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United States District Court for the

Northern District of California

THE MAGNAVOX COMPANY, a Corporation, and SANDERS ASSOCIATES, INC., a Corporation, Plaintiffs, vs. ACTIVISION, INC., a Corporation, Defendant.	No. C 82 5270 TEH MEMORANDUM IN SUPPORT OF PLAINTIFFS' MOTION TO DISMISS SECOND COUNTERCLAIM

Plaintiffs, The Magnavox Company and Sanders Associates, Inc., filed their Complaint herein alleging infringement of U.S. patent Re. 28,507 by defendant Activision, Inc. Activision has filed three counterclaims, and plaintiffs have filed replies to the first and third of these counterclaims. Only the second counterclaim is the subject of this motion.

That counterclaim seeks a declaratory judgment that a patent other than the one referred to in the Complaint, i.e., U.S. patent 3,728,480, is invalid, unenforceable, and not infringed. The Declaratory Judgment Act, 28 U.S.C. §§2201 and 2202, permits declaratory relief to be awarded only in cases of "actual controversy" between the parties. The second counterclaim fails to allege sufficient facts which, even if taken as true, establish the existence of the required controversy between plaintiffs and defendant; thus it fails to state a claim upon which relief can be granted. Further, the affidavits submitted in support of the motion show that, in fact, no such controversy actually exists. In the absence of such a controversy, the declaratory judgment statute does not confer subject matter jurisdiction over the second counterclaim in this Court.

THE RELEVANT FACTS

Plaintiff Sanders is the owner of a number of U.S. and foreign patents relating to television games. Magnavox is the exclusive licensee under the patents with the rights to sublicense and bring action for infringement. Magnavox presently has over forty sublicensees throughout the world on these patents. (Briody ¶2; Seligman ¶1.)* U.S. patent

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* Reference to paragraphs of the affidavits filed in support of plaintiffs' motion are by the affiant's last name and paragraph number.

Re. 28,507 is one of the Sanders patents licensed to Magnavox and is the subject matter of the Complaint herein. Plaintiffs have extensively litigated that patent; they have filed nine actions for infringement of that patent, three of which have been tried in two trials, and they have been involved in four declaratory judgment actions on that patent. Some of the early actions filed prior to 1977 included U.S. patent 3,728,480, another of the Sanders patents included in the exclusive license to Magnavox (Briody ¶3.) but all of those were disposed of by trial or settlement prior to June, 1977.

In 1977, Sanders became aware of the existence of a prior art reference which, it was felt, might affect the validity of the 3,728,480 patent, but not the Re. 28,507 patent. Sanders subsequently filed on June 27, 1977 an application to reissue the 3,728,480 patent in the United States Patent and Trademark Office so that the Office could consider the effect of that reference on the 3,728,480 patent. (Seligman ¶2.) At the time the reissue application was filed, Magnavox decided not to take further steps to enforce the 3,728,480 patent while the reissue application was pending, i.e., until the effect of the newly discovered prior art reference on that patent had been resolved in the Patent and Trademark Office. (Briody ¶4.) As a result, since the reissue application was filed in June, 1977, Magnavox has not initiated any actions for infringement of that patent, has not charged any party with infringement of that patent, and has not suggested to any party in the United States that it needed a license under that patent because it was infringing the patent. (Briody ¶4.)

Further, since June, 1977, Magnavox has commenced five actions for infringement of the Re. 28,507 patent. None of those actions has included any charge of infringement of the 3,728,480 patent. (Briody ¶4.) Activision alleges at paragraph 33 of its Second Counterclaim that the claims of the 3,728,480 patent are even broader than the claims of Re. 28,507; if that allegation is accepted, Magnavox could have included an assertion of infringement of the 3,728,480 patent in any of those five actions, but did not.

The application to reissue 3,728,480 is still pending; none of the claims in the pending reissue application are the same as any claim in the original patent. (Seligman ¶2.) It is not possible to know now with certainty what the claims of the 3,728,480 patent will be when that patent is reissued, but it is clear that they will be different from those presently in the patent.

Magnavox initiated discussions with Activision concerning the television game patents in 1981, practically four years after it had decided to withhold efforts to enforce the 3,728,480 patent while the reissue application was pending. (Goodman ¶2.) During the course of those discussions, Magnavox never charged Activision with infringement of the 3,728,480 patent or suggested that it required a license under that patent. (Goodman ¶3; Mayer ¶2.) Activision's counsel requested a copy of a sublicense agreement under the Sanders patent, which copy was supplied to him in September, 1981. The sublicense supplied did not include the 3,728,480 patent.

This action was filed on September 28, 1982, more than five years after the June, 1977 filing of the 3,728,480 reissue application and more than five years after Magnavox halted its efforts to enforce that patent during the pendency of that application. The Complaint, like the previous five actions filed by Magnavox, is for infringement of Re. 28,507 only.

ARGUMENT

The Standard Required To Establish An Actual Controversy

The Declaratory Judgment Act vests jurisdiction in the District Courts to declare the rights of parties to "a case of actual controversy." 28 U.S.C. §2201. The "actual controversy" requirement of the Act is an expression of the jurisdictional requirement of a "case or controversy" included in Article III of the United States Constitution. Aetna Life Ins. Co. v. Haworth, 300 U.S. 227 (1937). That jurisdiction does not extend to mere abstract or hypothetical differences or disputes.

> "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." Maryland Casualty Co. v. Pacific Coal & Oil Co., 312 U.S. 270 (1941).

The Ninth Circuit Court of Appeals recently stated the showing of actual controversy that a declaratory judgment plaintiff in a patent case must make to support jurisdiction as follows:

> "An action for a declaratory judgment that a patent is invalid, or that the plaintiff is not infringing, is a case or controversy if the plaintiff has a real and reasonable apprehension that he will be subject to liability if he continues to manufacture his product." Societe de Conditionnement v. Hunter Engineering, 655 F. 2d 938 (9 Cir. 1981). (Emphasis added).

Thus, in order to establish jurisdiction for its Second Counterclaim, Activision must plead and prove facts sufficient to show that it has an apprehension that it will be subject to future liability which is both real and reasonable. The mere allegation of such an apprehension is not sufficient if there are no facts sufficient to demonstrate a reasonable basis for the apprehension.

Since the existence of an actual controversy is a jurisdictional requirement, once challenged by the declaratory judgment defendant the burden is on the party seeking the declaratory judgment to show by competent proof that the necessary controversy actually exists. International Harvester Co. v. Deere & Co., 623 F.2d 1207, 1210 (7 Cir. 1980).

The Second Counterclaim Fails To State A Cause of Action

Defendant's Second Counterclaim at best alleges only that plaintiffs own and/or control the Re. 28,507 and 3,728,480 patents among others (¶13), that the claims of 3,728,480 (as issued in 1972) are even broader than the claims of Re. 28,507 (¶33), and that plaintiffs have asserted infringement of 3,728,480 in their previous litigation where Re. 28,507 was asserted (¶31) and have licensed 3,728,480 in their licensing of Re. 28,507. Activision has failed to allege that in all previous litigation in which an infringement charge based on 3,728,480 might have been made it actually was made. It has failed to allege that in all previous licensing of Re. 28,507 licenses under 3,728,480 were also involved. The allegation of some prior activities of plaintiffs with respect to the 3,728,480 patent at unspecified times without explicit pleading of when those activities occurred and how those activities relate to Activision is simply not enough to show that any apprehension by Activision of future liability under the 3,728,480 patent, regardless of whether the apprehension is real or imagined, is reasonable.

If sufficient facts are not pleaded which would give the hypothetical "reasonable man" the fear or apprehension that Activision alleges it has, then the pleading is not sufficient. The mere fact that plaintiffs' Complaint alleges infringement of Re. 28,507 only without any reference to 3,728,480 should be more than enough to vitiate in the eyes of the reasonable man any latent apprehension of liability under 3,728,480 which might be created by the vague allegations of the Second Counterclaim. The insufficiency of Activision's

allegations becomes even more evident when they are compared with the true state of affairs surrounding the 3,728,480 patent when the counterclaim was filed.

No Reasonable Basis For Any Apprehension Exists

The affidavits presented with this motion clearly demonstrate on their face that any reasonable basis for any apprehension of liability under the 3,728,480 patent vanished long before Activision's Second Counterclaim was filed. Over five years previously plaintiffs had stopped actively asserting infringement of the 3,728,480 patent until termination of the Patent and Trademark Office proceedings on the application to reissue that patent. Plaintiffs had brought five separate lawsuits for infringement of the Re. 28,507 patent between the filing of this action and had not asserted infringement of 3,728,480. Plaintiffs had neither charged anyone with infringement of the 3,728,480 patent during the interim period nor sought to license that patent in the United States. During the discussions prior to suit between Magnavox and Activision, no infringement charges or charges of any kind were made as to 3,728,480. Any fears Activision may or may not have had must have been based completely upon its own imagination, not the realistic factual analysis of a reasonable man.

If Activision had a real fear of liability under the 3,728,480 patent, it could have participated in the Patent and Trademark Office proceedings on the reissue

application. The Patent and Trademark Office rules of practice under which that application was filed, 37 C.F.R., permitted members of the public to participate in proceedings on applications for reissue by filing protest papers in the Office opposing the reissue application. 37 C.F.R. Reissue patent application files in the Patent and Trademark Office, unlike conventional patent applications, are open to public inspection for this very purpose. Activision did not file any such protest. (Seligman ¶3.)

Further, for this Court now to consider Activision's Second Counterlcaim on its merits would be a waste of judicial resources in the extreme. The claims of a patent, of course, provide the basic measure of the width and breadth of the invention of the patent; they give the basics for defining the subject matter which is actually patented. However, none of the claims in the pending reissue application is identical to any claim of the present 3,728,480 patent, recognizing of course that a patent claim which is written in a form dependent upon another claim of that patent, incorporates all of the language of that other claim by reference. (Seligman ¶2.) Thus, if this Court were to decide the issues of validity of the claims of the 3,728,480 patent as originally issued and their infringement by Activision, it would have to make another and similar determination but as to different claims when the reissue application matures into a reissue patent. When the reissue application issues,

the reissue patent will substitute for the original patent. 35 U.S.C. §251. Activision's request for such a duplication of judicial effort should not be entertained.

CONCLUSION

Plaintiffs' motion should be granted and Activision's Second Counterclaim dismissed.

Dated: November __, 1982.

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