

MODERN PATENT LITIGATION
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2010 SUPPLEMENT

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[INSERT at p. 4, as the first case in the book.]

Supreme Court of the United States

eBAY INC.

v.

MERCExchange, L.L.C.

No. 05-130.

Argued March 29, 2006

Decided May 15, 2006

THOMAS, J., delivered the opinion for a unanimous Court. ROBERTS, C.J., filed a concurring opinion, in which SCALIA and GINSBURG, JJ., joined. KENNEDY, J., filed a concurring opinion, in which STEVENS, SOUTER, and BREYER, JJ., joined.

Justice THOMAS delivered the opinion of the Court.

Ordinarily, a federal court considering whether to award permanent injunctive relief to a prevailing plaintiff applies the four-factor test historically employed by courts of equity. Petitioners eBay Inc. and Half.com, Inc., argue that this traditional test applies to disputes arising under the Patent Act. We agree and, accordingly, vacate the judgment of the Court of Appeals.

I

Petitioner eBay operates a popular Internet Web site that allows private sellers to list goods they wish to sell, either through an auction or at a fixed price. Petitioner Half.com, now a wholly owned subsidiary of eBay, operates a similar Web site. Respondent MercExchange, L.L.C., holds a number of patents, including a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. See U.S. Patent No. 5,845,265. MercExchange sought to license its patent to eBay and Half.com, as it had previously done with other companies, but the parties failed to reach an agreement. MercExchange subsequently filed a patent infringement suit against eBay and Half.com in the United States District Court for the Eastern District of Virginia. A jury found that MercExchange's patent was valid, that eBay and Half.com had infringed that patent, and that an

award of damages was appropriate.^{FN1}

Following the jury verdict, the District Court denied MercExchange's motion for permanent injunctive relief. 275 F.Supp.2d 695 (2003). The Court of Appeals for the Federal Circuit reversed, applying its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F.3d 1323, 1339 (2005). We granted certiorari to determine the appropriateness of this general rule. 546 U.S. 1029, 126 S.Ct. 733, 163 L.Ed.2d 567 (2005).

II

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. See, e.g., *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-313, 102 S.Ct. 1798, 72 L.Ed.2d 91 (1982); *Amoco Production Co. v. Gambell*, 480 U.S. 531, 542, 107 S.Ct. 1396, 94 L.Ed.2d 542 (1987). The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. See, e.g., *Romero-Barcelo*, 456 U.S., at 320, 102 S.Ct. 1798.

[3] These familiar principles apply with equal force to disputes arising under the Patent Act. As this Court has long recognized, "a major departure from the long tradition of equity practice should not be lightly implied." *Ibid.*; see also *Amoco*, *supra*, at 542, 107 S.Ct. 1396. Nothing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions "may" issue "in accordance with the principles of equity." 35 U.S.C. § 283.^{FN2}

To be sure, the Patent Act also declares that "patents shall have the attributes of personal property," § 261, including "the right to exclude others from making, using, offering for sale, or selling the invention," § 154(a)(1). According to the Court of Appeals, this statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief. 401 F.3d, at 1338. But the creation of a right is distinct from the provision of remedies for violations of that right. Indeed, the

^{FN1} eBay and Half.com continue to challenge the validity of MercExchange's patent in proceedings pending before the United States Patent and Trademark Office.

^{FN2} Section 283 provides that "[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

Patent Act itself indicates that patents shall have the attributes of personal property “[s]ubject to the provisions of this title,” 35 U.S.C. § 261, including, presumably, the provision that injunctive relief “may” issue only “in accordance with the principles of equity,” § 283.

This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses “the right to exclude others from using his property.” *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S.Ct. 546, 76 L.Ed. 1010 (1932); see also *id.*, at 127-128, 52 S.Ct. 546 (“A copyright, like a patent, is at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects” (internal quotation marks omitted)). Like the Patent Act, the Copyright Act provides that courts “may” grant injunctive relief “on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.” 17 U.S.C. § 502(a). And as in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed. See, e.g., *New York Times Co. v. Tasini*, 533 U.S. 483, 505, 121 S.Ct. 2381, 150 L.Ed.2d 500 (2001) (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, n. 10, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994)); *Dun v. Lumbermen’s Credit Assn.*, 209 U.S. 20, 23-24, 28 S.Ct. 335, 52 L.Ed. 663 (1908).

[4] Neither the District Court nor the Court of Appeals below fairly applied these traditional equitable principles in deciding respondent’s motion for a permanent injunction. Although the District Court recited the traditional four-factor test, 275 F.Supp.2d, at 711, it appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably, it concluded that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. *Id.*, at 712. But traditional equitable principles do not permit such broad classifications. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so. To the extent that the District Court adopted such a categorical rule, then, its analysis cannot be squared with the principles of equity adopted by Congress. The court’s categorical rule is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-430, 28 S.Ct. 748, 52 L.Ed. 1122 (1908), which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.

In reversing the District Court, the Court of Appeals departed in the opposite direction from the

four-factor test. The court articulated a “general rule,” unique to patent disputes, “that a permanent injunction will issue once infringement and validity have been adjudged.” 401 F.3d, at 1338. The court further indicated that injunctions should be denied only in the “unusual” case, under “exceptional circumstances” and “in rare instances ... to protect the public interest.” *Id.*, at 1338-1339. Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief. Cf. *Roche Products v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 865 (C.A.Fed.1984) (recognizing the “considerable discretion” district courts have “in determining whether the facts of a situation require it to issue an injunction”).

Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief, we vacate the judgment of the Court of Appeals, so that the District Court may apply that framework in the first instance. In doing so, we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.

Accordingly, we vacate the judgment of the Court of Appeals, and remand for further proceedings consistent with this opinion.

It is so ordered.

Chief Justice ROBERTS, with whom Justice SCALIA and Justice GINSBURG join, concurring.

I agree with the Court’s holding that “the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards,” *ante*, at 1841, and I join the opinion of the Court. That opinion rightly rests on the proposition that “a major departure from the long tradition of equity practice should not be lightly implied.” *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320, 102 S.Ct. 1798, 72 L.Ed.2d 91 (1982); see *ante*, at 1839.

From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. This “long tradition of equity practice” is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes—a difficulty that often implicates the

first two factors of the traditional four-factor test. This historical practice, as the Court holds, does not *entitle* a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue. The Federal Circuit itself so recognized in *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 865-867 (1984). At the same time, there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate. “Discretion is not whim, and limiting discretion according to legal standards helps promote the basic 1842 principle of justice that like cases should be decided alike.” *Martin v. Franklin Capital Corp.*, 546 U.S. 132, ---, 126 S.Ct. 704, 710, 163 L.Ed.2d 547 (2005). When it comes to discerning and applying those standards, in this area as others, “a page of history is worth a volume of logic.” *New York Trust Co. v. Eisner*, 256 U.S. 345, 349, 41 S.Ct. 506, 65 L.Ed. 963 (1921) (opinion for the Court by Holmes, J.).

Justice KENNEDY, with whom Justice STEVENS, Justice SOUTER, and Justice BREYER join, concurring.

The Court is correct, in my view, to hold that courts should apply the well-established, four-factor test-without resort to categorical rules-in deciding whether to grant injunctive relief in patent cases. THE CHIEF JUSTICE is also correct that history may be instructive in applying this test. *Ante*, at 1841 - 1842 (concurring opinion). The traditional practice of issuing injunctions against patent infringers, however, does not seem to rest on “the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.” *Ante*, at 1841 (ROBERTS, C.J., concurring). Both the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of that right. *Ante*, at 1839 - 1840 (opinion of the Court). To the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent. The lesson of the historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. See FTC, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, ch. 3, pp. 38-39 (Oct.2003), available at http://www.ftc.gov/os/2003/_10/innovationrpt.pdf (as visited May 11, 2006, and available in Clerk of Court’s case file). For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees

to companies that seek to buy licenses to practice the patent. See *ibid*. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system. For these reasons it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them. With these observations, I join the opinion of the Court.

NOTE

1. Despite the Court's statement, it is difficult to find any prior authority for the "well established" four-prong equity test. Moreover, commentators have uniformly noted that the first and second prongs (irreparable harm and inadequacy of damages relief) are essentially redundant: the irreparable nature of the harm is what makes damages inadequate as a remedy.
2. District courts have been dutifully addressing the "four" prongs given in *eBay*, noting the overlap of the first two. Additionally, the courts have not taken literally the Supreme Court's language that the plaintiff must "satisfy" all four prongs. Rather, the factors have been weighed together to reach a solution in a given case.
3. Considerable confusion has developed concerning what remedies are available when infringement is ongoing and a permanent injunction has been denied under *eBay*. Forced impositions of ongoing royalties (sometimes erroneously referred to as "compulsory licenses") and deprivation of the right to trial by jury have sometimes occurred. See, e.g., *Paice v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), *cert. denied*, 128 S.Ct. 2430 (2008). The present author has attempted to unravel these cases and urge that the remedy at law should simply be damages for future harms, at the election of the patentee, recoverable in a lump-sum judgment payable immediately; and if the patentee does not so elect, then in successive actions. See P. Janicke, *Implementing The "Adequate Remedy At Law" For Ongoing Patent Infringement After eBay v. MercExchange*, forthcoming in 51 IDEA: THE INTELLECTUAL PROPERTY LAW REVIEW ____ (2010).

[SUBSTITUTE at p. 97 for the *Gen-Probe* case]

MEDIMMUNE, INC. v. GENENTECH, INC., et al.

No. 05-608

SUPREME COURT OF THE UNITED STATES

549 U.S. 118

October 4, 2006, Argued

January 9, 2007, Decided

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT.

MedImmune, Inc. v. Genentech, Inc., 427 F.3d 958, 2005 U.S. App. LEXIS 22370 (Fed. Cir., 2005)

Justice Scalia delivered the opinion of the Court. [Footnotes omitted except as shown.]

We must decide whether Article III’s limitation of federal courts’ jurisdiction to “Cases” and “Controversies,” reflected in the “actual controversy” requirement of the Declaratory Judgment Act, 28 U.S.C. § 2201(a), requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.

I

Because the declaratory-judgment claims in this case were disposed of at the motion-to-dismiss stage, we take the following facts from the allegations in petitioner’s amended complaint and the unopposed declarations that petitioner submitted in response to the motion to dismiss. Petitioner MedImmune, Inc., manufactures Synagis, a drug used to prevent respiratory tract disease in infants and young children. In 1997, petitioner entered into a patent license agreement with respondent Genentech, Inc. (which acted on behalf of itself as patent assignee and on behalf of the coassignee, respondent City of Hope). The license covered an existing patent relating to the production of “chimeric antibodies” and a then-pending patent application relating to “the coexpression of immunoglobulin chains in recombinant host cells.” Petitioner agreed to pay royalties on sales of

“Licensed Products,” and respondents granted petitioner the right to make, use, and sell them. The agreement defined “Licensed Products” as a specified antibody, “the manufacture, use or sale of which . . . would, if not licensed under th[e] Agreement, infringe one or more claims of either or both of [the covered patents,] which have neither expired nor been held invalid by a court or other body of competent jurisdiction from which no appeal has been or may be taken.” App. 399. The license agreement gave petitioner the right to terminate upon six months’ written notice.

In December 2001, the “coexpression” application covered by the 1997 license agreement matured into the “Cabilly II” patent. Soon thereafter, respondent Genentech delivered petitioner a letter expressing its belief that Synagis was covered by the Cabilly II patent and its expectation that petitioner would pay royalties beginning March 1, 2002. Petitioner did not think royalties were owing, believing that the Cabilly II patent was invalid and unenforceable,¹ and that its claims were in any event not infringed by Synagis. Nevertheless, petitioner considered the letter to be a clear threat to enforce the Cabilly II patent, terminate the 1997 license agreement, and sue for patent infringement if petitioner did not make royalty payments as demanded. If respondents were to prevail in a patent infringement action, petitioner could be ordered to pay treble damages and attorney’s fees, and could be enjoined from selling Synagis, a product that has accounted for more than 80 percent of its revenue from sales since 1999. Unwilling to risk such serious consequences, petitioner paid the demanded royalties “under protest and with reservation of all of [its] rights.” *Id.*, at 426. This declaratory-judgment action followed.

Petitioner sought the declaratory relief discussed in detail in Part II below. Petitioner also requested damages and an injunction with respect to other federal and state claims not relevant here. The District Court granted respondents’ motion to dismiss the declaratory-judgment claims for lack of subject-matter jurisdiction, relying on the decision of the United States Court of Appeals for the Federal Circuit in *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376 (2004). *Gen-Probe* had held that a patent licensee in good standing cannot establish an Article III case or controversy with regard to validity, enforceability, or scope of the patent because the license agreement “obliterate[s] any reasonable apprehension” that the licensee will be sued for infringement. *Id.*, at 1381. The Federal Circuit affirmed the District Court, also relying on *Gen-Probe*. 427 F.3d 958 (2005). We granted certiorari. 546 U.S. 1169, 546 U.S. 1169, 126 S. Ct. 1329, 164 L. Ed. 2d 46 (2006).

¹ Hereinafter, invalidity and unenforceability will be referred to simply as invalidity, with similar abbreviation of positive (validity and enforceability) and adjectival (valid and invalid, enforceable and unenforceable) forms.

II

At the outset, we address a disagreement concerning the nature of the dispute at issue here--whether it involves only a freestanding claim of patent invalidity or rather a claim that, both because of patent invalidity and because of noninfringement, no royalties are owing under the license agreement. That probably makes no difference to the ultimate issue of subject-matter jurisdiction, but it is well to be clear about the nature of the case before us.

Respondents contend that petitioner “is not seeking an interpretation of its present contractual obligations.” Brief for Respondent Genentech 37; see also Brief for Respondent City of Hope 48-49. They claim this for two reasons: (1) because there is no dispute that Synagis infringes the Cabilly II patent, thereby making royalties payable; and (2) because while there is a dispute over patent validity, the contract calls for royalties on an infringing product whether or not the underlying patent is valid. See Brief for Respondent Genentech 7, 37. The first point simply does not comport with the allegations of petitioner’s amended complaint. The very first count requested a “*DECLARATORY JUDGMENT ON CONTRACTUAL RIGHTS AND OBLIGATIONS*,” and stated that petitioner “disputes its obligation to make payments under the 1997 License Agreement because [petitioner’s] sale of its Synagis® product does not infringe any valid claim of the [Cabilly II] Patent.” App. 136. These contentions were repeated throughout the complaint. *Id.*, at 104, 105, 108, 147. And the phrase “does not infringe any *valid* claim” (emphasis added) cannot be thought to be no more than a challenge to the patent’s validity, since elsewhere the amended complaint states with unmistakable clarity that “the patent is . . . not infringed by [petitioner’s] Synagis® product and that [petitioner] owes no payments under license agreements with [respondents].” *Id.*, at 104.

As to the second point, petitioner assuredly did contend that it had no obligation under the license to pay royalties on an invalid patent. *Id.*, at 104, 136, 147. Nor is that contention frivolous. True, the license requires petitioner to pay royalties *until* a patent claim has been held invalid by a competent body, and the Cabilly II patent has not. But the license at issue in *Lear, Inc. v. Adkins*, 395 U.S. 653, 673, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (1969), similarly provided that “royalties are to be paid until such time as the ‘patent . . . is held invalid,’” and we rejected the argument that a repudiating licensee must comply with its contract and pay royalties until its claim is vindicated in court. We express no opinion on whether a *nonrepudiating licensee* is similarly relieved of its contract obligation during a successful challenge to a patent’s validity--that is, on the applicability of licensee estoppel under these circumstances. Cf. *Studiengesellschaft Kohle, m. b. H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (CA Fed. 1997) (“[A] licensee . . . cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be

invalid”). All we need determine is whether petitioner has alleged a contractual dispute. It has done so.

Respondents further argue that petitioner waived its contract claim by failing to argue it below. Brief for Respondent Genentech 10-11; Tr. of Oral Arg. 30-31. The record reveals, however, that petitioner raised the contract point before the Federal Circuit. See Brief for Plaintiff-Appellant MedImmune, Inc., in Nos. 04-1300, 04-1384 (CA Fed.), p 38 (“Here, MedImmune is seeking to define its rights and obligations under its contract with Genentech--precisely the type of action the Declaratory Judgment Act contemplates”). That petitioner limited its contract argument to a few pages of its appellate brief does not suggest a waiver; it merely reflects counsel’s sound assessment that the argument would be futile. The Federal Circuit’s *Gen-Probe* precedent precluded jurisdiction over petitioner’s contract claims, and the panel below had no authority to overrule *Gen-Probe*. Having determined that petitioner has raised and preserved a contract claim, we turn to the jurisdictional question.

III

The Declaratory Judgment Act provides that, “[i]n a case of actual controversy within its jurisdiction . . . any court of the United States . . . 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.” 28 U.S.C. § 2201(a). There was a time when this Court harbored doubts about the compatibility of declaratory-judgment actions with Article III’s case-or-controversy requirement. See *Willing v. Chicago Auditorium Ass’n*, 277 U.S. 274, 289, 48 S. Ct. 507, 72 L. Ed. 880 (1928); *Liberty Warehouse Co. v. Grannis*, 273 U.S. 70, 47 S. Ct. 282, 71 L. Ed. 541 (1927); see also *Gordon v. United States*, 117 U.S. 697, 702, 76 L. Ed. 1347 (1864) (the last opinion of Taney, C. J., published posthumously) (“The award of execution is . . . an essential part of every judgment passed by a court exercising judicial power”). We dispelled those doubts, however, in *Nashville, C. & St. L. R. Co. v. Wallace*, 288 U.S. 249, 53 S. Ct. 345, 77 L. Ed. 730 (1933), holding (in a case involving a declaratory judgment rendered in state court) that an appropriate action for declaratory relief *can* be a case or controversy under Article III. The federal Declaratory Judgment Act was signed into law the following year, and we upheld its constitutionality in *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 57 S. Ct. 461, 81 L. Ed. 617 (1937). Our opinion explained that the phrase “case of actual controversy” in the Act refers to the type of “Cases” and “Controversies” that are justiciable under Article III. *Id.*, at 240, 57 S. Ct. 461, 81 L. Ed. 617.

Aetna and the cases following it do not draw the brightest of lines between those declaratory-judgment actions that satisfy the case-or-controversy requirement and those that do not. Our decisions have required that the dispute be “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.” *Id.*, at 240-241, 57 S. Ct. 461, 81 L. Ed. 617. In *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273, 61 S. Ct. 510, 85 L. Ed. 826 (1941), we summarized as follows: “Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”

There is no dispute that these standards would have been satisfied if petitioner had taken the final step of refusing to make royalty payments under the 1997 license agreement. Respondents claim a right to royalties under the licensing agreement. Petitioner asserts that no royalties are owing because the Cabilly II patent is invalid and not infringed; and alleges (without contradiction) a threat by respondents to enjoin sales if royalties are not forthcoming. The factual and legal dimensions of the dispute are well defined and, but for petitioner’s continuing to make royalty payments, nothing about the dispute would render it unfit for judicial resolution. Assuming (without deciding) that respondents here could not claim an anticipatory breach and repudiate the license, the continuation of royalty payments makes what would otherwise be an imminent threat at least remote, if not nonexistent. As long as those payments are made, there is no risk that respondents will seek to enjoin petitioner’s sales. Petitioner’s own acts, in other words, eliminate the imminent threat of harm.⁸ The question before us is whether this causes the dispute no longer to be a case or controversy within the meaning of Article III.

Our analysis must begin with the recognition that, where threatened action by *government* is concerned, we do not require a plaintiff to expose himself to liability before bringing suit to challenge the basis for the threat--for example, the constitutionality of a law threatened to be

⁸ The justiciability problem that arises, when the party seeking declaratory relief is himself preventing the complained-of injury from occurring, can be described in terms of standing (whether plaintiff is threatened with “imminent” injury in fact “fairly . . . trace[able] to the challenged action of the defendant,” *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560, 112 S. Ct. 2130, 119 L. Ed. 2d 351 (1992)), or in terms of ripeness (whether there is sufficient “hardship to the parties [in] withholding court consideration” until there is enforcement action, *Abbott Laboratories v. Gardner*, 387 U.S. 136, 149, 87 S. Ct. 1507, 18 L. Ed. 2d 681 (1967)). As respondents acknowledge, standing and ripeness boil down to the same question in this case. Brief for Respondent Genentech 24; Brief for Respondent City of Hope 30-31.

enforced. The plaintiff's own action (or inaction) in failing to violate the law eliminates the imminent threat of prosecution, but nonetheless does not eliminate Article III jurisdiction. For example, in *Terrace v. Thompson*, 263 U.S. 197, 44 S. Ct. 15, 68 L. Ed. 255 (1923), the State threatened the plaintiff with forfeiture of his farm, fines, and penalties if he entered into a lease with an alien in violation of the State's anti-alien land law. Given this genuine threat of enforcement, we did not require, as a prerequisite to testing the validity of the law in a suit for injunction, that the plaintiff bet the farm, so to speak, by taking the violative action. *Id.*, at 216, 44 S. Ct. 15, 68 L. Ed. 255. See also, e.g., *Village of Euclid v. Ambler Realty Co.*, 272 U.S. 365, 47 S. Ct. 114, 71 L. Ed. 303, 4 Ohio Law Abs. 816 (1926); *Ex parte Young*, 209 U.S. 123, 28 S. Ct. 441, 52 L. Ed. 714 (1908). Likewise, in *Steffel v. Thompson*, 415 U.S. 452, 94 S. Ct. 1209, 39 L. Ed. 2d 505 (1974), we did not require the plaintiff to proceed to distribute handbills and risk actual prosecution before he could seek a declaratory judgment regarding the constitutionality of a state statute prohibiting such distribution. *Id.*, at 458-460, 94 S. Ct. 1209, 39 L. Ed. 2d 505. As then-Justice Rehnquist put it in his concurrence, "the declaratory judgment procedure is an alternative to pursuit of the arguably illegal activity." *Id.*, at 480, 94 S. Ct. 1209, 39 L. Ed. 2d 505. In each of these cases, the plaintiff had eliminated the imminent threat of harm by simply not doing what he claimed the right to do (enter into a lease, or distribute handbills at the shopping center). That did not preclude subject-matter jurisdiction because the threat-eliminating behavior was effectively coerced. See *Terrace*, *supra*, at 215-216, 44 S. Ct. 15, 68 L. Ed. 255; *Steffel*, *supra*, at 459, 94 S. Ct. 1209, 39 L. Ed. 2d 505. The dilemma posed by that coercion--putting the challenger to the choice between abandoning his rights or risking prosecution--is "a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate." *Abbott Laboratories v. Gardner*, 387 U.S. 136, 152, 87 S. Ct. 1507, 18 L. Ed. 2d 681 (1967).

Supreme Court jurisprudence is more rare regarding application of the Declaratory Judgment Act to situations in which the plaintiff's self-avoidance of imminent injury is coerced by threatened enforcement action of *a private party* rather than the government. Lower federal courts, however (and state courts interpreting declaratory judgment acts requiring "actual controversy"), have long accepted jurisdiction in such cases. See, e.g., *Keener Oil & Gas Co. v. Consolidated Gas Utils. Corp.*, 190 F.2d 985, 989 (CA10 1951); *American Machine & Metals, Inc. v. De Bothezat Impeller Co.*, 166 F.2d 535 (CA2 1948); *Hess v. Country Club Park*, 213 Cal. 613, 614, 2 P.2d 782, 783 (1931) (in bank); *Washington-Detroit Theatre Co. v. Moore*, 249 Mich. 673, 675, 229 N. W. 618, 618-619 (1930); see also Advisory Committee's Note on Fed. Rule Civ. Proc. 57, 28 U.S.C. App., p 790.

The only Supreme Court decision in point is, fortuitously, close on its facts to the case before us. *Altwater v. Freeman*, 319 U.S. 359, 63 S. Ct. 1115, 87 L. Ed. 1450, 1943 Dec. Comm'r Pat. 833

(1943), held that a licensee’s failure to cease its payment of royalties did not render nonjusticiable a dispute over the validity of the patent. In that litigation, several patentees had sued their licensees to enforce territorial restrictions in the license. The licensees filed a counterclaim for declaratory judgment that the underlying patents were invalid, in the meantime paying “under protest” royalties required by an injunction the patentees had obtained in an earlier case. The patentees argued that “so long as [licensees] continue to pay royalties, there is only an academic, not a real controversy, between the parties.” *Id.*, at 364, 63 S. Ct. 1115, 87 L. Ed. 1450. We rejected that argument and held that the declaratory-judgment claim presented a justiciable case or controversy: “The fact that royalties were being paid did not make this a ‘difference or dispute of a hypothetical or abstract character.’” *Ibid.* (quoting *Aetna*, 300 U.S., at 240, 57 S. Ct. 461, 81 L. Ed. 617). The royalties “were being paid under protest and under the compulsion of an injunction decree,” and “[u]nless the injunction decree were modified, the only other course [of action] was to defy it, and to risk not only actual but treble damages in infringement suits.” 319 U.S., at 365, *Id.*, at 364, 63 S. Ct. 1115, 87 L. Ed. 1450. We concluded that “the requirements of [a] case or controversy are met where payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim.” *Ibid.*

The Federal Circuit’s *Gen-Probe* decision distinguished *Altvater* on the ground that it involved the compulsion of an injunction. But *Altvater* cannot be so readily dismissed. Never mind that the injunction had been privately obtained and was ultimately within the control of the patentees, who could permit its modification. More fundamentally, and contrary to the Federal Circuit’s conclusion, *Altvater* did not say that the coercion dispositive of the case was governmental, but suggested just the opposite. The opinion acknowledged that the licensees had the option of stopping payments in defiance of the injunction, but explained that the *consequence* of doing so would be to risk “actual [and] treble damages in infringement suits” by the patentees. 319 U.S., at 365, 63 S. Ct. 1115, 87 L. Ed. 1450. It significantly did not mention the threat of prosecution for contempt, or any other sort of governmental sanction. Moreover, it cited approvingly a treatise which said that an “actual or threatened serious injury to business or employment” by a private party can be as coercive as other forms of coercion supporting restitution actions at common law; and that “[t]o imperil a man’s livelihood, his business enterprises, or his solvency, [was] ordinarily quite as coercive” as, for example, “detaining his property.” F. Woodward, *The Law of Quasi Contracts* § 218 (1913), cited in *Altvater*, *supra*, at 365, 63 S. Ct. 1115, 87 L. Ed. 1450.¹¹

¹¹ Even if *Altvater* could be distinguished as an “injunction” case, it would still contradict the Federal Circuit’s “reasonable apprehension of suit” test (or, in its evolved form, the “reasonable apprehension of imminent suit” test, *Teva Pharms. USA, Inc. v. Pfizer Inc.*, 395 F.3d 1324, 1333 (2005)). A licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a

Jurisdiction over the present case is not contradicted by *Willing v. Chicago Auditorium Ass'n.*, 277 U.S. 274, 48 S. Ct. 507, 72 L. Ed. 880. There a ground lessee wanted to demolish an antiquated auditorium and replace it with a modern commercial building. The lessee believed it had the right to do this without the lessors' consent, but was unwilling to drop the wrecking ball first and test its belief later. Because there was no declaratory judgment act at the time under federal or applicable state law, the lessee filed an action to remove a "cloud" on its lease. This Court held that an Article III case or controversy had not arisen because "[n]o defendant ha[d] wronged the plaintiff or ha[d] threatened to do so." *Id.*, at 288, 290, 48 S. Ct. 507, 72 L. Ed. 880. It was true that one of the colessors had disagreed with the lessee's interpretation of the lease, but that happened in an "informal, friendly, private conversation," *id.*, at 286, 48 S. Ct. 507, 72 L. Ed. 880, a year before the lawsuit was filed; and the lessee never even bothered to approach the other colessors. The Court went on to remark that "[w]hat the plaintiff seeks is simply a declaratory judgment," and "[t]o grant that relief is beyond the power conferred upon the federal judiciary." *Id.*, at 289, 48 S. Ct. 507, 72 L. Ed. 880. Had *Willing* been decided after the enactment (and our upholding) of the Declaratory Judgment Act, and had the legal disagreement between the parties been as lively as this one, we are confident a different result would have obtained. The rule that a plaintiff must destroy a large building, bet the farm, or (as here) risk treble damages and the loss of 80 percent of its business before seeking a declaration of its actively contested legal rights finds no support in Article III.

Respondents assert that the parties in effect settled this dispute when they entered into the 1997 license agreement. When a licensee enters such an agreement, they contend, it essentially purchases an insurance policy, immunizing it from suits for infringement so long as it continues to pay royalties and does not challenge the covered patents. Permitting it to challenge the validity of the patent without terminating or breaking the agreement alters the deal, allowing the licensee to continue enjoying its immunity while bringing a suit, the elimination of which was part of the

licensee who pays royalties for fear of treble damages and an injunction fatal to his business. The reasonable-apprehension-of-suit test also conflicts with our decisions in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273, 61 S. Ct. 510, 85 L. Ed. 826 (1941), where jurisdiction obtained even though the collision-victim defendant could not have sued the declaratory-judgment plaintiff-insurer without first obtaining a judgment against the insured; and *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239, 57 S. Ct. 461, 81 L. Ed. 617 (1937), where jurisdiction obtained even though the very reason the insurer sought declaratory relief was that the insured had given no indication that he would file suit. It is also in tension with *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 98, 113 S. Ct. 1967, 124 L. Ed. 2d 1 (1993), which held that appellate affirmance of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.

patentee's *quid pro quo*. Of course even if it were valid, this argument would have no force with regard to petitioner's claim that the agreement does not call for royalties because their product does not infringe the patent. But even as to the patent invalidity claim, the point seems to us mistaken. To begin with, it is not clear where the prohibition against challenging the validity of the patents is to be found. It can hardly be implied from the mere promise to pay royalties on patents "which have neither expired nor been held invalid by a court or other body of competent jurisdiction from which no appeal has been or may be taken," App. 399. Promising to pay royalties on patents that have not been held invalid does not amount to a promise *not to seek* a holding of their invalidity.

Respondents appeal to the common-law rule that a party to a contract cannot at one and the same time challenge its validity and continue to reap its benefits, citing *Commodity Credit Corp. v. Rosenberg Bros. & Co.*, 243 F.2d 504, 512 (CA9 1957), and *Kingman & Co. v. Stoddard*, 85 F. 740, 745 (CA7 1898). *Lear*, they contend, did not suspend that rule for patent licensing agreements, since the plaintiff in that case had already repudiated the contract. Even if *Lear*'s repudiation of the doctrine of licensee estoppel was so limited (a point on which, as we have said earlier, we do not opine), it is hard to see how the common-law rule has any application here. Petitioner is not repudiating or impugning the contract while continuing to reap its benefits. Rather, it is asserting that the contract, properly interpreted, does not prevent it from challenging the patents, and does not require the payment of royalties because the patents do not cover its products and are invalid. Of course even if respondents were correct that the licensing agreement or the common-law rule precludes this suit, the consequence would be that respondents win this case *on the merits*--not that the very genuine contract dispute disappears, so that Article III jurisdiction is somehow defeated. In short, Article III jurisdiction has nothing to do with this "insurance-policy" contention.

Lastly, respondents urge us to affirm the dismissal of the declaratory-judgment claims on discretionary grounds. The Declaratory Judgment Act provides that a court "*may* declare the rights and other legal relations of any interested party," 28 U.S.C. § 2201(a) (emphasis added), not that it *must* do so. This text has long been understood "to confer on federal courts unique and substantial discretion in deciding whether to declare the rights of litigants." *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286, 115 S. Ct. 2137, 132 L. Ed. 2d 214 (1995); see also *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 95, n. 17, 113 S. Ct. 1967, 124 L. Ed. 2d 1 (1993); *Brillhart v. Excess Ins. Co. of America*, 316 U.S. 491, 494-496, 62 S. Ct. 1173, 86 L. Ed. 1620 (1942). We have found it "more consistent with the statute," however, "to vest district courts with discretion in the first instance, because facts bearing on the usefulness of the declaratory judgment remedy, and the fitness of the case for resolution, are peculiarly within their grasp." *Wilton, supra*, at 289, 115 S. Ct. 2137, 132 L. Ed. 2d 214. The District Court here gave no consideration to discretionary dismissal, since, despite its "serious misgivings" about the Federal Circuit's rule, it considered itself

bound to dismiss by *Gen-Probe*. App. to Pet. for Cert. 31a. Discretionary dismissal was irrelevant to the Federal Circuit for the same reason. Respondents have raised the issue for the first time before this Court, exchanging competing accusations of inequitable conduct with petitioner. See, e.g., Brief for Respondent Genentech 42-44; Reply Brief for Petitioner 17, and n 15. Under these circumstances, it would be imprudent for us to decide whether the District Court should, or must, decline to issue the requested declaratory relief. We leave the equitable, prudential, and policy arguments in favor of such a discretionary dismissal for the lower courts' consideration on remand. Similarly available for consideration on remand are any merits-based arguments for denial of declaratory relief.

* * *

We hold that petitioner was not required, insofar as Article III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed. The Court of Appeals erred in affirming the dismissal of this action for lack of subject-matter jurisdiction.

The judgment of the Court of Appeals is reversed, and the cause is remanded for proceedings consistent with this opinion. It is so ordered.

[Justice Thomas dissented, arguing that the license contract should provide the sole set of remedies.]

[Substitute this slightly longer version for the version appearing in the casebook at p. 150]

VERDEGAAL BROTHERS, INC., Appellant,
v.
UNION OIL COMPANY OF CALIFORNIA, Appellee

No. 84-1131

**UNITED STATES COURT OF APPEALS FOR THE FEDERAL
CIRCUIT**

750 F.2d 947

December 18, 1984, Decided

MARKEY, Chief Judge.

Appeal from an order of the United States District Court for the Eastern District of California dismissing pendent state law counts of a multi-count complaint under Rule 54(b) Fed.R.Civ.P. We *affirm*.

Background

United States patent 4,310,343 (the '343 patent) on a "Process for Making Liquid Fertilizer" was issued to Verdegaal Brothers, Inc. (Verdegaal) on January 12, 1982. For a period of about two years before issuance of the '343 patent, Verdegaal says it practiced the invention in making liquid fertilizer. During that period, Verdegaal allegedly bought urea from Union Chemicals, a division of Union Oil Company of California (Union Oil), and sold its finished liquid fertilizer to Brea Agricultural Services, Inc. (Brea), a wholly owned subsidiary of Union Oil.

Verdegaal says there were numerous contacts between employees of Union Chemicals, Union Oil, Brea, and Verdegaal before the '343 patent issued: Union Chemical's employees entered Verdegaal's manufacturing facilities; Union Oil's in-house counsel participated in a suit in which Verdegaal's invention was charged as an infringement of a third party's patent; Brea and Verdegaal developed the market for fertilizer made by the process claimed in the '343 patent.

Verdegaal says further that, following the issuance of the '343 patent, Union Oil "stopped buying liquid fertilizer from plaintiff, stopped collaborating in the development of the market for plaintiff's fertilizer, and stopped communicating with plaintiff altogether. [Union] set up a new

plant using the same process and apparatus as plaintiff . . . and set out to take away plaintiff's business.”

District Court Proceedings

On February 23, 1983, Verdegaal sued Union Oil. Its complaint included Count I, for infringement of the '343 patent, Count II, for misappropriation of trade secrets, and Count III, for unfair competition. Jurisdiction of the state law Counts II and III was allegedly grounded on 28 U.S.C. § 1338(b).

Union Oil moved to dismiss Counts II and III for failure to state a cause of action, Rule 12(b)(6), Fed.R.Civ.P., or, in the alternative, for a more definite statement, Rule 12(e), Fed.R.Civ.P.

At a May 2, 1983 hearing on the motions, the district court *sua sponte* questioned its subject matter jurisdiction of Counts II and III. The district court also questioned whether the unfair competition claim was duplicative of the misappropriation claim.

In ordering briefs on its questions, the district court stated:

The hearing on defendant's motion to dismiss did not clear up the court's concerns regarding subject matter jurisdiction over Counts II and III of the complaint. Title 28 U.S.C. § 1338(b) allows district courts to exercise jurisdiction over a claim of unfair competition when joined with a *related* claim under patent laws. For a claim to be related, at least part of the proof in support of the pendent claim must be common to the federal claims. *Mattel, Inc. v. Hyatt*, 664 F.2d 757, 760-61 (9th Cir. 1981).

The court has difficulty in seeing an overlap between the patent infringement claim and the misappropriation of trade secrets claim since plaintiff alleges that the acts that constituted misappropriation of trade secrets took place during the two years prior to plaintiff acquiring a patent. *Pate Co. v. RPS Corp.*, 685 F.2d 1019, 1026 (7th Cir. 1982).

The district court dismissed Count II for lack of subject matter jurisdiction under section 1338(b). It is conceded that any trade secrets Verdegaal may have had before its patent issued were disclosed in the '343 patent. The district court also granted Union Oil's motion to dismiss Count III to the extent it incorporated Count II, and ordered Verdegaal to amend Count III.

At a July 5, 1983 hearing on Verdegaal's motion for reconsideration, its counsel candidly stated:

As far as the cases are concerned, I think that your Honor is in the inviable [sic] position of probably being unable to do wrong. This is a matter within your discretion. You probably cannot be wrong whichever way it goes, but I urge you --

THE COURT: Not many people agree with that latter comment. I'm not referring to your particular case.

[COUNSEL]: Well, you know, there are cases where there have been interlocutory appeals and the like, but as a practical matter, as I have reviewed these cases before coming here today, invariably the trial judge is affirmed on appeal. Not invariably, but usually the trial judge is affirmed on appeal, so whichever way it goes, either the finding of jurisdiction or the lack of jurisdiction is the kind of thing that usually will not be overturned upon an appeal.

Verdegaal argued that a state trial of the state law claims would involve the same depositions, witnesses, and trial preparations involved in the federal trial on patent infringement. On October 31, 1983, the district court denied Verdegaal's motion to reconsider.

Verdegaal filed a Second Amended Complaint and Demand for Jury Trial. That complaint included Count I for patent infringement and Count II for unfair competition. Union Oil moved to dismiss Count II, arguing that the factual overlap between Counts I and II was at best marginal, and that the two counts presented distinct factors, each disfavoring a single trial: (1) needless decisions of state law by a federal court; and (2) a substantial likelihood of jury confusion.

On February 2, 1984 the district court dismissed Amended Count II, saying "in the exercise of its discretion, the court declines to hear [Verdegaal's] pendent claim for unfair competition for the reasons set forth in [Union Oil's] memorandum in support of its motion [to dismiss]."

Verdegaal's appeal to this court, No. 84-696, was dismissed on January 27, 1984, for lack of jurisdiction over an appeal from a non-final decision (Davis, J.). Verdegaal moved the district court for an order of final judgment under Rule 54(b), Fed.R.Civ.P. That order having issued April 5, 1984, Verdegaal undertook this appeal.

Issue

The sole issue present here is whether the district court abused its discretion in dismissing Count II of Verdegaal's second amended complaint. *

* The district court dismissed Count II of the original complaint "for lack of jurisdiction under § 1338(b)" in view of *Mattel, Inc. v. Hyatt*, 664 F.2d 757, 212 U.S.P.Q. (BNA) 808

(9th Cir.1981). Verdegaal stipulated that Count II was withdrawn, its presence in the amended complaint having resulted from inadvertence. The dismissal of Count II of the original complaint is thus not before us.

Arguments on Appeal

Verdegaal argues that the district court abused its discretion because: (1) pendent jurisdiction is routinely found over unfair competition claims in patent cases; (2) the pleadings disclose a common background of basic facts, and that substantially the same evidence would apply to both federal and non-federal claims, and; (3) at least part of the proof in support of the state law claims is common to the federal claim. Verdegaal further argues (1) that *de novo* review is appropriate; (2) that reversal is commonplace for failure to exercise pendent jurisdiction, and; (3) that considerations of judicial economy and fairness to litigants require reversal.

Union Oil argues that the district court acted within its discretion because (1) jurisdiction need not be exercised in every case in which it is found to exist; (2) the district court properly considered factors disfavoring the exercise of jurisdiction, such as needless construction of state law and potential jury confusion, and; (3) absence of any substantial overlap of proof between the federal and non-federal claims. Union Oil further argues that discretion is abused only where no reasonable man could take the view adopted by the trial court.

Analysis

This court will in this case apply the discernible guidance established in Ninth Circuit precedents. *** Under 28 U.S.C. § 1338(b), as with suits based on diversity, jurisdiction of pendent claims in the district court does not compel exercise of that jurisdiction. “Pendent jurisdiction is a doctrine of discretion, not of plaintiff’s right.” *United Mine Workers v. Gibbs*, 383 U.S. 715, 726, 16 L. Ed. 2d 218, 86 S. Ct. 1130 (1966). Thus, Verdegaal’s appeal presents only the question of whether the district court abused its discretion in declining to hear and determine the state law claim and the patent claim together in this case. *See Sunbeam Lighting Co. v. Pacific Associated Lighting, Inc.*, 328 F.2d 300, 302-03 (9th Cir. 1964); *Wham-O Mfg. Co. v. Paradise Mfg. Co.*, 327 F.2d 748, 753-54 (9th Cir. 1964).

Verdegaal correctly asserts that joinder of federal patent claims and state unfair competition claims is “commonplace.” The question before us in this case, however, is not whether the district court had jurisdiction it *could* have exercised over the present state law unfair competition claim; it is whether the court abused its discretion in declining to exercise that jurisdiction.

The Supreme Court in *Gibbs* sets forth a cautious approach to the exercise of pendent jurisdiction: “its justification lies in considerations of judicial economy, convenience and fairness to

litigants; if there are not present a federal court should hesitate to exercise jurisdiction over the claims.” 383 U.S. at 726. In addition, “there may be reasons independent of jurisdictional considerations, such as likelihood of jury confusion in treating divergent legal theories of relief, that would justify separating state and federal claims for trial, Fed. Rule Civ. Proc. 42(b).” *United Mine Workers v. Gibbs*, 383 U.S. at 727. ***

Verdegaal has not on this appeal carried its burden of establishing that the district court abused its discretion in declining to exercise jurisdiction over the state law unfair competition claim.

Only one of sixteen cases cited in Verdegaal’s main brief, *Telechron, Inc. v. Parissi*, 197 F.2d 757 (2d Cir. 1952) involved reversal of a district court for abuse of discretion in dismissing pendent non-federal claims. In *Telechron*, however, the court had already conducted a trial of the federal and state claims. The court of appeals stated:

Under the circumstances it would seem to conserve judicial effort and save expense to the parties to dispose of the entire controversy in the federal court rather than to send the non-patent claims to the state court where the same evidence *would have to be again presented*. [Emphasis added.]

197 F.2d at 673.

In its reply brief, Verdegaal cites three further instances in which refusal to exercise pendent jurisdiction was deemed an abuse of discretion. The cited authorities, however, involved fact patterns and statutes different from those in the present case and are therefore not persuasive. In *Knuth v. Erie-Crawford Dairy Coop. Association*, 395 F.2d 420 (3d Cir. 1968), *cert. denied*, 410 U.S. 913, 35 L. Ed. 2d 278, 93 S. Ct. 966 (1973), the district court dismissed a federal antitrust count *and* a pendent state unfair competition claim. The Third Circuit reversed the dismissal of the federal count, and, with it the dismissal of state claim, saying:

In view of the posture of the case before the district court, we think the court lacked an acceptable basis for exercising its discretion to refuse to entertain the pendent jurisdiction claim. We emphasize that the various factors relevant to the exercise of discretion with respect to Count III [the pendent state claim] *will continue to be appropriate matters for consideration by the district court*. [Emphasis added.]

395 F.2d at 427.

In *Brown v. Knox*, 547 F.2d 900 (5th Cir. 1977), and *Sparks v. Hershey*, 661 F.2d 30 (3d Cir. 1981), the dismissals were state law claims pendent upon civil rights actions under 42 U.S.C. § 1983, and the courts of appeals, citing *Knuth*, *supra*, held that the district courts had not set forth “an acceptable basis” for declining to exercise jurisdiction.

In the present case, the district court clearly supplied an acceptable basis for declining to exercise its jurisdiction over the state law claim. It received supplemental briefs on jurisdiction, memoranda supporting and opposing Union Oil's motion to dismiss, and memoranda on Verdegaal's motion to reconsider. It held two hearings before reaching its determination. The record shows that the district court heard and considered Union Oil's contention that joinder of federal and state counts was inappropriate because (1) any overlap between the factual bases of the federal and state claims was minimal; (2) proof on the state law claim would require substantial additional evidence at trial; (3) a likelihood of jury confusion, was present; and (3) the state law claim was asserted as a means of prejudicing the jury against Union Oil. The district court considered and rejected Verdegaal's contention that exercise of its jurisdiction would facilitate judicial economy and plaintiff's choice of forum.

The weight to be accorded each of the foregoing contentions lies in the sound discretion of the district court. In assigning appropriate weight and in declining to exercise its jurisdiction in light of all the circumstances of this case, the district court committed no abuse of discretion.

AFFIRMED.

[SUBSTITUTE at p. 168 for the *Mobil* case]

**IN RE TS TECH USA CORPORATION, TS TECH NORTH
AMERICA, INC., and TS TECH CANADA, INC., Petitioners.**

Miscellaneous Docket No. 888

**UNITED STATES COURT OF APPEALS FOR
THE FEDERAL CIRCUIT**

551 F.3d 1315

December 29, 2008, Decided

On Writ of Mandamus from the United States District Court for the Eastern District of Texas.

Before MICHEL, Chief Judge, RADER and PROST, Circuit Judges.

Judge Rader delivered the order of the court.

TS Tech USA Corporation, TS Tech North America, Inc. and TS Tech Canada, Inc. (TS Tech) petition for a writ of mandamus to direct the United States District Court for the Eastern District of Texas to vacate its September 10, 2008 order denying TS Tech's motion to transfer venue, and to direct the Texas district court to transfer the case to the United States District Court for the Southern District of Ohio. *Lear Corp. v. TS Tech*, No. 2:07-CV-406, slip op. at 6 (E.D. Tex. Sept. 10, 2008). Lear Corporation opposes. TS Tech moves for leave to file a reply, with reply attached. Lear opposes. The court holds that the district court clearly abused its discretion in denying TS Tech's motion to transfer venue pursuant to 28 U.S.C. § 1404(a). Accordingly, we grant TS Tech's petition for a writ of mandamus.

I.

On September 14, 2007, Lear filed suit in the District Court for the Eastern District of Texas against TS Tech for infringement of Lear's patent relating to pivotally attached vehicle headrest assemblies. Lear's complaint alleged that TS Tech had been making and selling infringing

pivotal headrest assemblies to Honda Motor Co., Ltd. Lear further asserted that TS Tech knowingly and intentionally induced Honda to infringe the patent by selling the headrest assemblies in their vehicles throughout the United States, including in the Eastern District of Texas.

On December 27, 2007, TS Tech filed a motion pursuant to § 1404(a) to transfer venue of the case to the Southern District of Ohio. TS Tech argued that the Southern District of Ohio was a far more convenient venue to try the case because the physical and documentary evidence was mainly located in Ohio and the key witnesses all lived in Ohio, Michigan, and Canada. TS Tech further argued that because none of the parties were incorporated in Texas or had offices located in the Eastern District of Texas, there was no meaningful connection between the venue and this case. * Lear opposed transfer, contending that the Eastern District of Texas was the proper venue considering that several Honda vehicles containing the allegedly infringing headrest assembly had been sold in Texas.

* Lear is a Delaware corporation with its principal place of business in Southfield, Michigan. TS Tech USA and TS Tech North America, Inc. are both incorporated under the laws of Ohio and have principal places of business in Reynoldsburg, Ohio, which is in the Southern District of Ohio. TS Tech Canada is a Canadian corporation with a principal place of business in Ontario, Canada.

On September 10, 2008, the Texas district court sided with Lear and denied transfer. The district court found that TS Tech had failed to demonstrate that the inconvenience to the parties and witnesses clearly outweighed the deference entitled to Lear's choice of bringing suit in the Eastern District of Texas. The court further found that because several vehicles with TS Tech's allegedly infringing headrest assembly had been sold in the venue, the citizens of the Eastern District of Texas had a "substantial interest" in having the case tried locally.

TS Tech then filed this petition for a writ of mandamus. TS Tech contends that the district court ignored precedent and clearly abused its discretion by refusing to transfer the case despite no connection between the case and the Eastern District of Texas except Lear's decision to file this suit in that venue.

II.

A.

The writ of mandamus is available in extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power. *In re Calmar, Inc.*, 854 F.2d 461, 464 (Fed. Cir. 1988). A party seeking a writ bears the burden of proving that it has no other means of obtaining the relief desired, *Mallard v. U. S. Dist. Court for S. Dist. of Iowa*, 490 U.S. 296, 309, 109 S. Ct.

1814, 104 L. Ed. 2d 318 (1989), and that the right to issuance of the writ is “clear and indisputable,” *Allied Chem. Corp. v. Daiflon, Inc.*, 449 U.S. 33, 35, 101 S. Ct. 188, 66 L. Ed. 2d 193 (1980). Because this petition does not involve substantive issues of patent law, this court applies the laws of the regional circuit in which the district court sits, in this case the Fifth Circuit. *Storage Tech. Corp. v. Cisco Sys., Inc.*, 329 F.3d 823, 836 (Fed. Cir. 2003).

Transfer of Venue Pursuant to 28 U.S.C. § 1404(a)

Change of venue in patent cases, like other civil cases, is governed by 28 U.S.C. § 1404(a). Pursuant to § 1404(a), “[f]or the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to another district court or division where it might have been brought.” 28 U.S.C. § 1404(a). Under Fifth Circuit law, a motion to transfer venue should be granted upon a showing that the transferee venue is “clearly more convenient” than the venue chosen by the plaintiff. *In re Volkswagen of Am., Inc.*, 545 F.3d 304, 315 (5th Cir. 2008) (en banc) (“*Volkswagen II*”).

The Fifth Circuit applies the “public” and “private” factors for determining *forum non conveniens* when deciding a § 1404(a) venue transfer question. *Volkswagen II*, 545 F.3d at 314 n.9. The “private” interest factors include: (1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive. *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 n.6, 102 S. Ct. 252, 70 L. Ed. 2d 419 (1981). The “public” interest factors to be considered are: “(1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws [or in] the application of foreign law.” *Volkswagen II*, 545 F.3d at 315.

If this case were before the court as an ordinary appeal, we would review the district court’s denial of transfer under the “abuse of discretion” standard, taking into consideration whether the court relied on clearly erroneous factual findings, made erroneous conclusions of law, or misapplied the law to the facts. *Broussard v. State Farm Fire & Cas. Co.*, 523 F.3d 618, 631 (5th Cir. 2008). However, because TS Tech is requesting extraordinary relief in the form of a petition for a writ of mandamus, it must meet an even higher burden of demonstrating that the denial was a “clear” abuse of discretion such that refusing transfer produced a “patently erroneous result.” *Volkswagen II*, 545 F.3d at 310.

Application of the Factors

Turning to the facts of this case, we initially note that TS Tech's extensive contacts in the Southern District of Ohio indisputably make it a venue in which the patent infringement suit could have been brought. We also note that several of the *forum non conveniens* factors that the district court afforded no weight in its § 1404(a) analysis were indeed neutral on the facts presented. The court was correct in giving no weight to the availability of compulsory process factor and was also correct that the possibility of delay and prejudice in granting transfer was neutral here. In addition, the court was correct that administrative difficulties due to court congestion was a neutral factor in deciding whether to transfer under § 1404(a). The district court was further correct in concluding that it was in no better position than the Southern District of Ohio in deciding this patent case. As the district court noted, "[p]atent claims are governed by federal law," and as such "both [courts are] capable of applying patent law to infringement claims." *Lear Corp.*, No. 2:07-CV-406, slip op. at 6.

Despite correctly applying some of the factors, the district court's § 1404(a) analysis contained several key errors. First, the district court gave too much weight to Lear's choice of venue under Fifth Circuit law. While the plaintiff's choice of venue is accorded deference, *In re Horseshoe Entm't*, 337 F.3d 429, 434-35 (5th Cir. 2003), Fifth Circuit precedent clearly forbids treating the plaintiff's choice of venue as a distinct factor in the § 1404(a) analysis. *Volkswagen II*, 545 F.3d at 314 n.10. Rather, the plaintiff's choice of venue corresponds to the burden that a moving party must meet in order to demonstrate that the transferee venue is a clearly more convenient venue. *Id.* Here, the district court weighed the plaintiff's choice as a "factor" against transfer and afforded Lear's choice of venue considerable deference. *Lear*, No. 2:07-CV-406, slip op. at 3. In doing so, the court erred in giving inordinate weight to the plaintiff's choice of venue.

Second, the district court ignored Fifth Circuit precedent in assessing the cost of attendance for witnesses. It goes without saying that "[a]dditional distance [from home] means additional travel time; additional travel time increases the probability for meal and lodging expenses; and additional travel time with overnight stays increases the time which these fact witnesses must be away from their regular employment." *In re Volkswagen AG*, 371 F.3d 201, 205 (5th Cir. 2004) ("*Volkswagen I*"). Because it generally becomes more inconvenient and costly for witnesses to attend trial the further they are away from home, the Fifth Circuit established in *Volkswagen I* a "100-mile" rule, which requires that "[w]hen the distance between an existing venue for trial of a matter and a proposed venue under § 1404(a) is more than 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to be traveled." 371 F.3d at 204-05.

The district court's order here completely disregarded the 100-mile rule. All of the identified key witnesses in this case are in Ohio, Michigan, and Canada. *See Lear*, No. 2:07-CV-406, slip

op. at 4. Thus, the witnesses would need to travel approximately 900 more miles to attend trial in Texas than in Ohio. Despite this distance and added cost to the witnesses, the district court “was not persuaded to give great weight” to this inconvenience. *Id.* The district court’s disregard of the 100-mile rule constitutes clear error. Furthermore, because the identified witnesses would need to travel a significantly further distance from home to attend trial in Texas than Ohio, the district court’s refusal to considerably weigh this factor in favor of transfer was erroneous.

Third, the district court erred by reading out of the § 1404(a) analysis the factor regarding the relative ease of access to sources of proof. As acknowledged in the district court’s order, the vast majority of physical and documentary evidence relevant to this case will be found in Ohio, Michigan, and Canada, and none of the evidence is located in Texas. *Id.* at 5. Concluding that this factor was neutral as to transfer, the district court explained that since many of the documents were stored electronically, “the increased ease of storage and transportation” makes this factor “much less significant.” *Id.* However, as the Fifth Circuit explained in *Volkswagen II*, the fact “that access to some sources of proof presents a lesser inconvenience now than it might have absent recent developments does not render this factor superfluous.” 545 F.3d at 316. Because all of the physical evidence, including the headrests and the documentary evidence, are far more conveniently located near the Ohio venue, the district court erred in not weighing this factor in favor of transfer.

Finally, the district court disregarded Fifth Circuit precedent in analyzing the public interest in having localized interests decided at home. As in *Volkswagen I* and *Volkswagen II*, there is no relevant connection between the actions giving rise to this case and the Eastern District of Texas except that certain vehicles containing TS Tech’s headrest assembly have been sold in the venue. None of the companies have an office in the Eastern District of Texas; no identified witnesses reside in the Eastern District of Texas; and no evidence is located within the venue. Instead, the vast majority of identified witnesses, evidence, and events leading to this case involve Ohio or its neighboring state of Michigan. Nevertheless, the district court concluded, in direct contradiction of Fifth Circuit precedent, that this factor weighed against transfer.

The district court’s reason for concluding that the public interest factor disfavored transfer--that the citizens of the Eastern District of Texas had a “substantial interest” in having the case tried locally because several of the vehicles were sold in that venue, *Lear*, No. 2:07-CV-406, slip op. at 6--was unequivocally rejected by the Fifth Circuit in *Volkswagen I* and *Volkswagen II*. Here, the vehicles containing TS Tech’s allegedly infringing headrest assemblies were sold throughout the United States, and thus the citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue. *See Volkswagen II*, 545 F.3d at 318 (stating that it “stretches logic” to say the local interest factor weighed against transfer because such rationale “could apply virtually to any judicial district or division in the United States.”). The fact that this is a patent case as opposed to another type of civil case does

not in any way make the district court's rationale more logical or make the factor weigh against transfer. Therefore, the district court erred by weighing this factor against transfer.

“Patently Erroneous Result”

There is no easy-to-draw line separating a “clear” abuse of discretion from a “mere” abuse of discretion in all cases. *Volkswagen II*, 545 F.3d at 310. Nevertheless, we conclude that TS Tech has met its difficult burden of demonstrating a clear and indisputable right to a writ. As in *Volkswagen II*, the district court clearly abused its discretion in denying transfer from a venue with no meaningful ties to the case. In granting mandamus, the en banc Fifth Circuit found that the court's denial of transfer was a clear abuse of discretion because it (1) applied too strict of a standard to demonstrate transfer, (2) misconstrued the weight of the plaintiff's choice of venue, (3) treated choice of venue as a § 1404 factor, (4) misapplied the *forum non conveniens* factors, (5) disregarded Fifth Circuit precedent, including the 100-mile rule, and (6) glossed over the fact that not a single relevant factor favored the plaintiff's chosen venue. *Id.* at 318. Because the district court's errors here are essentially identical, we hold that TS Tech has demonstrated a clear and indisputable right to a writ.

C.

[Lear contended that TS Tech cannot demonstrate that it had no other means of obtaining its request for relief -- a prerequisite for mandamus -- because TS Tech did not ask the district court to reconsider its motion denying transfer after the Fifth Circuit issued its en banc decision in *Volkswagen II*. The court of appeals disagreed.]

III.

Because TS Tech has met its difficult burden of establishing that the district court clearly abused its discretion in denying transfer of venue to the Southern District of Ohio, and because we determine that mandamus relief is appropriate in this case, we grant TS Tech's petition for a writ of mandamus.

Accordingly,

IT IS ORDERED THAT:

(1) The petition for writ of mandamus is granted. The district court is directed to vacate its September 10, 2008 order and to transfer the case to the United States District Court for the Southern District of Ohio.

(2) The motion for leave to file a reply is granted.

NOTE

1. *TS Tech* was the first of several Federal Circuit mandamus petition cases dealing with challenges to rulings on convenience transfer motions, a subject earlier thought (i) to lie nearly entirely within the district court's discretion and (ii) to be generally inappropriate for mandamus relief. After *TS Tech* the appellate court has handed down mixed results on such petitions. For example, mandamus was granted in *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009). It was refused in *In re Telular*, 319 Fed.Appx. 909 (Fed. Cir. 2009), and in *In re Volkswagen of America Inc.*, 566 F.3d 1349 (Fed. Cir. 2009).