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TECHNOLOGY LAW UPDATE

A report of the latest Federal Circuit updates brought to you by Preston Gates.

Capo, Inc. v. Dioptics Med. Prods., Inc.

No. 04-1045 (Fed. Cir. Oct. 25, 2004)

“[W]hen there has been a direct charge of infringement by the patentee, and an actual controversy exists due to ongoing activity that has been accused of infringement, the accused infringer has the right to resolve the dispute.”

On October 25, 2004, the Federal Circuit vacated and remanded the district court’s order dismissing Capo’s declaratory judgment suit for noninfringement of 14 Dioptics design patents relating to “wear-over” sunglasses. The Federal Circuit stated:

The purpose of the declaratory action is to allow a party “who is reasonably at legal risk because of an unresolved dispute, to obtain judicial resolution of that dispute without having to await the commencement of legal action by the other side.” [This] requires existence of an actual controversy. More is needed than knowledge of or notice of an adversely held patent. Declaratory justiciability of patent disputes requires both (1) a threat or other action by the patentee whereby the declaratory plaintiff has a reasonable apprehension that he will be sued for infringement, and (2) activity by the declaratory plaintiff that constitutes the alleged infringement or active preparation to conduct such activity. The standard is objective, and focuses on whether the patentee manifested the intention to enforce the patent, and would be reasonably expected to enforce the patent against the declaratory plaintiff. When these criteria are met the declaratory action should proceed.

The district court [must] determine whether hearing the case would “serve the objectives for which the Declaratory Judgment Act was created.” However, when these objectives are served, dismissal is rarely proper, as illustrated in those circumstances in which dismissal was sustained. . . . There must be well-founded reasons for declining to entertain a declaratory judgment action. Absent such reasons, precedent establishes that when there has been a direct charge of infringement by the patentee, and an actual controversy exists due to ongoing activity that has been accused of infringement, the accused infringer has the right to resolve the dispute.

Lane’s threats created the apprehension of suit, and Ascik’s apprehension of suit was reasonable, for Dioptics knew that Capo had entered the marketplace with the accused product. Capo is not required to verify the extent to which the accuser has studied the accused product before acting to declare its commercial rights. . . . It is irrelevant whether Dioptics had adequately investigated the basis of its threats, if they created the requisite objective apprehension. This is the obverse of the more usual case in which the patentee uses carefully selected phrases in order to avoid becoming a declaratory defendant. Mr. Lane minced no words, left no doubt, and advised Ascik that Dioptics had already filed three lawsuits against others for patent infringement. [T]he district court clearly erred in declining to find that Capo had a reasonable apprehension of suit. . . .

There must be a sound basis for refusing to adjudicate an actual controversy, for the policy of the Act is to enable resolution of active disputes. “When there is an actual controversy and a declaratory judgment would settle the legal relations in dispute and afford relief from uncertainty or insecurity, in the usual circumstance the declaratory judgment is not subject to dismissal.” [T]he dismissal is inconsistent with these objectives. The refusal to exercise jurisdiction leaves Capo “helpless and immobile so long as the patent owner refuse[s] to grasp the nettle and sue.” In patent cases the court’s refusal to accept a declaratory action also raises issues of public interest, for patent rights are of competitive impact as well as innovation incentive. The present dispute has “immediacy and reality,” the criteria of Article III. Resolution of this dispute is within the court’s capability, and it is the district court’s responsibility to resolve it. Declining to do so is an abuse of discretion.