

MICROSOFT CORP v. DATATERN, INC., Appeal No. 2013-1184 (Fed. Cir. April 4, 2014).  
Before Rader, Prost, and Moore. Appealed from S.D.N.Y. (Judge Forrest).

Background:

DataTern sued numerous Microsoft and SAP (Appellees) customers for infringement of two DataTern patents. DataTern sent the allegedly infringing customers claim charts which referred extensively to Microsoft and SAP functionality. Many of the customers demanded that the Appellees indemnify them against DataTern. While Microsoft maintained that it had no obligation to defend its customers against suit by DataTern, both companies filed declaratory judgment actions against DataTern for non-infringement. The district court held that the Appellees' products do not infringe the DataTern patents, and denied DataTern's motion to dismiss the declaratory judgment actions for lack of subject matter jurisdiction. DataTern appealed.

Issue/Holding:

Did the district court have subject matter jurisdiction over the declaratory judgment actions? Mostly, yes (three out of four claims). *Affirmed-in-part, reversed-in-part.*

Discussion:

The Federal Circuit held that DataTern's actions gave the district court three of the four actions subject matter jurisdiction. While the Federal Circuit noted various circumstances such as DataTern's suits against over 100 entities and customers (including those of the Appellees), the deciding factor was the claim charts sent to the customers. The Federal Circuit held that both Appellees had provided their customers with the necessary components to directly infringe at least one of DataTern's patents, and the instruction manuals for using the components in an infringing manner. Thus, the Federal Circuit agreed with the Appellees that these actions, when relied upon in DataTern's claim charts, carried an implied assertion that the declaratory judgment plaintiffs were inducing infringement.

As to Microsoft and the '402 patent, the claim charts cite exclusively to third-party (not Microsoft-provided) documentation for several key limitations. Thus, the Federal Circuit held that these claim charts do not impliedly assert that Microsoft induced infringement. Selling a product capable of being used in an infringing manner is not sufficient to create a substantial controversy regarding inducement.

Judge Rader dissented-in-part on the dismissal of the fourth declaratory judgment issue, arguing that the court's decision on that issue relied too heavily on the claim chart wording, providing a "roadmap to avoiding declaratory judgment," which is not consistent with the notion that declaratory judgment jurisdiction turn on whether the facts alleged "under all circumstances" show that there is a substantial controversy.