

## Federal Circuit Patent Bulletin: *Microsoft Corp. v. DataTern, Inc.*

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April 4, 2014

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On April 4, 2014, in *Microsoft Corp. v. DataTern, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Rader, Prost, Moore\*) affirmed-in-part, reversed-in-part and remanded the district court's summary judgment that Microsoft and SAP did not infringe U.S. Patents No. 5,937,402 and No. 6,101,502, which related to interfacing an object-oriented application with a relational database. The Federal Circuit stated:

The threshold question for declaratory judgment jurisdiction is "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." DataTern argues that the court lacked jurisdiction because DataTern never approached Appellees regarding a license, never accused Appellees of infringement, and indicated that it did not intend to sue Microsoft. DataTern asserts that Appellees' only alleged injury—the risk that they will lose customers—is remote and hypothetical. DataTern contends that because Appellees were not obligated to defend or indemnify these customers, they lack a sufficient legal interest to support jurisdiction. . . .

We hold that the district court had jurisdiction over Appellees' challenges to the '502 patent and over SAP's challenge to the '402 patent, but not over Microsoft's challenge to the '402 patent. "[W]here 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 a 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." . . . To the extent that Appellees argue that they have a right to bring the declaratory judgment action solely because their customers have been sued for direct infringement, they are incorrect. DataTern has accused customers using Appellees' software packages of infringing the asserted method claims, but there are no arguments that there is a case or controversy between DataTern and

Appellees on direct infringement. If Appellees had an obligation to indemnify their customers, they would then have standing to bring suit. In that instance, Appellees would stand in the shoes of the customers and would be representing the interests of their customers because of their legal obligation to indemnify. But here there is no evidence of such an obligation and Appellees concede that no such obligation exists. Instead, Appellees seek to broaden our precedent quite substantially by arguing that a customer request to indemnify ought to give rise to standing, without regard, it appears, to the merit of the customer request. This cannot be. Thus, we decline Appellees' request to hold that their customers' indemnification requests, which they concede are not valid, alone can create standing and thus a basis for jurisdiction over Appellees' declaratory judgment actions . . . .

To the extent that Appellees argue that DataTern's suits against its customers automatically give rise to a case or controversy regarding induced infringement, we do not agree. To prove inducement of infringement, unlike direct infringement, the patentee must show that the accused inducer took an affirmative act to encourage infringement with the knowledge that the induced acts constitute patent infringement. Absent the knowledge and affirmative act of encouragement, no party could be charged with inducement. Thus, in determining whether there is a case or controversy of sufficient immediacy to establish declaratory judgment jurisdiction we look to the elements of the potential cause of action. Certainly it is not the case that definitive proof must exist that would establish each element. But, to establish a substantial controversy regarding inducement, there must be allegations by the patentee or other record evidence that establish at least a reasonable potential that such a claim could be brought.

[T]he claim charts used in the customer lawsuits support a finding of jurisdiction for only some of the declaratory judgment challenges at issue. The claim charts provided to the SAP customers allege direct infringement of the '402 and '502 patents based on SAP's customers' use of BusinessObjects. Moreover, these claim charts cite to SAP-provided user guides and documentation for each claim element. In other words, DataTern's claim charts show that SAP provides its customers with the necessary components to infringe the '402 and '502 patents as well as the instruction manuals for using the components in an infringing manner. Providing instructions to use a product in an infringing manner is evidence of the required mental state for inducing infringement. Considering these instructions in view of the rest of the evidence on record, we conclude that SAP has established that there existed a substantial controversy regarding whether SAP induces infringement. We thus affirm the district court's conclusion that declaratory judgment jurisdiction exists for SAP's suit on the '402 and '502 patents. The same is true for DataTern's '502 patent claim charts as they relate to Microsoft's customers. . . . Under the totality of the circumstances, we conclude that Microsoft established declaratory judgment jurisdiction for its suit on the '502 patent.

The '402 patent claim charts as they relate to Microsoft's customers, however, are substantively different. They cite exclusively to third-party—not Microsoft-provided—documentation for several key claim limitations. While these claim charts allege the customers' direct infringement of the '402 patent based on its use of Microsoft's ADO.NET, they do not impliedly assert that Microsoft induced that infringement. Nothing in the record suggests that Microsoft encouraged the acts accused of direct infringement, and simply selling a product capable of being used in an infringing manner is not sufficient to create a substantial controversy regarding inducement. The '402 patent claim charts likewise do not impliedly assert contributory infringement against Microsoft. For example, they do not imply or suggest that Microsoft's ADO.NET is not "a staple article or commodity of commerce suitable for substantial noninfringing use." Indeed, our review of the record does not uncover any evidence that Microsoft's ADO.NET is not suitable for substantial noninfringing uses, or that Microsoft knew that it was "especially made or adapted for use in an infringement" of DataTern's patents.