

Patent Infringement Cease-and-Desist Letters

THE ACTUAL NOTICE/ ACTUAL CONTROVERSY DICHOTOMY

BY MATTHEW D. THAYNE OF STOEL RIVES LLP

Matthew Thayne is a patent attorney with the Salt Lake City office of Stoel Rives. His practice is focused primarily on patent litigation, patent prosecution, and opinion work. Mr. Thayne can be reached at (801) 578-6924 or mdthayne@stoel.com.

If your client has failed to properly mark its patented products, it cannot recover infringement damages until it provides “actual notice” of the infringement to the infringer.¹ Although filing a lawsuit will constitute proper notice to allow for recovery of damages, it is generally preferable to provide notice before filing suit in the form of a demand letter. Unless carefully worded, such a letter may unintentionally give rise to an “actual controversy.”² In other words, the letter may give rise to declaratory judgment jurisdiction and thereby allow the infringer to litigate the validity and/or infringement of the patent in a relatively unfavorable forum for the patentee. Thus, if your goal is to draft a letter that will provide actual notice without creating an actual controversy, the questions are: Can it be done? And, if so, how?

ACTUAL NOTICE

Section 287(a) of the Patent Code provides:

In the event of failure [to properly mark patented products], 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.

Perhaps counterintuitively, actual knowledge of the patent at issue is insufficient to satisfy this statutory notice requirement.³ In fact, in and of itself, even providing notice of a patent to an alleged infringer will not satisfy the notice requirement. As interpreted by the Court of Appeals for the Federal Circuit, the statute requires “the affirmative communication of a specific charge of infringement by a specific accused product or device.”⁴

Obviously, if your client sells products that are not properly marked, you want to make certain that the first letter you send to an accused infringer meets the notice requirement. A letter will satisfy the requirement “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 by license or otherwise.”⁵

ACTUAL CONTROVERSY

Although it is typically advisable to draft a cease-and-desist letter that meets the actual notice requirement, language conducive to meeting the notice requirement may have the additional unintended effect of creating an “actual controversy.”⁶ An “actual controversy” must exist in order for an accused infringer to bring a declaratory judgment action seeking a declaration of non-infringement and/or invalidity of the patent at issue. To satisfy a federal court that there is an actual controversy, a plaintiff (accused infringer) must prove that it (1) has a “reasonable apprehension” of an infringement lawsuit, and (2) produces or is prepared to produce the allegedly infringing device (or practices or is prepared to practice the allegedly infringing method).⁷

An explicit threat of litigation satisfies the “reasonable apprehension” test *per se*.⁸ However, a well-informed patentee concerned with creating jurisdiction for a declaratory judgment action will not explicitly threaten to sue an accused infringer. Absent an explicit threat, the court will look to the totality of the circumstances.⁹ The reasonable apprehension prong requires a showing of “more than the ner-

vous state of mind of a possible infringer.”¹⁰ It is not necessary, however, to establish that the patentee is “known to be poised on the courthouse steps.”¹¹

IS IT POSSIBLE TO GIVE ACTUAL NOTICE WITHOUT CREATING AN ACTUAL CONTROVERSY?

A patentee will often want to send a demand letter that puts the recipient on notice for purposes of patent damages without also creating jurisdiction for a declaratory judgment action—i.e., a letter that provides “actual notice” without creating an “actual controversy.” Are the two standards coextensive, or can one be met without meeting the other?

The Court of Appeals for the Federal Circuit issued a decision in 1994 with dicta indicating that the two standards may be coextensive and casting a shadow on the possibility of carefully drafting a letter to meet the notice standard without being subjected to declaratory judgment jurisdiction. In *Amsted Industries*, the Federal Circuit indicated that letters which “tend not to be threats sufficient to justify a declaratory judgment action . . . also are not charges of infringement for ‘notice’ purposes.”¹² Although this statement is not definitive and is mere dicta, it at least leaves one with the impression that the actual-notice and actual-controversy standards are nearly coextensive, if not exactly so.

Just over three years later, a different panel of the Federal Circuit made clear that it is in fact possible to meet one standard without meeting the other. Unfortunately, this decision was issued without addressing the dicta from the *Amsted* decision. According to this panel, “The criteria for actual notice under § 287(a) are not coextensive with the criteria for filing a declaratory judgment action.”¹³ The court went on to clarify that “[a]ctual notice may be achieved without creating a case of actual controversy in terms of 28 U.S.C. § 2201.”¹⁴

Despite its confirmation that letters which provide actual notice without creating declaratory judgment jurisdiction are possible, the court never ruled that the letter at issue in the case was itself sufficient to do so. The issue in *SRI* was whether the plaintiff’s letter met the notice requirement of § 287. The defendant argued that the plaintiff’s letter did not meet the actual-

controversy standard and, therefore, could not satisfy the actual-notice requirement. Without addressing whether the letter would have created declaratory judgment jurisdiction, the court rejected the defendant's argument by pointing out that failure to meet one standard did not necessarily preclude the other standard from being met.

One can reasonably infer that the court agreed that the *SRI* letter did not create an actual controversy. This inference is supported by dicta from a subsequent Federal Circuit case, in which the court cited *SRI* with the following parenthetical summary: "letter from patentee to potential infringer enclosing a copy of the patent, noting possible infringement and offering a nonexclusive license was sufficient notice for purposes of 35 U.S.C. § 287(a) but did not create an actual controversy under the Declaratory Judgment Act, 28 U.S.C. § 2201."¹⁵ Still, whereas the *SRI* letter was explicitly held to be sufficient to meet the notice requirement, only dicta and inferences support the view that the letter would *not* have created an actual controversy.

Although use of the *SRI* letter as a template is not entirely without risk, it is perhaps the most compelling example of a demand letter that provides actual notice without creating an actual controversy. Several characteristics set the letter apart from others that might fail to meet the notice requirement and/or create jurisdiction for a declaratory judgment action, some of which are discussed and presented below as tips for drafting cease-and-desist letters that meet the actual-notice standard under 35 U.S.C. § 287(a) without creating an actual controversy under the Declaratory Judgment Act, 28 U.S.C. § 2201.

LETTER-DRAFTING TIPS

Be aware that the following tips are not applicable to all circumstances. For instance, there may be instances in which creating declaratory judgment jurisdiction is not a matter of concern, in which case more direct threats may be appropriate. Likewise, in instances in which a client has properly marked its products, language even less direct than that used in the *SRI* letter may be desirable in order to more clearly avoid creating declaratory judgment jurisdiction. That having been said, the following techniques will facilitate drafting letters balanced between the boundaries of

the actual-notice and actual-controversy standards.

1. Never Directly Accuse or Explicitly Threaten

To avoid creating jurisdiction for a declaratory judgment action, word your accusations or implied accusations very carefully. After specifically identifying the patent at issue and the accused product or conduct in order to fulfill the actual-notice requirement,¹⁶ the infringement allegations should be less than definite and should preferably be worded to express concern regarding possible infringement. In other words, instead of definitively asserting that a product "infringes", suggest that the product "may infringe" or "may be covered by" the patent.

There is also support for the proposition that use of language indicating that activities and/or products "fall within" or "are covered by" the patent will not create jurisdiction for a declaratory judgment action.¹⁷ However, such language appears to push the envelope a bit towards the creation of such jurisdiction, at least in relation to lan-

guage that leaves open the possibility of non-infringement.

Another possibility is to use conditional language. For instance, language along the lines of "*If* you infringe . . . we *would* [seek damages] [ask that you take a license]" is likely to be held to fall short of an accusation that would create an actual controversy.¹⁸

2. Avoid "Litigation Language"

To avoid creating a reasonable apprehension of suit, language that is typically used in the context of an infringement lawsuit should be avoided. For example, it is not advisable to make reference to potential "damages" or "liability", nor is it a good idea to cite statutory provisions, mention past lawsuits, or make reference to a "jury" in any way.¹⁹ Such language has been cited as bolstering the case for reasonable apprehension on the part of an accused infringer.

3. Offer a License

Offering a license appears to be helpful to both objectives. That is, not only is it explicitly called out by the Federal Circuit in its "formula" for meeting the actual-

notice requirement,²⁰ but it also appears to mitigate any apprehensions of being sued on the part of the accused infringer. The Federal Circuit has indicated that license negotiations can help establish that no controversy exists, by demonstrating the prospect of non-judicial resolution.²¹ Offering a license can also play a role in a court's decision as to whether to choose to exercise its jurisdiction, even if the jurisdiction has been created by a letter and/or other conduct by the parties.²²

Although offering a license can help achieve the objectives of avoiding an actual controversy while providing actual notice, you should be aware that doing so may not always be desirable. For instance, offering a license may compromise or destroy a patentee's ability to obtain a preliminary injunction.²³

4. Consider Other Actions Taken by Your Client

Before drafting a demand letter, consider your client's background and how that might impact whether an accused infringer will have a reasonable apprehension of being sued. An otherwise innocuous demand letter could be sufficient to create declaratory judgment jurisdiction if the patentee's past actions—whether directly related to the accused infringer in the letter or not—might give rise to reasonable apprehension of being sued.

For example, a client that has filed lawsuits for infringement in the past, even against different parties and under different patents, is more likely to be found to have created a reasonable apprehension of suit.²⁴ Threats against an accused infringer's customers may also create jurisdiction, or at least weigh in favor of such a finding.²⁵ In any event, the nature of the relationship between the two parties will be taken into consideration. More caution is warranted in sending a demand letter to a competitor with which your client has had many disputes in

the past than in sending one to a party with which your client has had an amicable, long-standing relationship.

CONCLUSION

Walking the tightrope between demand letters that fail to provide actual notice of infringement and those that create declaratory judgment jurisdiction can be tricky. Fortunately, we now know that achieving this delicate balance is at least theoretically possible. Hopefully, the content of this article will guide you in crafting letters that help you accomplish your goals without producing unintended consequences. **IPT**

ENDNOTES

- 35 U.S.C. § 287(a) (2003).
- 28 U.S.C. § 2201 (2001).
- See Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1446 (Fed. Cir. 1998).
- Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed. Cir. 1994).
- SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1470 (Fed. Cir. 1997).
- See* 28 U.S.C. § 2201.
- Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887 n.2 (Fed. Cir. 1992).
- Vanguard Research, Inc. v. PEAT, Inc.*, 304 F.3d 1249, 1254 (Fed. Cir. 2002); *see also Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936-37 (Fed. Cir. 1993) ("When the 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.'" (quoting *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988))).
- Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988). The totality of the circumstances may include not only the content of the communications between the parties, including any demand letter(s), but also the relationship between the parties, any past lawsuits by the accusing party, and any other indicia of litigation.
- Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053-54 (Fed. Cir. 1995).
- Id.* at 1054.
- 24 F.3d 178 at 187.
- SRI Int'l*, 127 F.3d at 1470.
- Id.*
- Scholle Corp. v. Blackhawk Molding Co.*, 133 F.3d 1469, 1472 n.1 (Fed. Cir. 1998).
- See SRI Int'l*, 127 F.3d at 1470.
- Shell Oil*, 970 F.2d at 889 ("[Declaratory judgment defendant]'s use of language to indicate that [plaintiff]'s activities 'fall within,' are 'covered by,' and are 'operations under' [defendant]'s patent fall short of alleging infringement.").
- See Publications Int'l, Ltd. v. Futech Educ. Prods., Inc.*, No. 97 C 0236, 1997 U.S. Dist. LEXIS 15713 (N.D. Ill. Sept. 29, 1997).
- See Blistex Inc. v. Circle Labs., Inc.*, No. 00 C 3084, 2000 U.S. Dist. LEXIS 11749 (N.D. Ill. Aug. 14, 2000).
- SRI Int'l*, 127 F.3d at 1470 ("[T]he 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 by license or otherwise.").
- Phillips Plastics*, 57 F.3d at 1053 (Fed. Cir. 1995) ("When there are proposed or ongoing license negotiations, a litigation controversy normally does not arise until the negotiations have broken down.").
- See EMC Corp. v. Norand Corp.*, 89 F.3d 807, 814 (Fed. Cir. 1996) ("While a court may conclude that ongoing negotiations do not negate the presence of a controversy for jurisdictional purposes, the court may nonetheless find, in deciding whether to hear the declaratory judgment action, that the need for judicial relief is not as compelling as in cases in which there is no real prospect of a non-judicial resolution of the dispute.").
- See High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) ("[T]he evidence shows that [the patentee] offered a license to [the accused infringer], so it is clear that [the patentee] is willing to forgo its patent rights for compensation. That evidence suggests that any injury suffered by [the patentee] would be compensable in damages assessed as part of the final judgment in the case.").
- See Vanguard Research*, 304 F.3d at 1254 ("By filing the earlier lawsuit . . . PEAT has shown 'a willingness to protect that technology.' Filing a lawsuit for patent infringement would be just another logical step in its quest to protect its technology." (citation omitted)).
- See C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 881 n.6 (Fed. Cir. 1983).