

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

CONSTRUCTION TECHNOLOGIES, LLC,

Plaintiff,

v.

PLA-COR and DARRELL J. WELDY,

Defendants.

MEMORANDUM AND ORDER

06-C-0092-S

Plaintiff Construction Technologies, LLC commenced this declaratory judgment action against defendants Pla-Cor and Darrell J. Weldy seeking a declaration that: (1) its Corner Caps do not infringe any valid and enforceable claim of United States Re-examination Patent Number Re. 34,547 (the '547 patent,) (2) it has not induced others to infringe any valid and enforceable claim of the '547 patent; and (3) the claims of the '547 patent are invalid and unenforceable. Jurisdiction is based on 28 U.S.C. §§ 1331 and 1338(a). The matter is presently before the Court on defendants' motion to dismiss plaintiff's complaint against defendant Darrell J. Weldy for lack of personal jurisdiction and to dismiss plaintiff's complaint against defendant Pla-Cor for lack of subject matter jurisdiction. Alternatively, defendants move the Court for a transfer of venue to the United States District Court for the District of Nevada pursuant to 28 U.S.C. § 1404(a). The following facts relevant to defendants' motions are undisputed.

BACKGROUND

Plaintiff Construction Technologies, LLC is a limited liability company organized and existing under the laws of the State of Nevada with its principal place of business in Henderson, Nevada. Plaintiff is engaged in the business of manufacturing, using and selling "2-Way" and "3-Way" corner pieces (hereinafter Corner Caps) for application on drywall joints of building wall surfaces.

Defendant Pla-Cor is a California corporation with its principal place of business in Santee, California. Defendant Pla-Cor is likewise engaged in the business of manufacturing and selling products used for installation of drywall.

Defendant Darrell J. Weldy (hereinafter Weldy) is a resident of the State of California. Defendant Weldy is the named inventor of the '547 patent which relates to a wall board joint reinforcing system used to strengthen wall intersections. Said system replaces and/or supplements conventional metal corner bead used on drywall joints. On its face, the '547 patent was assigned to defendant Weldy as well as to Mr. Lewis Hein and Mr. Michael D. Weldy.

On or about November 20, 1991 defendant Weldy, Mr. Hein and Mr. Michael D. Weldy (hereinafter patentees) entered into an agreement with defendant Pla-Cor in which it was granted "a world-wide, irrevocable, exclusive license under [patentees'] Patent Rights" to manufacture, use and sell their patented devices.

However, defendant Pla-Cor expressly agreed to assume certain

responsibilities in exchange for its exclusive right to manufacture, use and sell patentees' devices. Such responsibilities included actions that defendant Pla-Cor was required to perform if it discovered third-party infringement. Language in the agreement concerning defendant Pla-Cor's responsibilities in such third-party infringement situations stated in relevant part as follows:

...7.06 If either Party discovers that a third party is infringing one or more claims of a patent of LICENSORS' Patent Rights or New Improvements, the Party shall promptly notify the other Party in writing. LICENSEE agrees that if requested in writing by LICENSOR, it will promptly take action to enforce LICENSORS' Patent Rights against infringers of the patents of LICENSORS' Patent Rights and New Improvements. In the event that LICENSEE fails to diligently enforce LICENSORS' Patent Rights or New Improvements against any infringer within a period of sixty ...days from the date of LICENSORS' written request, then, and in such event, LICENSOR shall have the right to enforce the patents of LICENSORS' Patent Rights and New Improvements against such infringers at LICENSEE's cost...

On or about February 9, 2006 (on which date the agreement remained in effect) defendant Pla-Cor sent plaintiff a letter concerning the '547 patent which stated in relevant part as follows:

...It is the express purpose of this letter to advise you of the existence and enforceability of U.S. Patent No. Re 34,547 (the '547 patent) entitled Wall Board Joint Re-Enforcing System...

We have been advised that there are some manufactures that have produced and are selling components of a wall board joint re-enforcing system, that may be covered by this patent and we would like to offer you some details regarding this patent in order for you to

determine whether your company may be using or selling non-authorized devices.

...While we are hopeful that this informal approach to evaluating your wall edging system will be successful, you must understand that if we do not hear from you within one week of this letter, we will assume it is your position that you have not used and are not using or selling corner bead products covered by the '547 patent.

In that circumstance, we will conduct our own investigation to determine if you are using or selling infringing products.

Pla-Cor has invested a great deal of its resources in developing product and obtaining patents directed to those products and intends to protect its intellectual and technological innovations...

After it received defendant Pla-Cor's letter plaintiff filed its complaint in this declaratory judgment action on February 16, 2006. Evidence contained within the record demonstrates that defendant Pla-Cor's February 9, 2006 letter was the only communication exchanged between the parties before plaintiff filed its complaint. However, defendant Pla-Cor has recently discovered that plaintiff has been selling products in Nevada and Arizona which it asserts infringe the '547 patent. Accordingly, defendant Pla-Cor has sent cease and desist letters to three of plaintiff's customers.

MEMORANDUM

Defendants assert that defendant Weldy fails to maintain continuous or systematic general business contacts with Wisconsin which would subject him to general personal jurisdiction in said state. Additionally, defendants assert that defendant Weldy is not

subject to specific personal jurisdiction in Wisconsin because this cause of action did not arise directly from any activity defendant Weldy conducted in Wisconsin. Accordingly, defendants argue their motion to dismiss plaintiff's complaint against defendant Weldy for lack of personal jurisdiction should be granted.

Additionally, defendants assert that defendant Pla-Cor lacks standing to bring a patent infringement suit against plaintiff because under the terms of the agreement it serves only as an exclusive licensee and as such does not possess ownership rights to the '547 patent. Accordingly, defendants argue plaintiff could not have had a reasonable apprehension of suit and as such their motion to dismiss plaintiff's complaint against defendant Pla-Cor for lack of subject matter jurisdiction should be granted.

Finally, in the alternative defendants argue this action should be transferred to the United States District Court for the District of Nevada because it best serves the convenience of parties and witnesses as well as the interests of justice.

Plaintiff asserts defendant Pla-Cor is actually the assignee of all substantial rights in the '547 patent including the right to sue for infringement without joining the patentees. Accordingly, plaintiff argues a case or controversy exists and defendants' motion to dismiss for lack of subject matter jurisdiction should be denied. Additionally, plaintiff argues defendants' alternative motion to transfer venue should be denied because: (1) issues defendants raise about convenience of parties and witnesses fail to

outweigh the great deference afforded plaintiff's choice of forum; and (2) the interest of justice weighs strongly in favor of venue in this Court because the parties will obtain a far speedier trial here. Finally, plaintiff concedes that defendant Weldy is not a necessary party to this action and as such may be dismissed without prejudice pursuant to Federal Rule of Civil Procedure 41(a)(2).

Accordingly, pursuant to plaintiff's request defendant Weldy is dismissed without prejudice. The Court will now proceed to decide defendant Pla-Cor's motion to dismiss for lack of subject matter jurisdiction or in the alternative to transfer venue to the United States District Court for the District of Nevada.

A. Subject Matter Jurisdiction

The initial question is whether this Court has subject matter jurisdiction "which it must have if it is to take any action in the case." Wausau Benefits, Inc. v. Liming, 393 F.Supp.2d 713, 716 (W.D.Wis. 2005) (citing McCready v. White, 417 F.3d 700, 702 (7th Cir. 2005)). Plaintiff argues subject matter jurisdiction exists because defendant Pla-Cor is actually the assignee of all substantial rights in the '547 patent including the right to sue for infringement without joining the patentees. Defendant argues it lacks standing to sue for infringement because it serves only as an exclusive licensee of the '547 patent and as such is not entitled to maintain an infringement action in its own name. Accordingly, defendant argues subject matter jurisdiction does not exist and its motion to dismiss must be granted.

Declaratory judgment actions serve an important role because they permit prompt settlement of actual controversies and establish the legal rights and obligations that will govern the parties' relationship in the future. Hyatt Int'l. Corp. v. Coco, 302 F.3d 707, 711 (7th Cir. 2002) (*citing* Edwin Borchard, Declaratory Judgments 107 (1934)). However, under the Declaratory Judgment Act, 28 U.S.C. § 2201, an actual controversy must exist for a court to render a declaratory judgment. Trippe Mfg. Co. v. Am. Power Conversion Corp., 46 F.3d 624, 627 (7th Cir. 1995) (citations and internal quotation marks omitted).

To determine whether there is an actual controversy in declaratory judgment actions where allegations of patent non-infringement, invalidity, or unenforceability are involved a court must apply a two-prong inquiry to the presented facts. Fina Research, S.A. v. Baroid Ltd., 141 F.3d 1479, 1481 (Fed. Cir. 1998). For an actual controversy to exist there must be both: (1) "an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity." BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993) (*citing* Jervis B. Webb Co. v. S. Sys., Inc., 742 F.2d 1388, 1398-1399 (Fed. Cir. 1984)). Such an inquiry is objective and should be applied to the facts existing when the complaint is filed. Arrowhead Indus.

Water, Inc. v. Ecolchem, Inc., 846 F.2d 731, 736 (Fed. Cir. 1988) (citation omitted). Its first prong concerns defendant's conduct and its second concerns that of plaintiff. Id. The declaratory judgment plaintiff bears the burden of proving that an actual controversy exists between the parties. Fina Research, S.A., at 1481 (citation omitted).

There is no question that plaintiff's present activity of manufacturing, using and selling its Corner Caps could constitute infringement which is sufficient to satisfy the second prong of the inquiry. However, plaintiff failed to meet its burden of demonstrating that it possessed a reasonable apprehension of suit when it filed its complaint which is a necessary showing to satisfy the first prong of the inquiry.

While the parties arguments focus on whether defendant Pla-Cor was a licensee or an assignee of the '547 patent the Court finds the dispositive inquiry is whether defendant Pla-Cor's February 9, 2006 letter constituted an explicit threat or other action which created a reasonable apprehension on the part of plaintiff that it would face an infringement suit. An express charge of infringement and threat of suit is not necessary for a declaratory judgment plaintiff to demonstrate that it possessed a reasonable apprehension of suit. EMC Corp. v. Norand Corp., 89 F.3d 807, 811 (Fed. Cir. 1996). Rather, such apprehension may be induced by subtler conduct if said conduct "rises to a level sufficient to indicate an intent [on the part of the patentee] to enforce its

patent, i.e. to initiate an infringement action.” Id. (citations and internal quotation marks omitted).

However, a certain minimum degree of adverseness must be present in order to establish the requisite controversy which requires more than the existence of an adversely held patent. See BP Chems. Ltd., at 978. Additionally, it requires more than a patentee’s offer of a license. Indium Corp. v. Semi-Alloys, Inc., 781 F.2d 879, 883 (Fed. Cir. 1985), *cert. denied*, 479 U.S. 820, 107 S.Ct. 84, 93 L.Ed.2d 37 (1986). Accordingly, a patentee must undergo steps which create a reasonable apprehension that it will seek redress through the courts. EMC Corp., at 811. At such point, an alleged infringer is not required to wait for the patentee to decide when and where to sue rather it can take initiative and seek declaratory relief. Id.

However, in this action defendant Pla-Cor’s February 9, 2006 letter did not present the minimum degree of adverseness necessary to establish the minimum controversy. Accordingly, because the record establishes that said letter was the only communication exchanged between the parties before plaintiff filed its complaint no such reasonable apprehension of suit existed and defendant Pla-Cor’s motion to dismiss for lack of subject matter jurisdiction must be granted.

In its February 9, 2006 letter defendant Pla-Cor indicated that its express intent was to advise plaintiff of the existence and enforceability of the ‘547 patent. The mere existence of an

adversely held patent does not establish the requisite controversy for a declaratory judgment action. BP Chems. Ltd, at 978. While defendant Pla-Cor did advise plaintiff that it "intend[ed] to protect its intellectual and technological innovations" such language fails to rise to a level sufficient to demonstrate that defendant Pla-Cor's intent was to initiate an infringement action. This is especially true when said statement is viewed in context with other language included in the letter.

For example, defendant Pla-Cor indicated that if plaintiff failed to advise whether it was "using or selling corner bead products covered by the '547 patent" it would "conduct [its] own investigation to determine if [plaintiff was] using or selling infringing products." Defendant Pla-Cor did not advise plaintiff that if it failed to respond to the letter defendant would initiate an infringement action. Rather, defendant Pla-Cor indicated it would investigate which necessarily means that an infringement action was not imminent. Additionally, defendant Pla-Cor indicated it had been advised that manufacturers had produced and sold products that "may" be covered by the '547 patent. Such language indicates that defendant Pla-Cor had not concluded that plaintiff's products indeed infringed the '547 patent. While evidence contained within the record demonstrates that defendant Pla-Cor presently asserts plaintiff's products infringe the '547 patent the Court cannot consider such an assertion to decide that an actual controversy exists because it must only consider the facts in

existence when plaintiff filed its complaint. Arrowhead Indus. Water, Inc., at 736 (citation omitted).

Accordingly, when language of the February 9, 2006 letter is viewed as a whole it demonstrates that defendant Pla-Cor had not undergone steps which could have created a reasonable apprehension on plaintiff's part that it would seek redress through the courts. Because this was the only communication exchanged between the parties before plaintiff filed its complaint no actual controversy existed when plaintiff initiated its declaratory judgment action. Accordingly, defendant Pla-Cor's motion to dismiss for lack of subject matter jurisdiction is granted.

ORDER

IT IS ORDERED that plaintiff's complaint against defendant Darrell J. Weldy is DISMISSED without prejudice pursuant to Federal Rule of Civil Procedure 41(a)(2).

IT IS FURTHER ORDERED that defendant Pla-Cor's motion to dismiss for lack of subject matter jurisdiction is GRANTED and plaintiff's complaint against defendant Pla-Cor is DISMISSED without prejudice.

IT IS FURTHER ORDERED that defendant's motion to transfer venue to the United States District Court for the District of Nevada is DENIED as moot.

IT IS FURTHER ORDERED that judgment be entered in favor of defendant Darrell J. Weldy against plaintiff DISMISSING plaintiff's complaint without prejudice for lack of personal jurisdiction.

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IT IS FURTHER ORDERED that judgment be entered in favor of defendant Pla-Cor against plaintiff DISMISSING plaintiff's complaint without prejudice for lack of subject matter jurisdiction.

Entered this 17th day of May, 2006.

BY THE COURT:

S/

JOHN C. SHABAZ
District Judge