

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

RDP TECHNOLOGIES, INC.,)	
)	
Plaintiff,)	
)	
v.)	Civil Action No. 00-697-RRM
)	
N-VIRO INTERNATIONAL)	
CORPORATION,)	
)	
Defendant.)	

MEMORANDUM OPINION

Steven J. Balick, Esquire and Steven T. Margolin, Esquire, Ashby & Geddes, Wilmington, Delaware; John F. McNulty, Esquire and Alex R. Sluzas, Esquire, Paul & Paul, Philadelphia, Pennsylvania; John T. Wiedemann, Esquire, Calfee, Halter & Griswold LLP, Cleveland, Ohio; counsel for plaintiff.

Josy W. Ingersoll, Esquire and Christian Douglas Wright, Esquire, Young Conaway Stargatt & Taylor, LLP, Wilmington, Delaware; Edward T. Colbert, Esquire and Mark M. Supko, Esquire, Kenyon & Kenyon, Washington, D.C.; counsel for defendant.

Wilmington, Delaware
September 17, 2001

McKELVIE, District Judge

This is a patent case that also involves claims of tortious interference with prospective business relationships and unfair competition. Plaintiff, RDP Technologies, Inc., is a Pennsylvania corporation with its principal place of business in Norristown, Pennsylvania. Defendant, N-Viro International Corporation, is a Delaware corporation with its principal place of business in Toledo, Ohio. RDP is the owner of several United States patents relating to processes and equipment for sludge processing, including U.S. Patent Nos. 5,851,404; 5,783,073; 5,681,481; 5,618,442; 5,433,844; 5,405,536; 5,401,402; 5,346,616; 5,186,840; and 5,013,458. RDP licenses its patented process, which it calls “En Vessel Pasteurization,” to its customers in connection with the sale and use of its equipment. N-Viro also owns several United States patents relating to the treatment of wastewater sludge, including U.S. Patent Nos. 4,781,842 (“the ’842 patent”) and 4,902,431 (“the ’431 patent”).

On August 2, 2000, RDP filed its amended complaint against N-Viro alleging intentional interference with prospective business relationships and unfair competition and seeking a declaratory judgment that the ’842 and ’431 patents are invalid, unenforceable, and not infringed by RDP. On February 9, 2001, N-Viro moved for summary judgment on all claims alleging that this court is without subject matter jurisdiction to hear RDP’s declaratory judgment claim because there is no justiciable case or controversy and that RDP’s remaining state law claims are preempted by federal patent law.

I. FACTUAL BACKGROUND AND PROCEDURAL HISTORY

On February 25, 2000, N-Viro filed a patent infringement suit against the City of Warren, Ohio in the Northern District of Ohio, alleging infringement of four N-Viro patents by operation of Warren’s

municipal biosolids treatment facility, which practiced RDP's En Vessel Pasteurization Process in combination with accelerated drying techniques. On September 14, 2000, N-Viro and the City of Warren settled the dispute.

On July 7, 2000, N-Viro's counsel sent notice letters to three of RDP's customers, Jones & Henry Engineers, Biogro, and Synagro Technologies ("the RDP customers"). Each of these customers had a pending proposal to use the En Vessel Pasteurization process that was licensed from RDP at a client's wastewater treatment facility. The facilities that the RDP customers respective proposals were directed toward the Kalamazoo, Michigan Wastewater Treatment Project, the Lowell, Massachusetts Wastewater Treatment Project, and the Narragansett Bay Wastewater Treatment Project. The letters notified each RDP customer that it appeared to N-Viro that if the customer used the En Vessel Pasteurization process licensed from RDP in combination with "further drying . . . to achieve a dry, stable end-product for use as landfill cover," as outlined in each customer's proposal, than the planned process might be covered by one or more of N-Viro's patents. N-Viro urged the RDP customers to take a license from N-Viro before moving forward with their planned project. N-Viro further suggested that either the RDP customers or their clients seek indemnification from RDP for any infringement of N-Viro's technology that might result from the practice of their planned processes at each of the three client facilities. RDP alleges that the completion of each of the RDP customer's waste treatment projects has been delayed due to the impact of the N-Viro letters.

On August 2, 2000, RDP filed its complaint in this case against N-Viro. On October 13, 2000, RDP amended its complaint. The amended complaint alleges three causes of action against N-Viro. First, RDP alleges that N-Viro intentionally interfered with RDP's prospective business

relationships by writing the letters to the RDP customers. Second, RDP alleges that N-Viro's pattern of bad faith accusations of infringement violates the laws of unfair competition. Last, RDP seeks a declaratory judgment that the '842 and '431 patents are invalid, unenforceable, and not infringed by RDP, either directly or by inducing infringement.

On October 27, 2000, N-Viro moved to dismiss the declaratory judgment cause of action of RDP's amended complaint arguing that the court lacked subject matter jurisdiction over that cause of action because there was no case or controversy before the court. On December 20, 2000, the court held an oral argument on N-Viro's motion to dismiss. During the argument the court urged the parties to attempt to settle the matter by entering into a covenant not to sue and stated that it would deny N-Viro's motion. The court told N-Viro that if it makes reasonable efforts to resolve the dispute, but is unable to come to a settlement, that it could renew its motion without prejudice. On December 21, 2000, the court entered its order denying N-Viro's motion to dismiss.

On February 9, 2001, after the parties were unsuccessful in their attempts to enter into a covenant not to sue, N-Viro moved for summary judgment on all three of RDP's claims. In its accompanying brief, N-Viro renews its contention that the court is without subject matter jurisdiction to hear the declaratory judgment cause of action, and argues that the two state law causes of action are preempted by federal patent law.

In accordance with the court's January 12, 2001 scheduling order, the parties continued to take discovery in the case. On July 23, 2001, N-Viro moved to stay all proceedings pending resolution of V-Niro's motion for summary judgment on all claims. N-Viro argues that if the court grants its motion for summary judgment, a stay would avoid the parties wasting resources by continuing to take

discovery. Alternatively, N-Viro argues that even if the court does not grant its motion for summary judgment, a stay would still be advisable to allow the court to consider whether the RDP customers are indispensable parties under Fed. R. Civ. P. Rule 19.

This is the court's decision on N-Viro's two pending motions. As the court's decision on summary judgment may be dispositive, the court will address the summary judgment motion first, and subsequently consider N-Viro's motion to stay the proceedings.

II. DISCUSSION

A. Standard of Decision

The court may grant summary judgment "if the pleadings, depositions, interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). If evidence exists from which a rational person could conclude that the position of the person with the burden of proof on a disputed issue is correct, then summary judgment must be denied. Horowitz v. Federal Kemper Life Assur. Co., 57 F.3d 300, 302 n.1 (3d Cir. 1995) (citing Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 255 (1986) and Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986)).

B. Does the court have subject matter jurisdiction over RDP's cause of action seeking a declaratory judgment of invalidity, unenforceability, and non-infringement of N-Viro's '842 and '431 patents?

The purpose of the Declaratory Judgment Act is to allow a party that is at legal risk due to an

unresolved dispute to obtain judicial resolution of that dispute without having to wait for the opposing party to commence litigation. BP Chem. Ltd. v. Union Carbide Corp., 4 F.3d 975, 977 (Fed. Cir. 1993). However, to initiate a declaratory judgment proceeding, the Act requires that the controversy is actual, and not hypothetical or of uncertain prospective occurrence. Arrowhead Indus. Water, Inc. v. Ecolochem, Inc., 846 F.2d 731, 735 (Fed. Cir. 1988). Therefore a court has subject matter jurisdiction over a declaratory judgment action only where an “actual controversy” exists between “interested” parties. 28 U.S.C. § 2201(a).

To determine whether a justiciable case or controversy exists in a patent case where one party is seeking a declaratory judgment, the United States Court of Appeals for the Federal Circuit has developed a two-part test. First, the declaratory plaintiff must demonstrate that the defendant’s conduct created a reasonable apprehension on the part of the plaintiff that the defendant will initiate an infringement suit if the plaintiff commences or continues the activity in question. Second, the declaratory plaintiff must show that there is present activity on its part which could constitute infringement or show that it has taken concrete steps with the intent to conduct such activity. BP Chem. Ltd., 4 F.3d at 978. The first prong, therefore, focuses on the conduct of the defendant, while the second prong focuses on the conduct of the plaintiff.

N-Viro contends that RDP cannot satisfy either prong of this test. Under the reasonable apprehension prong, N-Viro first contends that its letters, which prompted RDP to file the present lawsuit, were “nothing more than invitations to open licensing negotiations.” N-Viro argues that such offers of patent licenses cannot establish a reasonable apprehension of suit. N-Viro further contends that neither a request for indemnification directed towards potential customers of RDP nor a settled

litigation with a third party are sufficient to support an apprehension on the part of RDP. Under the present activity prong, N-Viro claims that because there was not a final contract in place to build any of the three planned facilities that were the subject of N-Viro's letters until months after the complaint was filed and that the facilities are still not completed, RDP cannot establish the present or imminent activity that is required under the test. N-Viro asserts that because RDP fails to meet this test, any determination by this court would constitute an advisory opinion.

In response, RDP contends it has demonstrated through its complaint and declarations in support of its pleadings both that it had a reasonable apprehension that N-Viro would file a patent suit, and that concrete steps were taken with an intent to conduct activity which N-Viro has alleged to constitute infringement.

1. Does RDP put forth sufficient evidence to meet the "reasonable apprehension" prong under the summary judgment standard?

With respect to the reasonable apprehension prong of the test, the plaintiff must demonstrate that the defendant's conduct must be such as to indicate to the plaintiff the defendant's intent to enforce its patent. While an express charge of infringement clearly gives rise to an actual controversy, in light of the subtleties of language that may be employed by lawyers, the law does not require an express charge of infringement. Arrowhead Indus. Water, Inc., 846 F.2d at 736. Rather, courts must consider the "totality of the circumstances" in determining whether that conduct meets the first prong of the test. Id.

N-Viro may be correct in asserting that standing alone, an offer to open licensing negotiations, an earlier patent infringement lawsuit brought by N-Viro against an RDP customer using RDP's patented processes, or a suggestion that the RDP customers secure indemnification from RDP

regarding use of the RDP En Vessel Pasteurization does not give rise to a reasonable apprehension of suit in RDP. However, each of these acts should not be considered in isolation. Taken together, these acts form a pattern of conduct that, when coupled with the fact that RDP and N-Viro compete in the marketplace for customers who might be subjected to uncertainty and intimidation by N-Viro's actions, is sufficient to establish that RDP had an objectively reasonable apprehension of suit.

2. Does RDP put forth sufficient evidence to meet the “present activity” prong under the summary judgment standard?

In this case, whether RDP can meet the second prong is a more difficult issue. The purpose of the requirement that the declaratory plaintiff demonstrate either (1) that it is engaged in an actual making, selling, or using activity that would subject it to an infringement charge or (2) that it is engaged in present or imminent activity that shows plaintiff has made meaningful preparation for undertaking potentially infringing activity, is to ensure that a declaratory judgment may not be obtained merely because the plaintiff would like an advisory opinion on whether it would be liable in the future for patent infringement for some indeterminate contemplated activity. See Jervis B. Webb Co. v. Southern Sys., Inc., 742 F.2d 1388, 1399 (Fed. Cir. 1984).

Both parties agree RDP was not engaged in the actual making, selling, or using of the potentially infringing technology at the time it filed the complaint. The only issue is whether RDP has proved activity sufficient to demonstrate present or imminent activity against which the defendant could bring an infringement claim. N-Viro contends that because the waste treatment facilities at Kalamazoo, Lowell, and Narragansett Bay are not yet built and because the contracts to build these facilities had not been completed when RDP filed the complaint, RDP cannot demonstrate the requisite present or imminent

activity.

The underlying facts of the cases that address this issue run the spectrum from circumstances where facilities that could make the potentially infringing products are built but not yet operating, to circumstances where such facilities are planned but not built, to circumstances where such facilities are discussed but not formally planned. Determining how much activity is sufficient to demonstrate present or imminent activity against which the defendant could bring an infringement claim is necessarily a question of degree that must be resolved on a case-by-case basis. Id.

N-Viro cites a number of cases in support of its argument. In Enka B. V. of Arnhem, Holland v. E.I. Du Pont De Nemours & Co., 519 F. Supp. 356 (D. Del. 1981), this district court held that an uncompleted joint venture plan by the plaintiff to open potentially infringing plants was insufficient to meet the requirements of the present activity prong of the justiciability test, because the success of the joint venture was too uncertain. Similarly, in Lang v. Pacific Marine and Supply Co., 895 F.2d 761 (Fed. Cir. 1990), the United States Court of Appeals for the Federal Circuit held a plaintiff did not meet the actual controversy requirement of the Declaratory Judgment Act when the allegedly infringing ship's hull would not be completed until at least nine months after the complaint was filed.

However, the time period that is left to completion of a potentially infringing facility is not an absolute factor. Rather, a court must examine the totality of the circumstances. In Lang, the Federal Circuit was careful to distinguish its holding from other cases, noting that the “accused infringers had not distributed sales literature, prepared to solicit orders, or engaged in any activity indicating that the ship would soon be ready for sea.” Lang, 895 F.2d at 764.

RDP alleges that a contract is in place for the Lowell, Massachusetts facility, and that the plant

is presently under construction and is expected to be completed in a few months. RDP further notes that plans for the plant have long indicated that the plant will use a two-step process that N-Viro has asserted will infringe its patents: the sludge will first be treated using RDP's En Vessel Pasteurization process to treat sludge, and then the treated sludge will be mixed with soil. With regard to the other two facilities, RDP alleges that although their completion has been slowed by the receipt of the very N-Viro letters that were the precipitating event in RDP's decision to file this lawsuit, each facility plan has already specified use of the RDP process. RDP expects that the final contracts for those facilities will soon be in place.

RDP contends that the factual allegations, when examined with the nature of the process of building waste treatment facilities in mind, support its contention that it has satisfied the "meaningful preparation" prong. RDP contends that the nature of the RDP projects, which calls for the involvement of municipal authorities, extensively detailed bid specification requirements, and contracts to be in place to build the facilities, give the projects at issue an immediacy that distinguishes the present case from Enka and Lang. RDP notes that despite the delay caused by the N-Viro letters the RDP customers are taking the same concrete steps going forward now as they were at the time the complaint was filed. Given the amount of time, money, and planning involved in the development of the municipal waste treatment facilities, the court finds this argument persuasive. Under the Declaratory Judgment Act, RDP has the right to contest the validity of N-Viro's patents and whether the process that their customers have announced they will practice infringes those patents before their customer's facilities are actually in full operation.

RDP's allegations demonstrate that the facilities in question are sufficiently near completion so

that N-Viro's conduct represents an immediate threat to RDP's interest in its patented process. Given RDP's potential liability in a patent infringement suit for indemnification, contributory infringement, or inducement, the court finds that RDP's allegations indicate that there exists a controversy of sufficient immediacy and reality to justify the court's initial consideration of RDP's request for declaratory judgment.

C. Are RDP's state law claims preempted by federal patent law?

RDP alleges that N-Viro's letters concerning its patent rights that were sent to the RDP customers were intended to achieve an improper competitive advantage and to intimidate RDP's prospective customers by casting the RDP process under a cloud of potential litigation. N-Viro claims that these state law claims for tortious interference and unfair competition are preempted by federal patent law.

While "[f]ederal authority makes clear that it is not improper for a patent owner to advise possible infringers of its belief that a particular product may infringe the patent," this privilege is not absolute. Mikohn Gaming Corp. v. Acres Gaming, Inc., 165 F.3d 891, 897 (Fed. Cir. 1998). State tort claims, including tortious interference with prospective business relations and unfair competition, that are based on publicizing the ownership of a patent in the marketplace, are not preempted by the federal patent laws if the plaintiff can demonstrate that the patent holder acted in bad faith in its publication of its patent rights. Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318, 1336 (Fed. Cir. 1998); Mikohn Gaming Corp., 165 F.3d at 896. Thus bad faith is a prerequisite to RDP's state law claims; without it, the claims are preempted by federal patent law. Zenith Elec. Corp. v.

Exzec, Inc., 182 F.3d 1340, 1355 (Fed. Cir. 1999)

RDP argues that the facts alleged are sufficient to support a finding of bad faith on the part of N-Viro based on the letters than N-Viro sent to the RDP customers and N-Viro's long history of threatening suit to RDP's customers and then failing to file suit. RDP states that N-Viro has maintained over broad assertions about its patent rights that are not based on the patent claims, written description, or prosecution history for ten years for the purpose of intimidating municipal authorities to enter into license agreements with N-Viro.

While N-Viro contests these assertions, this difference of opinion between the parties provides a genuine issue of material fact. Because a reasonable juror could conclude that N-Viro asserted its rights in the '842 and '431 patents in bad faith based on the record presented, RDP's claims of tortious interference with business relations and unfair competition are not preempted by federal patent law.

D. Should the proceedings be stayed to allow the court to consider whether the case should proceed without the RDP customers?

N-Viro contends that even if the court denies N-Viro's Motion for Summary Judgment on RDP's declaratory judgment claim, the court should still grant their motion to stay all proceedings, because the court should first address, pursuant to Fed. R. Civ. P. Rule 19(a), whether this case can properly proceed in the absence of the alleged direct infringers, the RDP customers.

The court finds that RDP has a sufficiently real direct interest in the subject of its declaratory judgment claim due to RDP's obligation to indemnify the RDP customers and RDP's potential liability for contributory infringement or inducement. Should N-Viro seek to make a motion under Rule 19 to provide supplemental briefing on the indispensable party issue, the court will entertain its motion at that

time.

The court will enter an order in accordance with this memorandum opinion.