

Keywords: declaratory judgment, subject matter jurisdiction, controversy

General: The Federal Circuit holds if substantial controversy has not been established, there can be no declaratory judgment jurisdiction.

Microsoft Corporation v. DataTern, Inc.
SAP AG and SAP America, Inc. v. DataTern, Inc.
110 U.S.P.Q.2d 1561 (Fed. Cir. May 5, 2014)

I. Facts

DataTern owns U.S. Patent No. 5,937,402 (the ‘402 patent) and 6,101,502 (the ‘502 patent) directed to accessing relational database from object-oriented software programs. DataTern sued several Microsoft and SAP customers for allegedly infringing the ‘402 and ‘502 patents based on the customers’ use of Microsoft’s ADO.NET software and SAP’s BusinessObjects software. DataTern sent SAP customers claim charts citing SAP-provided user guides and documentation for each element of the representative claims in the ‘402 and ‘502 patents. In addition, DataTern sent Microsoft customers similar claim charts for the ‘502 patent citing Microsoft-provided ADO.NET online documentation for each element of the representative claims. The claim charts for the ‘402 patent provided to Microsoft customers only cited third-party-provided documentation. SAP and Microsoft customers demanded indemnification from SAP and Microsoft (collectively, Appellees).

The Appellees filed non-infringement and invalidity declaratory judgment actions against DataTern. Prior to filing the declaratory judgment, Microsoft discussed the alleged customer infringement suits with DataTern. In the discussions, DataTern indicated that Microsoft had no obligation to defend or indemnify its customers and that they were not interested in suing Microsoft. SAP did not have any discussions with DataTern prior to the declaratory judgment. DataTern subsequently moved to dismiss the declaratory judgment for lack of subject matter jurisdiction and additionally filed conditional counterclaims for infringement of both the ‘402 and ‘502 patents. The district court denied DataTern’s motion to dismiss, and found the following facts weighed in favor of jurisdiction over the declaratory judgment actions: 1) the claim charts in the customer lawsuits; 2) the indemnification demands from Appellees’ customers; 3) DataTern’s conditional counterclaims; 4) DataTern’s reference to Appellees’ “infringement” in its proposed scheduling order; and 5) DataTern’s refusal to grant Appellees a covenant not to sue.

II. Issue

Did the district court have subject matter jurisdiction?

III. Discussion

Yes and No. With regard to the Appellees challenges to the '502 patent, the Federal Circuit upheld the district court's finding of jurisdiction and Appellees' declaratory judgment action because the claim charts DataTern provided to Appellees' customers cited Appellee-provided online documentation for use of Appellees' products. As set forth in *Arris Group Inc., v. British Telecommunications PCL*, "where a patent holder accuses customers of direct infringement based on the sale or use of a supplier's equipment, the supplier has standing to commence a declaratory judgment action if ... there is controversy between the patentee and the supplier as to the supplier's liability for induced or contributory infringement based on the alleged acts of direct infringement by its customers." In this case, DataTern's claim charts show that the Appellees provided their customers with the necessary components to infringe the '502 patent as well as the instruction manuals for using the components in an infringing manner. Therefore, a substantial controversy existed between DataTern and the Appellees for induced infringement of the '502 patent.

With regard to the '402 patent, the Federal Circuit affirmed the district court's declaratory judgment and finding of jurisdiction only for SAP's challenges and reversed declaratory judgment for Microsoft's challenges. In the '402 claim charts provided to Microsoft's customers, DataTern exclusively cited to third-party provided documentation. That is, there was no indication that Microsoft provided customers with any documentation or instructions necessary for infringement of the '402 patent. Therefore, the '402 claim charts did not show that Microsoft provided their customers with necessary instructions to infringe the '402 patent. Therefore, the claim charts do not show that Microsoft induced infringement by their customers and do not show contributory infringement against Microsoft. Accordingly, the Federal Circuit found that there was no evidence in the record that Microsoft knew their software (ADO.NET) was "especially made or adapted for use in an infringement," according to 35 U.S.C. § 271(c) (2012).

Additionally, in determining jurisdiction for Microsoft's challenges of the '402 patent, the Federal Circuit found that the district court relied heavily on post-complaint facts (e.g., DataTern's conditional counterclaims to jurisdiction). As set forth in *Innovative Therapies, Inc. v. Kinetic Concepts, Inc.*, a declaratory judgment plaintiff, in this case Microsoft, must plead facts sufficient to establish jurisdiction at the time of the complaint, and post-complaint facts cannot create jurisdiction where none existed at the time of filing. Therefore, the Federal

Circuit concluded that controversy, and therefore jurisdiction, cannot be established based on DataTern's counterclaims. The Federal Circuit also indicated that because DataTern's counterclaims were conditional, they could only become part of the case after the district court made a *de facto* determination that they passed Rule 11 muster. Moreover, the Federal Circuit concluded that it is not sufficient to create an actual controversy based on DataTern's refusal to grant Microsoft a covenant not to sue.

IV. Dissent

Based on the Federal Circuit's reversal of Microsoft's declaratory judgment for the '402 patent, Chief Justice Rader dissented in part from this ruling. Judge Rader indicated that the Federal Circuit discounted the totality of the circumstances and treated each alleged fact separately. Rather than treating the facts for each circumstance separately, Judge Rader argued that the facts under all circumstances should be considered to show that substantial controversy exists between two parties. In this case, all the circumstances common among the four actions (each Appellee's challenge of the '402 and '502 patents) are sufficient to show standing for all of them, not just three out of the four.

Judge Rader noted that the decision of the majority created a roadmap to avoid declaratory judgment actions from suppliers. That is, parties can avoid supplier suits by excluding them from infringing documentation (e.g., claim charts). As such, the litigious parties can go after their intended targets (e.g., small companies who are more likely to settle to avoid a costly defense) while avoiding potential challenges from better equipped parties.

It should be noted that subsequent to the original opinion issuing, it was vacated and Judge Rader is recused. The new opinion contains only the majority opinion.

V. Conclusion

Parties, when filing customer suits, can avoid potential declaratory judgment suits from suppliers through careful selection and presentation of evidence designed to minimize a claim of contributory infringement or induced infringement against the suppliers.