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To declare or not to declare (judgment): That is the question

What do you do when a competitor informs you that they have a patent covering your main product? Do you pay them a fee for a license to avoid a lawsuit? Do you wait for them to sue you? Do you sue them, asking a Federal court for a judgment declaring the patent invalid or not infringed by your product? How do you decide? A recent court decision *(3M Company v. Avery Dennison Corp.,* No. 2011-1339, (Fed. Cir. Mar. 26, 2012)), provides you with more certain guidance regarding at least one response to the competitor — suing the competitor for a court judgment declaring the patent either invalid or not infringed or both (pursuant to the Declaratory Judgment Act, 28 U.S.C. § 2201 et. seq.).

Under the Declaratory Judgment Act, when an actual case or controversy within its jurisdiction exists, a court 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. Put another way, you do not need to wait for your competitor to sue you in order to establish your freedom to make and sell your product relative to that competitor's patent.

In 2007, the U.S. Supreme Court addressed declaratory judgments in patent cases, and guided that a declaratory judgment is proper when "a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment" exists. *MedImmune, Inc. v. Genentech, Inc.,* 549 U.S. 118 (2007). The Court stressed that the controversy had to be "real and substantial" and not hypothetical. *Id.* Since 2007, however, companies and lower courts have struggled to define the practical boundaries of an actual case or controversy.

The Federal Circuit Court of Appeals in Washington D.C., which is responsible for adjudicating appeals in patent cases, recently provided useful guidance in the context of a controversy between longtime competitors, 3M Company and Avery Dennison (hereinafter, "3M" and "Avery," respectively). In early 2009, counsel for Avery telephoned counsel for 3M and stated that a specific 3M product "may infringe" certain Avery patents and that "licenses are available." Two days later, 3M contacted Avery and declined Avery's license offer. At that time, Avery stated that they had analyzed the 3M product and would provide 3M with its analysis comparing the 3M product to the patents. 3M never received that analysis from Avery.

More than one year later, in June 2010, 3M sued Avery asking a district court for a judgment that its product does not infringe the Avery patents and that the patents are not valid. The district court found that 3M did not allege a controversy between itself and Avery that the court could adjudicate and, accordingly, the court dismissed the case. On appeal, the Federal Circuit returned the case to the district court for more fact finding on whether a justiciable controversy exists, and determined that if the district court finds the facts are indeed as alleged by 3M (and as briefly summarized

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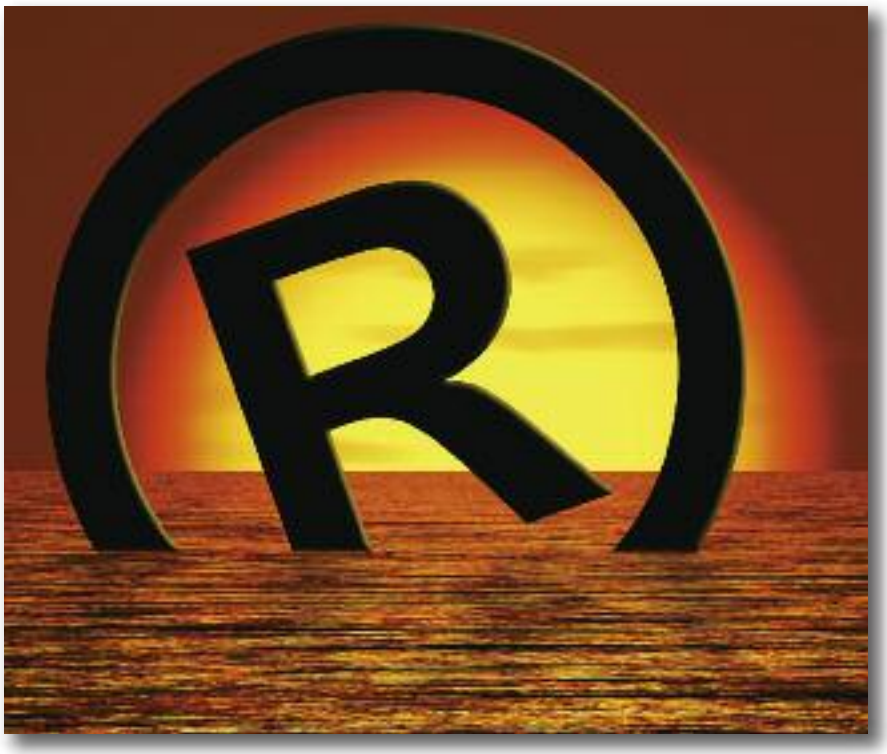

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above), then such a controversy exists and the lawsuit may proceed.

The court focused on the nature of the contacts between 3M and Avery regarding these particular patents and product. Specifically, the Federal Circuit held that to establish an actual case or controversy, "more is required than a communication from a patent owner to another party, merely identifying its patent and the other party's product line." As an example of the elusive "more" description, the court advised that Avery "initiated the communications and, without provocation, asserted Avery's patent rights and represented that claim charts were forthcoming." In addition, the court distinguished this case from another prior case where no controversy existed because in that other case one party to the communication lacked relevant decision making authority and had not evaluated the potential infringement. In contrast, here, the communications were between the Chief Intellectual Property Counsel of each company.

Despite Avery's assertion that its communications with 3M were "passing remarks made informally over the telephone," the court found that Avery's "informal" use of the term "may infringe" instead of "does infringe" was immaterial in light of Avery's offer to license the patents and its assertion that it would provide analysis in the form of charts explaining how the patents covered the 3M product. In addition, the history of the litigious conduct between the same parties for different patents and products was merely "equivocal" in determining whether a case or controversy exists. Likewise, the lack of a deadline for 3M to "respond" to Avery — especially in light of the fact that Avery never provided its analysis to 3M — did not weigh against finding a case or controversy as well.

This case provides more certain guidance in determining whether you may be able to maintain a lawsuit when your competitor alerts you to its patent. In addition to analyzing the facts of your situation to determine whether a case or controversy exists, you should also consider the benefits and drawbacks to filing a complaint pursuant to the Declaratory Judgment Act. Taking control and filing a complaint permits you to choose the timing and court location of the complaint rather than being at the whim of your competitor. However, you may be needlessly increasing your expenses through the cost of litigation for a dispute that may never have materialized into litigation if your competitor did not file a lawsuit against you. Nonetheless, declaratory judgment actions are a powerful tool — and because of the Federal Circuit's recent guidance — companies perhaps will have a bit more predictability whether a controversy exists for a declaratory judgment action.

Top takeaways

Keep these in mind when your competitor contacts you regarding its patent portfolio. Likewise, use these takeaways to avoid enabling your competitor to bring a declaratory judgment action against you regarding your patents.

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Don't jump the gun. You need more than just a communication from your competitor that merely identifies its patent and your product line to have a case or controversy.

The devil is in the details. If your competitor specifically identifies its patent(s) in relation to your specific product, a case or controversy likely exists. A claim chart comparing the patent to the specific product is likely sufficient.

No solicitation. You cannot create declaratory judgment jurisdiction for the purposes of asking a court to declare your competitor's patent either invalid or not infringed or both through mere informal contacts with your competitor where the contacts are not with a relevant decision maker or are not regarding the specific patent/products at issue.

Don't rely on Abracadabra! Your competitor need not use the magic word "infringe" for you to have declaratory judgment standing, rather, the totality of the circumstances determines whether a sufficient case or controversy exists.

Once litigious, always litigious (not necessarily). Prior litigation between you and your competitor may be relevant to a current controversy; however, if the previous conflicts related to unrelated patents covering different products, then it will likely provide little weight to whether a case or controversy exists for the patents and products at issue.

Tick-Tock, Tick-Tock. If your competitor gives you a deadline to respond to its license offer, that could help show a sufficient immediacy exists. Conversely, a lack of deadline does not negate the existence of a case or controversy.

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