

Sued Customers Insufficient to Prove a Supplier's Actual Case or Controversy Against Patentee

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In an interesting order issued recently in *BroadSign International, LLC v. T-Rex Property AB*, Judge Swain of the Federal District Court for the Southern District of New York dismissed the Plaintiff's declaratory judgment of patent non-infringement for a lack of subject matter jurisdiction. The Plaintiff, BroadSign, is a supplier of "hardware and software solutions for operators of networks of digital displays" and filed its complaint for declaratory judgment against the Defendant, T-Rex, after licensing negotiations stalled between the parties. The declaratory judgment action was based solely on patent infringement lawsuits filed by T-Rex against at least five of BroadSign's customers. Although T-Rex had not filed suit against BroadSign itself, BroadSign alleged in its amended complaint that it had received numerous requests for indemnification as a result of T-Rex's patent enforcement against BroadSign's customers. The court concluded that this was insufficient to create subject matter jurisdiction, as there was no "actual case or controversy" between the parties.

Although there is no bright-line rule to establish whether a dispute is an actual case or controversy between the parties, as required by the Declaratory Judgment Act, courts must consider all the circumstances and look to several factors in finding subject matter jurisdiction. In the patent context, these factors typically include whether there has been prior litigation between the parties or litigation brought by Defendant on related technology; whether Defendant has made direct or implied threats to assert its rights against Plaintiff; the nature and extent of the communications between the parties; and whether Defendant has asserted its patent rights aggressively. Additionally, as previously articulated by the Federal Circuit, although a patentee's patent infringement suit against a declaratory judgment plaintiff's customers is insufficient alone to establish an actual case or controversy to confer subject matter jurisdiction, such suits can support a finding of subject matter jurisdiction where the plaintiff can establish (1) it is obligated to indemnify its customers or (2) there is a controversy between the patentee and the supplier as to the supplier's liability for induced contributory infringement.

In her January 10, 2018 order, Judge Swain found that BroadSign's amended complaint failed to meet its burden to establish subject matter jurisdiction, noting that "Plaintiff has failed to show that there is a substantial controversy between [itself and Defendant] and that they are parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." Judge Swain cited two primary bases for her findings.

First, she found that BroadSign failed to adequately plead that there was a direct, substantial controversy between itself and T-Rex. Judge Swain pointed to factual deficiencies in BroadSign's amended complaint, noting that there were no allegations of prior litigation between the parties, nor had T-Rex brought litigation on similar technology against BroadSign. Moreover, BroadSign's interpretation of T-Rex's patent licensing offer, coupled with the filing of yet another patent infringement suit against a BroadSign customer, was insufficient to demonstrate a direct or implied threat of T-Rex's intent to assert its rights against BroadSign. Nor did BroadSign plead sufficient facts to demonstrate that T-Rex employed as a matter of course an "aggressive enforcement strategy," where it asserted its rights against customers, rather than suppliers.

Second, Judge Swain found that BroadSign failed to allege a justiciable controversy between itself and T-Rex. Although BroadSign alleged that numerous customers requested indemnification, pointing to relevant portions of its license agreements, BroadSign failed to plead sufficient facts to demonstrate that it was obligated to indemnify its customers, as required to support a finding of jurisdiction. Similarly, BroadSign also failed to plead sufficient facts to support a finding of a controversy between itself and T-Rex with regard to BroadSign's liability for induced contributory infringement.

This is not the end of the line for BroadSign, however, although T-Rex's motion to dismiss was granted, Judge Swain's order allows BroadSign to further amend its complaint, and keep this case alive. We will monitor for further developments.

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