

Providing Notice of Patent Infringement While Avoiding the Risk of Being Sued Spring 1998

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Imagine the following scenario: Your New York company has just found a competitor in California selling products that infringe your prized patent. You realize that your competitor's infringement has taken away a lot of your business and you have had to lower prices as a result.

You want monetary relief from the infringer's sales, but you learn that you may not have been properly marking your products with your patent number. You know that the Patent Act requires that you provide actual notice to the infringer of the infringing activity to start your right to damages.

You decide to write a letter to the infringer to put the infringer on notice, but you do not want to give the infringer notice of the possibility of being sued because this may give rise to a declaratory judgment action by the infringer. You do not want to resort to a lawsuit without first trying to resolve the matter amicably. More importantly, you do not want to fight this case in California, the likely place in which your infringer would file a declaratory judgment action.

What do you do? How do you preserve your rights to damages without being sued by the infringer?

Despite the different standards for notice under the marking statute, 35 U.S.C. § 287(a), and subject matter jurisdiction for a declaratory judgment action, 28 U.S.C. § 2201, a patent owner must tread carefully to satisfy the former rules, while avoiding the latter. A patent owner can easily fall into the trap of establishing a basis for declaratory judgment action, while trying to provide actual notice to satisfy the marking requirement.

Many practitioners believe that the actual notice requirement is satisfied only if the requirements for declaratory judgment are satisfied. Indeed, it could be argued that no communication should be made that could be seen as an infringement notice if it would not have caused the recipient the reasonable apprehension of being sued and established the predicate for bringing an action for a declaratory judgment. Further, it may be unfair for an alleged infringer to become liable for patent infringement damages by virtue of an affirmative communication from the patentee, while not being able to come into court to contest the patent's validity or infringement. See, e.g., *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 186-87 (Fed. Cir. 1994) (Informational letters of the type that are insufficient to establish declaratory judgment jurisdiction are not notice of infringement for purposes of the marking statute.)

This position was recently argued by the appellants in *SRI Int'l Inc. v. Advanced Tech. Labs, Inc.* 127 F.3d 1462 (Fed. Cir. 1997). In that case, the Court of Appeals for the Federal Circuit, which hears all appeals arising under the patent laws, recognized that there is a difference between the marking statute and the declaratory judgment act. The patentee sent the defendant a letter which included a copy of the patent-in-suit, identified two of defendant's products that the patentee stated may infringe the patent-in-suit, and offered a nonexclusive license. The letter stated, in part:

We have noted from your advertising literature that [defendant] products Models Ultramark 4 and 8 may infringe one or more claims of U.S. Patent No. 4,016,750, Philip S. Green, ULTRASONIC IMAGING METHOD AND APPARATUS. A copy of the patent and its associated reexamination certificate are enclosed. The patent is assigned to [plaintiff] and nonexclusive licenses are extant.

[Plaintiff] would be pleased to provide [defendant] with a nonexclusive license under the patent. For your information, counterpart applications are on file in a number of countries outside the United States. If you are of the opinion that you do not need a license from [plaintiff], it would be helpful if you could give us some insight into your reasons.

The defendant argued that the letter did not satisfy the notice requirement of § 287(a) because it did not meet the requirements of creating an actual controversy under the Declaratory Judgment Act. The court rejected this argument stating that "[a]ctual notice [for the marking statute] may be achieved without creating a case of actual controversy [for a declaratory judgment action]." *SRI Int'l*, 127 F.3d at 1470.

The court, however, failed to address whether the letter in that case was sufficient to give rise to a declaratory judgment action. But, see, *Scholle Corp. v. Blackhawk Molding Co., Inc.*, 133 F.3d 1469, 1472 (Fed. Cir. 1998) (citing *SRI Int'l*).

As a result, the Federal Circuit has not provided clear guidance as to the distinction between actual notice under the marking statute and reasonable apprehension giving rise to declaratory judgment jurisdiction. To best understand how these two concepts differ, we must look to the language of the marking statute and the declaratory judgment act.

THE DECLARATORY JUDGMENT ACT

The Declaratory Judgment Act provides: In a case of actual controversy within its jurisdiction ... any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. 28 U.S.C. § 2201. An action for declaratory judgment for noninfringement by an accused infringer is proper if (1) the patent owner's conduct created on the part of the plaintiff a reasonable apprehension of being sued if it continues the allegedly infringing activity, and (2) the plaintiff has either produced the device or prepared to produce it. *West Interactive Corp. v. First Data Resources, Inc.*, 972 F.2d 1295, 1297 (Fed. Cir. 1992). "When a patentee has explicitly charged that a current activity of the declaratory plaintiff is an infringement, — certainty has rendered apprehension irrelevant, and one need say no more." *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936-37 (Fed. Cir. 1993), cert. denied, 510 U.S. 1140 (1994) (quoting *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1986)).

THE MARKING STATUTE

To be entitled to damages, the patentee must comply with the patent marking statute. This statute requires: Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice.

35 U.S.C. § 287(a). The marking statute serves the purpose of allowing the public to readily identify the intellectual property status of articles in commerce and to prevent innocent infringement. If a party fails to comply with this provision, it may still be entitled to recover money damages if it provides actual notice to the infringing party. The notice requirement under the marking statute provides:

In the event of failure to so mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

35 U.S.C. § 287(a). Since the Federal Circuit's decision, in *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178 (Fed. Cir. 1994), courts have strictly construed the actual notice requirement to require a specific charge or accusation of infringement in a letter or other communication. Courts have also required identification of the patent number and the particular accused product. In *SRI Int'l*, the Federal Circuit held that the "actual notice requirement of § 287(a) is satisfied when the recipient is informed of the identity of the patent and the activity that is believed to be an infringement, accompanied by a proposal to abate the infringement, whether license or otherwise." 127 F.3d at 1470.

Given the strict requirements of the actual notice requirements, and the relatively less stringent requirements to sustain a declaratory judgment action, a patent owner must proceed cautiously to ensure that the actual notice requirements have been satisfied without falling into declaratory judgment jurisdiction. The patent owner may send a letter, similar to that in SRI Int'l, and offer the infringer a license as a pretense to put the infringer on actual notice. This option may not be feasible, however, if the patent owner does not wish to offer a license to the infringer. Moreover, it is not clear whether this letter is sufficient to avoid a declaratory judgment action.

It may be more desirable, on the other hand, to simply write a stern "cease and desist" letter, alerting the infringer of the infringing activity and of the infringed patent. Although it likely would give rise to declaratory judgment jurisdiction, such a letter has the advantage of clearly alerting the infringer that the patent owner considers the infringement a serious matter. This may help resolve the matter more expeditiously. Such a letter may also eliminate the possibility that the infringer will challenge whether the actual notice requirement was satisfied. The fact that the letter gives rise to a potential declaratory judgment action does not mean that the infringer will actually file such a lawsuit. Even if the accused infringer brings a declaratory judgment action, the district court still has the discretion not to entertain the declaratory judgment action, even if the "reasonable apprehension" requirement is met for jurisdiction. See *Minnesota Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 672 (Fed. Cir. 1991) (Dismissal reversed for abuse of discretion). Alternatively, the patent owner may file an infringement action in another forum and seek to transfer, dismiss or stay the declaratory judgment action to a more convenient forum under 28 U.S.C. § 1404(a).

Another option is simply to file a patent infringement action in addition to or in lieu of sending a notice letter. The filing and service of the lawsuit on the infringer provides the requisite notice requirement to start tolling the patent owner's right to damages. See 35 U.S.C. § 287(a) ("Filing of an action for infringement shall constitute such notice"). This option will likely maintain the litigation between the patent owner and the infringer in the patent owner's chosen forum while the parties try to resolve with the matter.

The infringer may try to transfer the action. This, however, may not be successful if the transfer merely shifts the burden from one party to the other. Alternatively, the infringer may file a declaratory judgment action in another forum. Under the "first-to-file" rule, however, the patent owner is likely to dismiss or transfer the declaratory judgment action. The "first-to-file" rule allows a district court to transfer, stay, or dismiss a subsequently filed action when a similar complaint has already been filed in another federal court. *Ward v. Follett Corp.*, 158 F.R.D. 645, 648 (N.D. Cal. 1994); *Cardiovascular Imaging Sys. v. Boston Scientific Corp.*, 1994 U.S. Dist. LEXIS 6722, at *6 (N.D. Cal. Apr. 26, 1994) (The first-to-file rule is generally followed by both the Ninth and Federal Circuits.) In deciding whether the first to file rule is applicable, the court must consider three threshold factors: 1) the chronology of the two actions, 2) the similarity of the parties, and 3) the similarity of the issues. *Alltrade, Inc. v. Uniweld Products, Inc.*, 946 F.2d 622, 625 (9th Cir. 1991); *Ward*, 158 F.R.D. at 648.

Yet another option is to caution the infringer, in the letter, that the patent owner will file a lawsuit on a certain date if the infringement has not ceased. See, e.g., *Serco Servs. Co., L.P. v. Kelley Co., Inc.*, 51 F.3d 1037 (Fed. Cir. 1995). In this case, if the infringer files a declaratory judgment action, the patent owner may file a patent infringement action and have a basis for transferring, dismissing, staying and even enjoining the declaratory judgment action.

Exceptions to the first-to-file rule arise when the first-filed suit is anticipatory or involves bad faith or forum shopping on the part of the plaintiff. *Alltrade*, 946 F.2d at 628. A declaratory judgment suit may be deemed anticipatory when "the plaintiff filed its suit upon receipt of specific, concrete indications that a suit by the defendant was imminent." *Ward*, 158 F.R.D. at 648; see also, *Factors Etc., Inc. v. Pro Arts, Inc.*, 579 F.2d 215, 219 (2d Cir. 1978), cert. denied, 440 U.S. 908 (1979) ("A federal declaratory judgment is not a prize to the winner of the race to the courthouse.") (quoting *Perez v. Ledesma*, 401 U.S. 82, 119 n.12 (1971)). In particular, "[w]hen the declaratory judgment action has been triggered by a notice letter, this equitable consideration may be a factor in the decision to allow the later filed action to proceed to judgment in the plaintiff's chosen forum." *Factors*, 579 F.2d at 219 (Holding that the lower court did not abuse its

discretion in allowing the later-filed action to proceed in part since the first-filed declaratory judgment action was filed in apparent anticipation of plaintiff's suit.) The patent owner should ensure that the notice of suit in the infringement letter expressly mentions a lawsuit, a tentative filing date or a forum. See *Employers Ins. of Wausau v. Prudential Ins. Co. of Am.*, 763 F. Supp. 46, 49 (S.D.N.Y. 1991).

Another more interesting option would be a notice letter expressly referencing the marking statute and the declaratory judgment act. For example the letter may read:

Dear Sir: Please be advised that ABC Corporation is the legal owner of U.S. Patent No. 5,555,555 and that your products, identified by Model No. XYZ, infringe this patent. At this point, we have not assessed whether we intend to enforce this patent and, therefore, you should not be concerned that a lawsuit may be filed against you.

This letter is strictly for purposes of providing notice of infringement pursuant to 35 U.S.C. § 287(a) and that it does not give rise to a cause of action pursuant to 28 U.S.C. § 2201.

This letter also seems to meet the requirements of the marking statute while avoiding a potential cause of action for declaratory judgment. The letter provides adequate notice of infringement under the marking statute and expressly states that the patent owner does not have an intention of enforcing the patent against the infringing party. Although the patent owner has started tolling its rights for damages, this letter does not help in getting the infringer to stop the infringing activity. Any subsequent conduct by the patent owner in getting the infringer to stop the infringing, then may give rise to a declaratory judgment action. Furthermore, any delay in enforcing the patent at a later date may be met with a laches argument.

Whatever the approach, before a notice of infringement letter is sent to the infringer, the patent owner should be willing and prepared to either file a patent infringement action or defend a declaratory judgment action. The patent owner should also recognize that while it may be desirable to avoid giving rise to a declaratory judgment action, the purpose of the letter is to provide actual notice to toll the patent owner's rights to collect damages from the infringement. The patent owner should, therefore, first ensure that the notice of infringement letter clearly satisfies the actual notice requirements. Avoiding the risk of a declaratory judgment action should be a secondary consideration.

More importantly, the primary purpose of communicating with the infringer may often be to get the infringer to stop the infringing activity. In this case, there may be little that the patent owner can do to avoid giving rise to a declaratory judgment action. The patent owner, therefore, is left with either filing a lawsuit and preserving its chosen forum, or communicating with the infringer to resolve the infringement issue and risking a declaratory judgment action by the infringer. In either case, the patent owner should also take into account the possibility that either action may be transferred, dismissed or stayed.

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