and remanded for further fact finding relating to the possible use of the Coleman power supply for reactive sputtering.

5. Billings Prototype of 150kW Power Supply: First, regarding the first prong (i.e., reasonable apprehension of suit), the present court found that the most recent letters exchanged between the parties established a reasonable apprehension of suit, as noted above.

Second, regarding the second prong (i.e., infringing activities), the present court found that Sierra had not engaged in potentially infringing activities as of the filing date of the original complaint. Thus, the inquiry turned on whether Sierra had taken concrete steps to engage in potentially infringing activities as of the filing date. Regarding the requirement for "immediacy" of the potentially infringing activities, the present court found that the greater the delay between the filing date and the subsequent activities, the more likely the case lacks the requisite immediacy. Regarding the requirement for "reality," the potentially infringing product must be substantially fixed, particularly with respect to its potentially infringing characteristics, on the filing date of the original complaint. The greater the variability of the product's features between the filing date and the subsequent activities, the greater the chance that the court's judgment will be purely advisory.

In the present case, regarding the "immediacy" requirement, the court found that the Billings prototype was not built and operational until about a year after the filing date of the original complaint. Also, no advertising literature existed for this second prototype. Regarding the "reality" requirement, the present court found that the evidence strongly suggested that the design of the second prototype was "fluid and indeterminate." The evidence also shows that it would be at least one year or several years before the Billings power supply was available for sale, which suggests that further design changes would occur. For these reasons, the requirements for "immediacy" and "reality" were not met for the Billings power supply. Therefore, the present court affirmed the district court's dismissal pertaining to the Billings power supply.