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Article

EFFECTIVE USE OF THE DECLARATORY REMEDY IN THE PATENT CONTEXT

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**Introduction**

A company threatened with a patent infringement suit faces three basic options. First, it can seek a license from the antagonist. Second, it can await the initiative of the patentee while taking precautionary steps, such as obtaining an opinion of counsel. Third, it can bring the dispute to a head through a declaratory judgment action. A host of factors leads one accused of or threatened by patent infringement \*44 to the appropriate path. Here, we analyze the third path and discuss how to effectively navigate a declaratory judgment action.

The Declaratory Judgment Act (DJA) provides potential patent infringement defendants with a procedural mechanism to obtain judicial resolution of present controversies that would otherwise linger at the discretion of patentees.<sup>1</sup> The DJA affords putative patent infringement defendants an opportunity to remove “uncertainty, insecurity and controversy” created by patentees’ threats that might otherwise debilitate business plans and decisions.<sup>2</sup> Application of the DJA, however, is discretionary.<sup>3</sup> Congress vested the federal courts with broad discretion to hear or decline declaratory patent cases, thereby leading to judicial creation of a hodgepodge of factors courts consider when deciding whether to entertain declaratory claims.<sup>4</sup> Bringing sustainable declaratory patent actions to remove the patentee’s Sword of Damocles<sup>5</sup> therefore requires successful navigation of this discretionary minefield.

When properly brought, a declaratory action can serve as a powerful tool for removing the cloud a patentee’s threats can cast over a business. Potential defendants and their counsel must know what factors will kill a declaratory action and understand how to avoid them. In addition, declaratory claims can be a powerful procedural tool in the hands of a patent infringement defendant. Thus, even when first notice of an infringement claim comes through service of a complaint, patent infringement defendants should know and take advantage of the options open to them as declaratory judgment counterclaimants. This article analyzes the legal issues surrounding application of the DJA in the patent context and offers practical guidance for avoiding the pitfalls associated with declaratory patent actions.

## **I. Background of the Declaratory Judgment Act**

### **A. Historical Recognition of the Declaratory Remedy**

Although the remedy was widely accepted in foreign venues long beforehand, American state courts first recognized declaratory judgments in 1919.<sup>6</sup> The federal courts, however, waited nearly a decade before recognizing the remedy.<sup>7</sup> Delay in \*45 federal acceptance of the remedy stemmed, arguably, from the federal fear of rendering advisory opinions.<sup>8</sup> In deciding *Nashville, Chattanooga & St. Louis Railway Co. v. Wallace*<sup>9</sup> in 1933, the Supreme Court held that the federal courts had the power to review declaratory judgment cases. The Court recognized that:

In determining whether this litigation presents a case within the appellate jurisdiction of this Court, we are concerned, not with form, but with substance. Hence, we look not to the label which the legislature has attached to the procedure followed in the state courts, or to the description of the judgment which is brought here for review, in popular parlance, as “declaratory,” but to the nature of the proceeding which the statute authorizes, and the effect of the judgment rendered upon the rights which the appellant asserts.<sup>10</sup>

In short, the Supreme Court found that the essential ingredient for federal review is the existence of an actual case or controversy even though presented under the label of a declaratory judgment.<sup>11</sup>

Congress quickly followed Nashville with the Declaratory Judgment Act in 1934 (“The Act”).<sup>12</sup> The Act as now amended exists as 28 U.S.C. §§ 2201 and 2202. In keeping with the Nashville reasoning, the Act reads in part, “In a case of actual controversy within its jurisdiction, . . . any court of the United States, upon the filing of an appropriate pleading, 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.”<sup>13</sup> When the constitutionality of the Act was challenged soon after its passage, a unanimous Court upheld it.<sup>14</sup>

### **\*46 B. Goals of the Act**

The Nashville Court’s discussion of the Tennessee Declaratory Judgment Act identifies the often-recited goals of declaratory judgments. Specifically, the Court recognized that “the Court may refuse to render a declaratory judgment where, if rendered, it ‘would not terminate the uncertainty or controversy giving rise to the proceeding.’”<sup>15</sup> The termination of uncertainty and controversy remains the Declaratory Judgment Act’s basic goal, and the courts have recognized and advanced it in many contexts.<sup>16</sup>

“[O]ne of the most common and indisputably appropriate uses of the declaratory judgment procedure” is in the patent context.<sup>17</sup> In that context, a patentee may approach a potential infringer and demand that the alleged infringement stop or that

the potential infringer take a license. Perhaps the potential infringer has, up to that point, acted innocently without any knowledge of the patent in question. After being notified of the potential infringement, the potential infringer faces the risk of enhanced damages and attorney fees if found liable for continuing conduct that might now be considered “willful infringement.”<sup>18</sup> The potential infringer now operates under a cloud of uncertainty, and a controversy between the potential infringer and the patentee now exists.<sup>19</sup> The patentee may not immediately file suit but, instead, may continue to make demands while potential damages accrue. The Declaratory Judgment Act provides a remedy for precisely this type of situation. Thus in the patent context, a declaratory judgment is wholly appropriate to give a party certainty as to whether its future activities will infringe a patent and accrue \*47 damages, and declaratory relief is “indisputably appropriate” to patent cases.<sup>20</sup> Prior to the passage of the Act, patentees could chill competition by threatening an infringement suit.<sup>21</sup> The Act serves as a remedy for competitors who would otherwise be strong-armed into licensing agreements or other arrangements by a patentee’s actions.<sup>22</sup>

In addition to the resolution of uncertainty and controversy, courts also recognize the elimination of “insecurity” as a goal of the Act. Although, in context, insecurity appears to be largely synonymous with uncertainty, courts consistently identify insecurity as a separate consideration.<sup>23</sup> Moreover, courts recognize that a purpose of the Act is to clarify the legal relations at issue.<sup>24</sup> That objective, however, appears to be subsumed in stated goals of removing uncertainty, insecurity, and controversy.

## II. Navigating the Discretionary Nature Of the Remedy

The ability of the Act to achieve the goals of removing uncertainty, insecurity, and controversy is directly impacted by its discretionary nature. The drafters rejected language that would make application of the Act mandatory.<sup>25</sup> The use of the phrase “may declare” in the Act gives courts considerable discretion to refuse to entertain declaratory cases.<sup>26</sup> The Supreme Court explained this discretion as follows:

**\*48** By the Declaratory Judgment Act, Congress sought to place a remedial arrow in the district court’s quiver; it created an opportunity, rather than a duty, to grant a new form of relief to qualifying litigants. Consistent with the nonobligatory nature of the remedy, a district court is authorized, in the sound exercise of its discretion, to stay or to dismiss an action seeking a declaratory judgment before trial or after all arguments have drawn to a close. In the declaratory judgment context, the normal principle that federal courts should adjudicate claims within their jurisdiction yields to considerations of practicality and wise judicial administration.<sup>27</sup>

This exercise of discretion, however, must be based on sound reason.<sup>28</sup> Until recently, the federal courts of appeal were divided regarding the standard of review for examining the district courts’ exercise of discretion in applying the Act.<sup>29</sup> Some circuits and most commentators urged *de novo* review.<sup>30</sup> The Supreme Court settled the issue in *Wilton* by requiring application of the abuse of discretion standard.<sup>31</sup> The Court declined to address the parameters of what constitutes an abuse of discretion, leaving that for case-specific analysis.<sup>32</sup> For example, in the patent context, an abuse of discretion may be found “if the trial court’s decision was based upon an incorrect conclusion of law or clearly erroneous findings of fact, was devoid of any evidence in the record upon which the court rationally could have based its decision, or was clearly unreasonable or arbitrary.”<sup>33</sup> In any event, judicial discretion coupled with other principles of judicial restraint presents several hurdles for a declaratory judgment plaintiff.

### A. Meeting the Actual Controversy Requirement

Federal courts will not decide declaratory judgment cases in the absence of an “actual controversy.”<sup>34</sup> This requirement has led to the formulation of context-specific tests such as the one employed in the patent arena. Specifically, determination of an actual controversy in the patent context requires a two-part inquiry: “(1) \*49 whether the declaratory plaintiff has acted in a way that the patentee asserts infringes the patent, or is preparing to act in such a way; and (2) whether the patentee has created, in the declaratory plaintiff, a reasonable apprehension of suit for infringement.”<sup>35</sup> Once a patentee makes a specific charge of infringement against ongoing conduct, the actual controversy requirement is met.<sup>36</sup> Thus, the initial hurdle requires demonstration of an actual controversy, and the courts use a two-part test to consider the conduct of both parties.<sup>37</sup>

#### 1. Potentially Infringing Conduct

The declaratory plaintiff is required to show “that it is engaged in potentially infringing conduct, such that it ‘has a true interest to be protected by the declaratory judgment.’”<sup>38</sup> The declaratory plaintiff “may not, for example, obtain a declaratory judgment merely because it would like an advisory opinion on whether it would be liable for patent infringement if it were to initiate some merely contemplated activity.”<sup>39</sup> The declaratory “[p]laintiff must be engaged in an actual making, selling, or using activity subject to an infringement charge or must have made meaningful preparation for such activity.”<sup>40</sup> Proof of making, selling, or using activity subject to infringement is generally straightforward, but preparation for this activity can be problematic.<sup>41</sup> “Whether a declaratory plaintiff’s ability and definite intention to undertake a potentially infringing activity constitutes sufficient ‘preparation’ is a question of degree to be resolved on a case-by-case basis.”<sup>42</sup>

Preparation for potentially infringing activity is largely an analysis of the “immediacy” and “reality” of the declaratory plaintiff’s conduct.<sup>43</sup> An immediacy analysis concerns the date the complaint was filed and the date the potential infringing \*50 activity will begin.<sup>44</sup> “The greater the length of this interim period, the more likely the case lacks the requisite immediacy.”<sup>45</sup> In *Lang v. Pacific Marine & Supply Co.*, the Federal Circuit affirmed the dismissal of a suit filed by a patent holder seeking a declaratory judgment that a ship in the process of being built would infringe, upon completion, certain hull-design patents.<sup>46</sup> Immediacy was absent because the ship at issue would not be ready for at least nine months and the owners of the ship had not engaged in marketing activities.<sup>47</sup> Similarly, in *Sierra Applied Sciences*, the Federal Circuit held that the immediacy element was lacking when the declaratory plaintiff’s prototype of its potentially infringing product was built and operational a year after the complaint was filed and there was no existing advertising literature for the product.<sup>48</sup> Both *Lang* and *Sierra Applied Sciences* show that potential infringers filing a complaint more than nine months before their potential infringing activity begins face a daunting task in trying to satisfy the immediacy requirement.

In making a “reality” analysis, the court will consider whether the declaratory plaintiff’s allegedly infringing product is “substantially fixed, particularly with respect to its potentially infringing characteristics, on the date the complaint was filed.”<sup>49</sup> In *Teletronics Pacing Systems, Inc. v. Ventritex, Inc.*, the Federal Circuit affirmed the dismissal of a suit filed by a patent holder seeking a declaratory judgment that a medical device would infringe after receiving its approval by the Food and Drug Administration (FDA).<sup>50</sup> The Federal Circuit found that “[a]t the commencement of the suit, [the] device had only recently begun clinical trials, and was years away from potential FDA approval” and that “[t]here was no certainty that the device when approved would be the same device that began clinical trials . . .”<sup>51</sup>

Similarly, a declaratory plaintiff cannot satisfy a court’s reality analysis when a declaratory defendant’s patent has yet to issue. In *Spectronics Corp. v. H.B. Fuller Co., Inc.*, the Federal Circuit refused to hear a declaratory judgment action \*51 where the declaratory judgment defendant’s patent had not yet issued.<sup>52</sup> For a decision in a declaratory judgment action “to be anything other than an advisory opinion, the plaintiff must establish that the product presented to the court is the same product which will be produced if a declaration of noninfringement is obtained.”<sup>53</sup>

## 2. Reasonable Apprehension of Suit

The second prong of the actual controversy requirement looks to the patentee’s conduct.<sup>54</sup> Courts make an objective analysis of whether a patentee’s conduct created a reasonable apprehension of suit on the part of the declaratory plaintiff.<sup>55</sup> Although the best evidence of a reasonable apprehension of suit comes in the form of an express threat of litigation, reasonable apprehension “may be induced by subtler conduct if that conduct rises ‘to a level sufficient to indicate an intent [on the part of the patentee] to enforce its patent.’”<sup>56</sup>

Courts first look for “any express charges of infringement, and if none, then to the ‘totality of the circumstances’” in deciding whether an actual controversy exists.<sup>57</sup> In *Shell Oil Co. v. Amoco Corp.*, Shell contacted Amoco to resolve whether Shell’s product would infringe Amoco’s patent.<sup>58</sup> During negotiations Shell indicated that Amoco’s patent was invalid and not infringed by Shell’s product. In a letter to Shell, Amoco stated that Shell’s operations “fall within” the claims of its patent.<sup>59</sup> Shell argued that this letter was an “express charge of infringement.”<sup>60</sup> The court held that “a statement that Shell’s activities ‘fall within’ Amoco’s claims in the context of the parties’ licensing negotiations can hardly be considered an express charge of infringement.”<sup>61</sup> The court next looked at the totality of the circumstances to determine whether an actual controversy existed. In light of the fact that \*52 Amoco “took no action against Shell; it made no assertive contact concerning the patent; [and] it issued no threats [,]” the court held there was no reasonable apprehension.<sup>62</sup> Moreover, the court held that “Amoco’s use of language to indicate that Shell’s activities ‘fall within,’ are ‘covered by,’ and are ‘operations under’ Amoco’s patent fall short of alleging infringement.”<sup>63</sup> The court agreed with Amoco that this was merely “jawboning,” which typically occurs in licensing negotiations.<sup>64</sup>

In addition, a patentee's offer of a license or ongoing license negotiations, without more, "is insufficient to establish the predicate for declaratory judgment jurisdiction."<sup>65</sup> In Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha, Kato contacted Phillips stating that certain products made by Phillips were covered by Kato's patent and invited Phillips to take a license under the patent.<sup>66</sup> Phillips argued that "one who may become liable for infringement should not be subject to manipulation by a patentee who uses careful phrases in order to avoid explicit threats, thus denying recourse to the courts while damages accrue."<sup>67</sup> The Federal Circuit agreed but held that Kato's offer of a patent license did not create an actual controversy.<sup>68</sup> "When there are proposed or ongoing license negotiations, a litigation controversy normally does not arise until the negotiations have broken down."<sup>69</sup> Thus, where all that is present is negotiation unaccompanied by threats of legal action, the setting is not sufficiently adverse to create an actual controversy.

However, "any time parties are in negotiations over patent rights, the possibility of a lawsuit looms in the background."<sup>70</sup> The threat of patent enforcement is the source of the patentee's bargaining power.<sup>71</sup> "Thus, it is unrealistic to suggest that some negotiating patentees intend to enforce their patents while some do not, and that the first group is subject to declaratory judgment actions while the second is not."<sup>72</sup> In EMC Corp. v. Norand Corp., a representative of Norand sent EMC a letter suggesting that the two parties initiate license negotiations related to Norand's \*53 patents.<sup>73</sup> The letter expressed that Norand was inclined to "'turn the matter over to' Norand's litigation counsel 'for action,' and urged a 'preliminary business discussion,' 'perhaps avoiding this matter escalating into a contentious legal activity.'"<sup>74</sup> Norand argued that the letter was merely an invitation to engage in licensing discussions.<sup>75</sup> However, the court held that "[a]n objective reader of [the] letter could only conclude that Norand had already decided EMC was infringing its patents and that Norand intended to file suit unless it could obtain satisfaction without having to sue."<sup>76</sup> "In the end, the question is whether the relationship between the parties can be considered a 'controversy,' and that inquiry does not turn on whether the parties have used particular 'magic words' in communicating with one another."<sup>77</sup>

A declaratory plaintiff "must show 'more than the nervous state of mind of a possible infringer,' but does not have to show that the patentee is 'poised on the courthouse steps.'"<sup>78</sup> In Vanguard Research, Inc. v. PEAT, Inc., the court considered the fact that PEAT had not only filed suit against Vanguard for misappropriation of trade secrets regarding the same technology but also informed Vanguard's clients that Vanguard was using PEAT's technology without a license. The court found that PEAT's actions showed its willingness to protect its technology.<sup>79</sup> Since filing a lawsuit for patent infringement would have been the patentee's next logical step in protecting its technology, the court concluded that there was a reasonable apprehension of suit on the licensee's part.<sup>80</sup>

Usually, neither a patentee's mere offer of a license nor an assertion that a potential infringer's conduct "falls within," "is covered by," or "operates under" its patent rises to the level of an actual controversy. However, a patentee must be careful in the way it negotiates with potential infringers. A patentee must show its bargaining strength and convince the potential infringer that it has a strong case for infringement, but a patentee must not be so aggressive as to create conflict. The potential infringer must show a reasonable apprehension of suit by collecting enough evidence to convince the court that a real controversy exists. Thus, both patentees and potential infringers must walk a fine line in their negotiations.

#### **\*54 B. Navigating Exceptions to the "First-to-File" Rule**

One judicial doctrine weighing heavily in favor of the viability of declaratory actions is the "first-to-file" rule. This rule stems from well-established principles of comity, whereby "federal courts will defer to actions previously filed in other federal courts when the parties and issues in the two suits are essentially the same."<sup>81</sup> The Supreme Court first articulated the rule as follows: "In all cases of concurrent jurisdiction, the Court which first has possession of the subject must decide it."<sup>82</sup> Assuming identity of parties and a factual nexus between the various claims, the court receiving the earliest complaint typically maintains jurisdiction, while the court with the later complaint dismisses, stays, or transfers the second-filed action.<sup>83</sup> The time of filing, rather than service of the complaint, is the appropriate temporal consideration.<sup>84</sup>

Obviously, in order to take advantage of the rule, one must file first. This requires nimble accused infringers and counsel that can quickly develop a case and bring a declaratory action before the patentee strikes. To secure the option of filing first, potential infringement defendants should engage patent litigation counsel when first confronted with demand letters or licensing offers. The team must then understand the patentee's potential claims and develop noninfringement and/or invalidity positions sufficient to satisfy Rule 11.<sup>85</sup> Full preparation calls for initial internal claim construction, including an understanding of the asserted patent's file history as well as review of the cited prior art. Outside counsel should partner with the client's technical employees to gain an understanding of the technology and the application of the patentee's claims to the

client's potential accused products. Quickly formulating sound opinions requires teamwork and coordination. Although this process may tax resources, the payoff is greater latitude of choice, including an ability to gain the initiative through a declaratory judgment action.

\***55** Being the first to file, however, does not always carry the day with regard to ultimate venue. Because there are three prominent exceptions to the first-to-file rule--bad-faith conduct, anticipatory lawsuits, and balance of conveniences<sup>86</sup>--one must avoid conduct and choices that might lead to dismissal or transferal of the declaratory action to a less favorable forum.

### 1. Avoiding Bad-faith Conduct

Given the time pressure involved in putting together noninfringement and invalidity positions, potential defendants may be tempted to enter into sham negotiations or other conduct designed simply to buy time. Courts have carved out the so-called "bad-faith" exception as an equitable principle that does not reward unfair races to the courthouse.<sup>87</sup> Thus, bad faith may be found where the declaratory plaintiff feigned settlement negotiations while preparing its case.<sup>88</sup> The focus of the bad-faith exception is on promoting good-faith settlement negotiations, thereby sparing the parties and the courts the burden of unneeded litigation.<sup>89</sup>

But where negotiations have ceased or would otherwise be futile, is there any value in precluding a party from seeking declaratory relief rather than waiting for the antagonist to file suit? Further, should a potential defendant have to negotiate at all after receiving a demand letter? Although courts should encourage prelitigation settlement, bad faith should not be found if the prospective defendant declines to enter into settlement discussions.<sup>90</sup>

What then are the boundaries of bad-faith conduct that potential declaratory plaintiffs should avoid? On the one hand, it is wholly appropriate to ask the patentee to provide materials such as file histories and preliminary claims charts to help understand the issues. In so doing, the potential declaratory plaintiff should avoid making any misleading statements and should simply ask for information that will help in understanding the patentee's assertions.

\***56** On the other hand, it would be inappropriate to ask for materials to understand the issues and to suggest that the parties meet for settlement discussions with no intention of conducting such discussions in good faith. In *Davox Corp. v. Digital Systems International, Inc.*, DSI (the patentee) sent letters to Davox (the alleged infringer) asserting that the alleged Davox product "appear[s] to fall within the scope of DSI's patent claims."<sup>91</sup> Counsel for Davox responded to DSI's claims by stating "that DSI's patent inquiry had been referred to Davox's patent counsel, and promised that DSI would get a response directly from that firm."<sup>92</sup> Davox's patent counsel, however, did not respond to DSI. Instead, Davox filed a declaratory judgment action for invalidity and noninfringement. The court refused to allow Davox "to take advantage of the fact that DSI responsibly deferred filing potentially protracted and expensive litigation and, indeed, was perhaps misled into believing it would not be prejudiced by doing so" by Davox's promise of a response from its patent counsel.<sup>93</sup>

Courts will not condone a bad-faith preemptive strike by a declaratory plaintiff who files suit against a party who believes it is engaging in good faith negotiations.<sup>94</sup> In *Hester Industries, Inc. v. Stein, Inc.*, Hester (the patentee) and Stein (the alleged infringer) scheduled two meetings to reach an "amicable resolution of their patent dispute."<sup>95</sup> However, unbeknownst to Hester, Stein filed a declaratory judgment action the day before their scheduled second meeting.<sup>96</sup> The court held that "this subterfuge is exactly the tactical use of the Declaratory Judgment Act that the Federal Circuit has condemned."<sup>97</sup>

However, a party's participation in negotiations to settle a patent dispute does not preclude it from bringing a declaratory judgment action. "[W]hen negotiations are ongoing and both sides are aware that litigation could occur at any time . . . and there is no false implication that a party will refrain from litigation during those negotiations," courts will generally not find bad faith.<sup>98</sup> In *Alaris Medical Systems, Inc. v. Filtertek Inc.*, Filtertek asserted that "Alaris's declaratory action was brought in bad faith as evidenced by continuing settlement negotiations after the actions \*57 was filed but before Alaris made the action known."<sup>99</sup> The court found that Alaris's actions were anticipatory but held that Alaris did not act in bad faith.<sup>100</sup> The court determined that Alaris's acts were similar to those described in *Ward v. Follett Corp.*<sup>101</sup> The Ward court "did not find bad faith where the first to file party engaged in nine months of discussion to resolve the dispute on grounds that were different from those raised in its complaint; and the defendant was not notified or served with the complaint until nearly four months after the complaint was filed."<sup>102</sup> The key here is that the potential declaratory plaintiff avoid "misleading his opponent into staying his hand in anticipation of negotiation."<sup>103</sup>

Note that merely discontinuing or giving up on settlement talks does not necessarily amount to bad faith.<sup>104</sup> In *Enzo Biochem*

Inc. v. Calgene Inc., the parties' negotiations were temporarily suspended, but Enzo "believed settlement of the parties' differences was a strong possibility."<sup>105</sup> Enzo asserted that Calgene's filing suit, "without completing settlement discussions, was in bad faith and should not be condoned by the Court."<sup>106</sup> The court was unable to find "sufficient evidence of the nature of the negotiations or a desire on the part of the parties to settle" and was, therefore, unable to determine that Calgene engaged in bad-faith conduct.<sup>107</sup>

## 2. Avoiding the Remains of the Anticipatory Lawsuit Exception

The anticipatory or "imminent" lawsuit exception may appear to be a superset of the bad-faith exception because it also focuses on whether there was a race to the courthouse. The exception is designed to prevent "unseemly" races to the courthouse. \*58<sup>108</sup> Intertwined with this factor is the judicial aversion to forum shopping.<sup>109</sup> The lines between forum shopping, bad faith, and anticipatory lawsuits are often blurred because bad-faith cases typically include a race to the courthouse<sup>110</sup> and anticipatory lawsuits invariably involve a dispute over choice of forum. In fact, some courts view anticipatory lawsuits as an "aspect of forum-shopping."<sup>111</sup>

The anticipatory lawsuit rationale, standing alone, can sharply narrow the Declaratory Judgment Act because "[i]n many cases, the declaratory defendant is prepared to, and does, file its own affirmative suit shortly afterwards."<sup>112</sup> In such cases, the anticipatory lawsuit rationale would require automatic deference to the second-filed lawsuit thereby putting all control in the hands of the putative plaintiff. Before reviewing the Federal Circuit's view of the imminent lawsuit rationale, we should first consider Tempco Electric Heater Corp. v. Omega Engineering, Inc.<sup>113</sup>

In Tempco Electric, defendant Omega's counsel wrote a letter demanding that Tempco cease use of the Greek omega symbol on its temperature control and measurement devices. Omega demanded a response within ten days and threatened that litigation would follow if Tempco did not respond. Omega sent a follow-up letter eight days later demanding a response in forty-eight hours (still within the original deadline). Tempco responded the next day by having its president call Omega's counsel and explain Tempco's longstanding use of the omega symbol. On the same day, Tempco's counsel communicated Tempco's disinclination to comply with Omega's demands. Tempco reiterated its position a few days later (now four days after the original deadline). Omega responded with a letter saying it had no choice but to proceed with litigation. Tempco received this letter ten days after the original deadline. Tempco filed a declaratory judgment action that day. Omega filed its own action four days later. Omega then successfully moved to dismiss Tempco's declaratory judgment action, and the Seventh Circuit affirmed.<sup>114</sup>

\*59 In affirming the dismissal, the Seventh Circuit essentially rejected the first-to-file rule in the declaratory judgment context.<sup>115</sup> The court stated that "[t]he wholesome purpose of declaratory acts would be aborted by its use as an instrument of procedural fencing either to secure delay or to choose a forum"<sup>116</sup> and that "[t]he federal declaratory judgment is not a prize to the winner of the race to the courthouse."<sup>117</sup>

The Seventh Circuit found that because Omega had filed a coercive mirror-image suit four days later, Tempco's suit "would serve no useful purpose."<sup>118</sup> The court elaborated on the rule as follows: "Where, as here, the declaratory judgment action is filed in anticipation of an infringement action, the infringement action should proceed, even if filed four days later."<sup>119</sup> Although Tempco acknowledged "the virtue of certainty and the ease of application"<sup>120</sup> of the first-to-file rule, it rejected the rule as too costly because it would "encourage an unseemly race to the courthouse."<sup>121</sup> But this concern is not relevant in all circumstances. In the patent context, for example, the Federal Circuit ostensibly ensures the uniform application of the patent laws throughout the various district courts.<sup>122</sup> Thus, the risk of outcome-determinative forum shopping in patent cases has been largely eliminated--one court even questioned whether outcome forum shopping in the patent context is even possible.<sup>123</sup>

Giving weight to the stated purpose of the Declaratory Judgment Act (that is, "to enable a person caught in [a] controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist")<sup>124</sup> requires courts to refuse to apply the anticipatory lawsuit exception absent other factors. If a court dismisses a declaratory action merely because an affirmative lawsuit is subsequently \*60 filed, the court negates the purpose of the Declaratory Judgment Act.<sup>125</sup> In fact, absent other factors, this would not be a "sound reason" for exercising discretion. A "sound reason" needs a valid concern or policy behind it, especially when it will diminish the goals and narrow the application of the Act.

In addition, unbridled application of the anticipatory lawsuit exception gives unfair leverage to the putative plaintiff in negotiations, allowing the plaintiff to keep a cloud over the defendant's business and future plans.<sup>126</sup> Allowing a potential plaintiff to pick an arbitrary deadline and hold the defendant's feet to the fire unfairly rewards brinkmanship. Even a single

strategic deadline can be devastating when it is designed to threaten a new product launch or timed to interfere with an acquisition or merger.

No wonder, then, that in Genentech<sup>127</sup> the Federal Circuit refused to apply the Tempco Electric<sup>128</sup> rationale to patent cases:

Such a rule would automatically grant the patentee the choice of forum, whether the patentee had sought--or sought to avoid--judicial resolution of the controversy. This shift of relationship between litigants is contrary to the purpose of the Declaratory Judgment Act to enable a person caught in controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist.<sup>129</sup>

In reversing the dismissal of Genentech's first-filed action, the Federal Circuit expressed its preference "to apply in patent cases the general rule whereby the forum of the first-filed case is favored, unless considerations of judicial and litigant economy, and the just and effective disposition of disputes, require otherwise."<sup>130</sup> The Genentech decision led some courts, both in and out of the patent context, to reject<sup>131</sup> or limit<sup>132</sup> the anticipatory lawsuit rationale.

\***61** The Federal Circuit revisited its preference for the first-filed case in Serco Services Co. v. Kelley Co.<sup>133</sup> In Serco, the declaratory plaintiff was sent a letter demanding it discontinue manufacture or sale of allegedly patented truck restraints used at loading docks. The letter warned that a lawsuit would commence if Serco did not confirm that such activities had ceased within six weeks. Months after the deadline had passed, Serco received another letter, this time threatening litigation in twelve days. Before that deadline was reached, Serco brought its declaratory action. The district court dismissed Serco's declaratory action as an anticipatory lawsuit as well as for convenience reasons.<sup>134</sup> Although the Federal Circuit acknowledged the rule set forth in Genentech,<sup>135</sup> it found that the district court did not abuse its discretion by considering the anticipatory nature of the action along with the balance-of-convenience factors.<sup>136</sup> The court concluded that "the relative convenience of the parties was 'sound reason' not to continue the declaratory suit."<sup>137</sup>

In light of Serco, a declaratory plaintiff must at least be aware that the anticipatory nature of its suit could factor against the suit's sustainability. In order to minimize the weight of this factor, a declaratory plaintiff should avoid brinkmanship that would cause the patentee to issue ultimatums and deadlines for filing suit. Of course, if such deadlines are issued and pass by, the declaratory plaintiff can file a declaratory judgment action with greater confidence that it will withstand an "anticipatory lawsuit" challenge because the action would not be filed in anticipation of a looming deadline.

Another solid practice is to keep accurate records of threats and approaches from patentees to show that the patentee engaged in "hit and run" tactics over some period of time. If the patentee is always threatening but never pulling the trigger on a coercive lawsuit, a factual record related to the timing and content of threats and allegations can greatly impact the weight of this factor.<sup>138</sup>

#### \***62** 3. Dealing with Convenience Factors

The balance of convenience exception focuses on many of the same factors as a transfer analysis under 28 U.S.C. Section 1404(a).<sup>139</sup> For example, the Federal Circuit, although espousing strong support for the first-to-file rule, has focused on the convenience of the parties and the location of the witnesses and evidence in finding no abuse of discretion in dismissing a first-filed declaratory action.<sup>140</sup>

Obviously, the more connected a forum is to the dispute, the greater likelihood the convenience factors will line up in favor of the first-filed suit. Therefore, for a declaratory patent plaintiff, the best choice is to sue in its home forum, assuming the alleged infringing conduct occurs there. Suing in its home forum lends weight to the plaintiff's choice-of-forum factor<sup>141</sup> and provides a ready counterbalance to the convenience factors that a patentee might argue apply to its home forum.<sup>142</sup> Typically, a transfer should occur only if the net convenience of all parties and witnesses increases.<sup>143</sup>

### **III. Defensive Use of Declaratory Claims**

Patentees sometimes strike without warning, and potential defendants sometimes become actual defendants before they are prepared to bring a declaratory action. Although initiative with regard to initial forum choice may have been lost, the accused infringer may still make use of the declaratory remedy.

A new patent infringement defendant should first consider whether it should bring a declaratory action in a more appropriate jurisdiction. For example, when the patentee initially sues an affiliate in an unfavorable forum, the real defendant-in-interest should consider bringing a declaratory action in a better forum. Verizon successfully did just that when it realized the wrong affiliate was sued in Pennsylvania and it brought a declaratory action in the Central District of California. When the case against the affiliate was dismissed in Pennsylvania, all action shifted to the California lawsuit where Verizon then obtained favorable rulings leading to settlement \*63 of the dispute.<sup>144</sup> Of course, the filing of a second suit will incur close scrutiny under the first-to-file rule as explained above. Nevertheless, newly minted patent defendants should not ignore this option, especially when there is a jurisdictional issue with the first-filed forum or when the defendants are not properly named.

When a patent infringement defendant must proceed in the patentee's chosen forum, the defendant should always consider filing declaratory counterclaims. One advantage of responding with declaratory judgment counterclaims is gaining some degree of control over the timing and form of dismissal. Once a patent defendant has answered and counterclaimed, the patentee cannot dismiss the action without negotiating a dismissal of the counterclaims.<sup>145</sup> If the patentee wishes to shut the action down, it must come to terms with the counterclaims. Thus, invoking counterclaims prevents patentees from churning through defendants in search of low-hanging fruit, with the possibility of again threatening defendants who do not roll over in initial suits. This strategy may be of particular use where potential defendants in an industry can form a consortium and back the declaratory counterclaimant in the litigation.

Another related advantage is the leverage a declaratory counterclaim can provide in settlement discussions. Of course, the degree of leverage the counterclaim provides correlates directly with the threat the counterclaim presents to the validity or enforceability of the patent and the value of the patent to the patentee. Assuming the patentee intends to enforce the patent against others, having a declaratory counterclaim in place provides, at a minimum, some suggestion of risk to the patentee.

Some advantage also flows from forcing the patentee to deal with declaratory counterclaims in pleadings, discovery, and trial. The patentee must, at the very least, reply to the counterclaims or risk entry of default.<sup>146</sup> The patentee must also respond to discovery driven by counterclaims. In addition, having counterclaims in place may give some psychological boost in front of a jury because trial counsel can present separate claims against the asserted patents.

#### **\*64 Conclusion**

Declaratory claims can provide potential and actual patent infringement defendants with the means to strike back at patentees. If potential patent infringement defendants want to take the initiative, they and their counsel must understand and avoid the pitfalls that could lead to dismissal of their declaratory patent actions. Specifically, they must avoid bad-faith conduct and choose a forum that will prevail in a balance-of-conveniences analysis. Finally, patent infringement defendants should be prepared to take advantage of the tactical and procedural advantages declaratory counterclaims can provide.

#### Footnotes

<sup>1</sup> Russ Hill and Jesse Mulholland specialize in patent litigation at Howrey Simon Arnold & White LLP in Irvine, CA. The views expressed herein are solely the authors' and do not necessarily reflect the views of Howrey or any of its clients.

<sup>2</sup> 28 U.S.C. §§ 2201-2002 (1994). See *Hanes Corp. v. Millard*, 531 F.2d 585 (D.C. Cir. 1976).

<sup>3</sup> Edwin M. Borchard, *Declaratory Judgments* 299 (2d ed. 1941).

<sup>4</sup> Unif. Declaratory Judgments Act § 6, 12A U.L.A. 302 (1996).

<sup>5</sup> 10B Charles Alan Wright Et Al., *Federal Practice and Procedure* § 2759 at 645 (2d ed. & Supp. 1991).

<sup>5</sup> A person facing the threat of litigation is often compared to Damocles, a courtier of ancient Syracuse, who was seated beneath a sword hung by a single hair.

<sup>6</sup> Charles E. Clark, *Handbook of the Law of Code Pleading* § 53, at 333 (2d ed. 1947).

<sup>7</sup> See *infra* note 10.

<sup>8</sup> This principle was established during George Washington’s presidency when he sought the Court’s advice regarding America’s neutrality during the war between France and England. In an exchange of letters with Washington’s Secretary of State, Thomas Jefferson, the Court declined to give advice, noting that “calling upon the heads of departments for opinions, seems to have been purposefully as well as expressly limited to the executive departments.” Letters reprinted in Richard H. Fallon et al., *Hart and Wechler’s the Federal Courts and The Federal System* 92-93 (4th ed. 1996). In *Rescue Army v. Municipal Court*, 331 U.S. 549, 568 (1947), Justice Rutledge articulated the underlying bases for exercising judicial restraint under the penumbra of “strict necessity.” *Id.* at 568.

<sup>9</sup> 288 U.S. 249, 260, 264-65 (1933) (“[C]hanges merely in the form or method of procedure ... are not enough to preclude review of the adjudication by this Court, so long as the case retains the essentials of an adversary proceeding, involving a real, not a hypothetical controversy ....”).

<sup>10</sup> *Id.* at 259 (citation omitted).

<sup>11</sup> *Id.* Note that the Uniform Declaratory Judgment Act permits prospective adjudication, such as the construction of a contract before there has been a breach. *Unif. Declaratory Judgments Act* § 3, 12A U.L.A. 266 (1996).

<sup>12</sup> Act of June 14, 1934, Pub. L. No. 73-343, ch. 512, 48 Stat. 955 (1934) (current version at 28 U.S.C. §§ 2201-2002 (2004)).

<sup>13</sup> 28 U.S.C. § 2201 (2004).

<sup>14</sup> *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 (1937).

<sup>15</sup> *Nashville*, 288 U.S. at 260 (quoting *Tennessee Declaratory Judgment Act* § 6, 29 Tenn. Code Ann. § 29-14-101 (2003)).

<sup>16</sup> See, e.g., *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 596 (2d Cir. 1996) (trademark); *Tempco Elec. Heater Corp. v. Omega Eng’g, Inc.*, 819 F.2d 746, 749 (7th Cir. 1987) (trademark); *Bryan Ashley Int’l, Inc. v. Shelby Williams Indus.*, 932 F. Supp. 290, 292 (S.D. Fla. 1996) (copyright); *Goode v. Rizzo*, 506 F.2d 542, 546 n.5 (3d Cir. 1974) (declaratory relief in civil rights class actions is appropriate under Fed. R. Civ. P. 23(b)(2)), *rev’d on other grounds*, 423 U.S. 362 (1976); *Minn. Citizens Concerned for Life v. Fed. Election Comm’n*, 113 F.3d 129, 130-32 (8th Cir. 1997) (pre-enforcement challenges to statutes); *Inland Empire Chapter of Associated Gen. Contractors of Am. v. Dear*, 77 F.3d 296, 298-99 (9th Cir. 1996) (federal preemption).

<sup>17</sup> *Hanes Corp. v. Millard*, 531 F.2d 585, 592 (D.C. Cir. 1976).

<sup>18</sup> 35 U.S.C. §§ 284-285. See *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997). The SRI court explains the risk and policy behind enhanced damages as follows: “35 U.S.C. § 284 of the Patent Act authorizes the court to ‘increase the damages up to three times the amount found or assessed.’ The statute prescribes no standards for such increase, but precedent establishes that a person having knowledge of an adverse patent has an affirmative duty to exercise due care to avoid infringement of a presumptively valid and enforceable patent. The statute thus recognizes the tortious nature of patent infringement and the public interest in a stable patent right, for enhanced damages are not compensatory but punitive.” *Id.* at 1464.

19 The accrual of damages was a palpable congressional concern: “It was the congressional intent to avoid the accrual of avoidable damages to a party not certain of its rights by affording that party an early adjudication without waiting until that party’s adversary should see fit to begin suit, after the damage had accrued.” 22 Am. Jur. 2d Declaratory Judgments § 11 (2003).

20 *Societe de Conditionnement en Aluminum v. Hunter Eng’g Co.*, 655 F.2d 938, 943 (9th Cir. 1981).

21 *Id.*

22 *Id.* See also *Universal Buslink Corp. v. Gen. Patent Corp. Int’l*, 68 U.S.P.Q.2d (BNA) 1543, 1544 (C.D. Cal. 2003) (One of the most common and indisputably appropriate uses of the declaratory procedure is to allow one accused of patent infringement to secure a judgment instead of waiting to become a defendant in an infringement suit.); *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993) (Declaratory judgment is generally not subject to dismissal when it will settle the legal relations in a dispute and afford relief from uncertainty or insecurity.).

23 See, e.g., *Tempco Elec. Heater Corp. v. Omega Eng’g, Inc.*, 819 F.2d 746, 749 (7th Cir. 1987) (observing that “[s]tandards are required” to determine whether a declaratory action may proceed); *Guerra v. Sutton*, 783 F.2d 1371, 1376 (9th Cir. 1986) (“Declaratory relief is appropriate ... ‘when it will ... afford relief from ... insecurity ...’”) (quoting *Bilbrey v. Brown*, 738 F.2d 1462, 1470 (9th Cir. 1984)); *First Fishery Dev. Serv., Inc. v. Lane Labs USA, Inc.*, No. 97-1069-R, 1997 U.S. Dist. LEXIS 11231, at \*4 (S.D. Cal. July 21, 1997) (citing *Guerra* in stating that declaratory relief ends insecurity).

24 *First Fishery*, 1997 U.S. Dist. LEXIS 11231 at \*4; see also *Edwin M. Borchard*, *Declaratory Judgments* 299 (2d ed. 1941).

25 10B Charles Alan Wright et al., *Federal Practice and Procedure* § 2759 n.1 (3d ed. 1998) (citing *Edwin M. Borchard*, *Discretion to Refuse Jurisdiction of Actions for Declaratory Judgment*, 26 Minn. L. Rev. 677 (1942)).

26 *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286-87 (1995).

27 *Id.* at 288 (footnote omitted).

28 *Id.* See also *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936 (Fed. Cir. 1993) (stating that there must be evidence to “rationally” support the court’s decision); *Samuel Goldwyn, Inc. v. United Artists Corp.*, 113 F.2d 703, 709 (3d Cir. 1940) (stating that a court’s discretion to grant declaratory relief “must find its basis in good reason” (quoting *Automotive Equip., Inc. v. Trico Prods. Corp.*, 11 F. Supp. 2d 292, 295 (W.D.N.Y. 1935))).

29 *Tempco Elec. Heater Corp. v. Omega Eng’g, Inc.*, 819 F.2d 746, 747-48 (7th Cir. 1987) (reciting various standards of the appellate courts).

30 See, e.g., *id.* at 748-49. See also *Wright et al.*, *supra* note 25, at § 2759; 12 James Wm. Moore Et al., *Moore’s Federal Practice* §§ 57.101[2]-57.102[2] (3d ed. 2004); *Henry J. Friendly*, *Indiscretion About Discretion*, 31 Emory L. J., 747, 778-79 (1982).

31 515 U.S. at 289-90.

32 *Id.* at 290.

33 *Genentech, Inc.*, 998 F.2d at 936 (citing *Minn. Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 672-73 (Fed. Cir. 1991)).

<sup>34</sup> Id. (citing *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-40 (1937)).

<sup>35</sup> Id. (citing *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735-36 (Fed. Cir. 1988)).

<sup>36</sup> *Genentech, Inc.*, 998 F.2d at 936-37.

<sup>37</sup> *Sierra Applied Scis., Inc. v. Advanced Energy Indus.*, 363 F.3d 1361, 1373 (Fed. Cir. 2004) (“The first prong looks to the patent holder’s conduct, and the second prong looks to the potential infringer’s conduct.”).

<sup>38</sup> *Spectronics Corp. v. H.B. Fuller Co.*, 940 F.2d 631, 636 (Fed. Cir. 1991) (quoting *Arrowhead Indus. Water*, 846 F.2d at 736).

<sup>39</sup> *Arrowhead Indus. Water*, 846 F.2d at 736. See also *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 981 (Fed. Cir. 1993) (“[A]n interest in practicing the invention of another does not satisfy the infringement element of the two-part test for actual controversy in patent cases.”).

<sup>40</sup> *Arrowhead Indus. Water*, 846 F.2d at 736 (citing *Indium Corp. of Am. v. Semi-Alloys, Inc.*, 781 F.2d 879, 883 (Fed. Cir. 1985)).

<sup>41</sup> Id.

<sup>42</sup> Id. (citing *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

<sup>43</sup> *Arrowhead Indus. Water*, 846 F.2d at 735.

<sup>44</sup> *Sierra Applied Scis., Inc. v. Advanced Energy Indus.*, 363 F.3d 1361, 1378-79 (Fed. Cir. 2004).

<sup>45</sup> Id.

<sup>46</sup> 895 F.2d 761, 764-65 (Fed. Cir. 1990).

<sup>47</sup> Id.

<sup>48</sup> 363 F.3d at 1379.

<sup>49</sup> Id. at 1379.

<sup>50</sup> 982 F.2d 1520, 1525-27 (Fed. Cir. 1992).

<sup>51</sup> Id. at 1527. See also *Sierra Applied Scis.*, 363 F.3d at 1380 (“Because the design was fluid on the date the complaint was filed, it was impossible to determine--on that date--whether any eventual design of the Billings 150 kW power supply would infringe AEI’s patents.”). But see *Super Prods. Corp. v. DP Way Corp.*, 546 F.2d 748, 753 (7th Cir. 1976) (holding that plaintiff’s preparation for producing a product “similar to the one described” in the patent and “potentially infringing” was sufficient to satisfy the reasonable apprehension test).

<sup>52</sup> 940 F.2d 631, 636 (Fed. Cir. 1991) (“Before a patent issues ... the courts have no claims by which to gauge an alleged infringer’s conduct.”).

<sup>53</sup> Int’l Harvester Co. v. Deere & Co., 623 F.2d 1207, 1216 (7th Cir. 1980).

<sup>54</sup> Sierra Applied Scis., 363 F.3d at 1373.

<sup>55</sup> *Id.* at 1374.

<sup>56</sup> Vanguard Research, Inc. v. PEAT, Inc., 304 F.3d 1249, 1254-55 (Fed. Cir. 2002) (quoting *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 887 (Fed. Cir. 1992) (alteration in original)). See also *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996) (“A certain minimum degree of adverseness must be present in order to establish the requisite controversy.”).

<sup>57</sup> *Shell Oil*, 970 F.2d at 888 (Fed. Cir. 1992) (quoting *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988)).

<sup>58</sup> *Shell Oil*, 970 F.2d at 886.

<sup>59</sup> *Id.* at 888.

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

<sup>62</sup> *Id.* at 889.

<sup>63</sup> *Shell Oil*, 970 F.2d at 889.

<sup>64</sup> *Id.*

<sup>65</sup> *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996).

<sup>66</sup> 57 F.3d 1051, 1052 (Fed. Cir. 1995).

<sup>67</sup> *Id.* at 1053.

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> *EMC Corp.*, 89 F.3d at 811.

71       Id.

72       Id.

73       Id. at 812.

74       Id.

75       EMC Corp., 89 F.3d at 812.

76       Id.

77       Id.

78       Vanguard Research, Inc. v. PEAT, Inc., 304 F.3d 1249, 1255 (Fed. Cir. 2002) (quoting Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha, 57 F.3d 1051, 1053-54 (Fed. Cir. 1995)).

79       Vanguard Research, 304 F.3d at 1255.

80       Id.

81       See Michael Cavendish, Understanding the First-To-File Rule and its Anticipatory Suit Exception, Fla. B. J., Jul.-Aug. 2001, at 24, 24 (emphasis added).

82       Smith v. M'Iver, 22 U.S. 532, 535 (1824). The Court prevented the plaintiff, whose bill was dismissed on demurrer, from attempting to move the case into a court of equity. Applying the principle of comity in establishing the first-to-file rule, the Court summed the issue: “Admitting, then, the concurrent jurisdiction of the Courts of equity and law, in matters of fraud, we think the cause must be decided by the tribunal which first obtains possession of it, and that each Court must respect the judgment or decree of the other.” Id. at 536.

83       Some dispute exists as to whether the first- or second-filed court should control the decision. See Texas Instruments, Inc. v. Micron Semiconductor, Inc., 815 F. Supp. 994, 999 (E.D. Tex. 1993) (finding that the first-filed court should decide which suit would proceed). But see Tripple Mfg. Co. v. Am. Power Conversion Corp., 46 F.3d 624, 628-29 (7th Cir. 1995) (allowing the second-filed court to decide between the two competing forums). Obviously, in the motion-to-transfer context, the second-filed court will control the decision if the first-filed suit is proceeding.

84       Fed. R. Civ. P. 3. See Pacesetter Sys., Inc. v. Medtronic, Inc., 678 F.2d 93, 96 n.3 (9th Cir. 1982); Product Eng’g and Mfg., Inc. v. Barnes, 424 F.2d 42, 44 (10th Cir. 1970) (“[The] jurisdiction of the court relates back to the filing of the complaint.”).

85       Fed. R. Civ. P. 11.

86       Cavendish, *supra* note 81, at 26 n.12.

87       See, e.g., Charles Schwab & Co. v. Duffy, 49 U.S.P.Q.2d (BNA) 1862, 1864 (N.D. Cal. 1998) (stating that the declaratory action should be dismissed so as not to “reward a race to the courthouse” won partly though a misleading settlement letter).

88 See, e.g., *Mission Ins. Co. v. Puritan Fashions Corp.*, 706 F.2d 599, 601-02 (5th Cir. 1983). In *Mission Insurance*, the declaratory plaintiff insurance company gave the insured a thirty-day extension under its theft insurance policy. Meanwhile, the insurance company prepared its case and brought a declaratory judgment action. *Id.* at 602.

89 See, e.g., *Charles Schwab*, 49 U.S.P.Q.2d at 1864 (applying first-to-file rule under these facts “thwart[s] settlement negotiations ...”).

90 See *Pep Boys-Manny, Moe & Jack v. Am. Waste Oil Servs., Corp.*, No. 96-CV-7098, 1997 U.S. Dist. LEXIS 9089, at \*19 (E.D. Pa. June 24, 1997).

91 846 F. Supp. 144, 146 (D. Mass. 1993).

92 *Id.*

93 *Id.* at 146-48.

94 See *Hester Indus., Inc. v. Stein Inc.*, 40 U.S.P.Q.2d (BNA) 1844, 1848 (E.D. Va. 1996).

95 *Id.*

96 *Id.*

97 *Id.*

98 *Veryfine Prods., Inc. v. Phlo Corp.*, 124 F. Supp. 2d 16, 23 (D. Mass. 2000). See *Alaris Med. Sys., Inc. v. Filtertek Inc.*, No. 00-CV-2404-L, 2001 U.S. Dist. LEXIS 24976, at \*7-\*8 (S.D. Cal. 2001 Dec. 19, 2001) (finding declaratory judgment action was anticipatory, and “perhaps less than courteous,” but not in bad faith).

99 *Alaris Med. Sys., Inc.*, 2001 U.S. Dist. LEXIS 24976, at \*7.

100 *Id.* at \*8.

101 *Id.* at \*7 (comparing Alaris’s acts to those in *Ward v. Follett Corp.*, 158 F.R.D. 645, 649 (N.D. Cal. 1994)).

102 *Alaris Med. Sys., Inc.*, 2001 U.S. Dist. LEXIS 24976, at \*7.

103 *Veryfine Prods.*, 124 F. Supp. 2d at 22; see *Holmes Group, Inc. v. Hamilton Beach/Proctor Silex, Inc.*, 249 F. Supp. 2d 12, 16 (D. Mass. 2002) (finding no special circumstances to overcome the presumption of the first-to-file rule: “[Plaintiff] replied to ... [a] ‘cease and desist letter’ by denying liability. It made no promise or implication that it would enter into negotiations ....”); *Conmed Corp. v. ERBE Electromedizin GmbH*, 129 F. Supp. 2d 461, 467-68 (N.D.N.Y. 2001) (finding no inequitable conduct because there were no ongoing negotiations when declaratory judgment action was filed).

104 *Ganote Consulting & Software Design, Inc. v. Imperial Optical, Inc.*, No. 3:02-CV-65-H, 2002 U.S. Dist. LEXIS 20488, at \*7

(W.D. Ky. Oct. 17, 2002) (holding that allegations of giving up on settlement negotiations are inadequate for a finding of bad faith).

<sup>105</sup> 27 U.S.P.Q.2d (BNA) 1636, 1637 (D. Del. 1993).

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> See *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746, 750 (7th Cir. 1987).

<sup>109</sup> See *Fed. Signal Corp. v. Pub. Safety Equip., Inc.*, No. 91 C 0493, 1991 U.S. Dist. LEXIS 9437, at \*10 (N.D. Ill. July 10, 1991) (finding that declaratory action should be dismissed in favor of a trial on the merits when “the inequitable conduct of forum shopping is evident”); *Amerada Petroleum Corp. v. Marshall*, 381 F.2d 661, 663 (5th Cir. 1967) (holding that a declaratory action may be transferred to a more convenient district court notwithstanding the fact that the declaratory plaintiff filed the action in defendant’s home forum).

<sup>110</sup> See *Charles Schwab & Co. v. Duffy*, 49 U.S.P.Q.2d (BNA) 1862, 1864 (N.D. Cal. 1998).

<sup>111</sup> *Mission Ins. Co. v. Puritan Fashions Corp.*, 706 F.2d 599, 602 n.3 (5th Cir. 1983).

<sup>112</sup> *IMS Health, Inc. v. Vality Tech. Inc.*, 59 F. Supp. 2d 454, 463 (E.D. Pa. 1999) (quoting *Hunt Mfg. Co. v. Fiskars Oy AB*, No. 97-2460, 1997 U.S. Dist. LEXIS 15457, at \*8 (E.D. Pa. Sept. 30, 1997)).

<sup>113</sup> 819 F.2d 746 (7th Cir. 1987).

<sup>114</sup> *Id.* at 746-47.

<sup>115</sup> *Id.* at 750.

<sup>116</sup> *Id.* (quoting *Am. Auto. Ins. Co. v. Freundt*, 103 F.2d 613, 617 (7th Cir. 1939)).

<sup>117</sup> *Id.* (quoting *Factors Etc., Inc. v. Pro Arts, Inc.*, 579 F.2d 215, 219 (2d Cir. 1978), which in turn quoted *Perez v. Ledesma*, 401 U.S. 82, 119 n.12 (1971) (Brennan, J., dissenting)).

<sup>118</sup> *Tempco Elec.*, 819 F.2d at 749.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* at 750.

<sup>121</sup> *Id.*

<sup>122</sup> See *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937 (Fed. Cir. 1993).

<sup>123</sup> *K & F Mfg. Co. v. W. Litho Plate & Supply Co.*, 831 F. Supp. 661, 663-64 (N.D. Ind. 1993).

<sup>124</sup> *Genentech*, 998 F.2d at 937.

<sup>125</sup> See *IMS Health, Inc. v. Vality Tech. Inc.*, 59 F. Supp. 2d 454, 463 (E.D. Pa. 1999) (citing *Hunt Mfg. Co. v. Fiskars Oy AB*, No. 97-2460, 1997 U.S. Dist. LEXIS 15457, at \*7-\*8 (E.D. Pa. Sept. 30, 1997)).

<sup>126</sup> This “cloud” is not mere vapor. Consider the context where a public corporation is accused of wrongdoing and is threatened with litigation. Reporting requirements force the company to disclose these potential claims to investors, which may have a significant impact on stock valuation. See 17 C.F.R. § 229.103 (2004) (Legal proceedings under Part 229: Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975--Regulation S-K).

<sup>127</sup> 998 F.2d 931 (Fed. Cir. 1993).

<sup>128</sup> *Tempco Elec. Heater Co. v. Omega Eng’g, Inc.*, 819 F.2d 747 (Fed. Cir. 1987).

<sup>129</sup> *Genentech*, 998 F.2d at 937.

<sup>130</sup> *Id.*

<sup>131</sup> *Agridyne Techs., Inc. v. W.R. Grace & Co.*, 863 F. Supp. 1522, 1528 (D. Utah 1994) (finding that the imminent lawsuit rationale cannot be squared with *Genentech*).

<sup>132</sup> *IMS Health, Inc. v. Vality Tech. Inc.*, 59 F. Supp. 2d 454, 463-65 (E.D. Pa. 1999) (arguing that a court cannot dismiss a declaratory action merely because an affirmative infringement action was subsequently brought elsewhere, but it may dismiss if a declaratory action was filed in anticipation of impending action and motivated solely by forum shopping).

<sup>133</sup> 51 F.3d 1037 (Fed. Cir. 1995).

<sup>134</sup> *Id.* at 1037-38.

<sup>135</sup> 998 F. 2d 931 (Fed. Cir. 1993).

<sup>136</sup> *Serco*, 51 F.3d at 1040.

<sup>137</sup> *Id.*

<sup>138</sup> See *Vanguard Research, Inc. v. PEAT, Inc.*, 304 F.3d 1249, 1255 (Fed. Cir. 2002) (finding that by filing an earlier lawsuit and informing the declaratory plaintiff’s clients of a non-licensed use of the patentee’s technology, patentee created a reasonable apprehension of suit); *Sierra Applied Scis., Inc. v. Advanced Energy Indus., Inc.*, 363 F.3d 1361, 1375-80 (Fed. Cir. 2004) (reasoning based on the conduct of the patentee as well as the time period between the alleged infringing activity and the filing of the suit).

<sup>139</sup> Typical § 1404 transfer factors include plaintiff's choice of forum, convenience of the witnesses, convenience of the parties, the availability of compulsory process to compel attendance of non-party witnesses, the contacts relating to the plaintiff's cause of action in the chosen forum, the location where the relevant agreements were negotiated and executed, the state that is most familiar with the governing law, local interest in the controversy, judicial economy from consolidating cases, relative congestion of the courts and the ease of access to sources of proof. See *Jones v. GNC Franchising, Inc.*, 211 F.3d 495, 498-99 (9th Cir. 2000).

<sup>140</sup> *Serco*, 51 F.3d at 1040.

<sup>141</sup> *Holmes Group, Inc. v. Hamilton Beach/Proctor Silex, Inc.*, 249 F. Supp. 2d 12, 17 (D. Mass. 2002) ("Where a plaintiff chooses his home forum, such a choice usually represents considerations of convenience rather than harassment of the defendant.").

<sup>142</sup> *Id.* at 17-18. See *Veryfine Prods., Inc. v. Phlo Corp.*, 124 F. Supp. 2d 16, 24-26 (D. Mass. 2000) (stating that the home-forum-convenience factor is common to both sides in a motion to transfer).

<sup>143</sup> *Holmes Group*, 249 F. Supp. 2d at 18 (holding that transfer is inappropriate if the effects are merely to shift inconvenience to the opposing party).

<sup>144</sup> See Compl. for Inj. and Decl. Relief, Case No. 01-9871 (C.D. Cal. Nov. 16, 2001); Stipulation and Order re Dismissal of Verizon Wireless Inc., Case No. 01-CV-5627 (E.D. Pa. Jan. 23, 2002); Order re Verizon's Mot. For Summ. J. and Katz's Mot. for Summ. J., Case No. 01-9871 (C.D. Cal. Dec. 2, 2003); Stipulation and Order of Dismissal, Case No. 01-CV-5627 (E.D. Pa. July 13, 2004); Press Release, Ronald A. Katz Tech. Licensing, L.P., Verizon California and Its Affiliates Settle Patent Lawsuits with Ronald A. Katz Technology Licensing, L.P. and Enter Into License Agreement (July 19, 2004) (available at [www.news.findlaw.com/prnewswire/20040719/19jul2004002825.html](http://www.news.findlaw.com/prnewswire/20040719/19jul2004002825.html)).

<sup>145</sup> Fed. R. Civ. P. 41(a)(2).

<sup>146</sup> Fed. R. Civ. P. 12(a)(2).