UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 08-0501 AG (RNBx)	Date	July 24, 2008
Title	DAVID TISHBI, INC. V. GABRIEL OFIESH II, ET AL.		

Present: The Honorable	ANDREW J. GUILFORD	
Lisa Bredahl	None Present	
Deputy Clerk	Court Reporter / Recorder	Tape No.
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:	
Not Present	Not Present	

Proceedings: [IN CHAMBERS] ORDER ANNOUNCING TENTATIVE RULING FOR AUGUST 4, 2008 HEARING AND REQUESTING EVIDENCE AT AUGUST 4, 2008 HEARING

Before the Court is the Motion of Defendant Gabriel Ofiesh II ("Defendant") to Dismiss Pursuant to Federal Rule of Civil Procedure 12(b)(1) and for Sanctions Under 28 U.S.C. § 1927. After considering all arguments presented by the parties, the Court GRANTS the Motion to Dismiss and DENIES the Motion for Sanctions.

BACKGROUND

Defendant designs and manufactures jewelry. Related to his jewelry design, Defendant owns U.S. Patents 6,295,732, 6,497,117, and D424,966. Plaintiff David Tishbi, Inc. ("Plaintiff") markets and distributes jewelry.

On October 10, 2007, Defendant sent a cease and desist letter to Plaintiff stating that Defendant believed that Plaintiff was infringing Defendant's patents. (Complaint ¶ 2.) Counsel for the parties then exchanged letters discussing whether Plaintiff's products actually infringed and whether Defendant's patents are valid. On March 4, 2008, Defendant's lawyers sent Plaintiff a letter stating that they had authorized California counsel to proceed with filing a complaint. (Complaint ¶ 4.)

Instead of waiting for Defendant to file a complaint, Plaintiff filed the present declaratory relief action, seeking a declaratory judgment of non-infringement, unenforceability, and invalidity of the patents in suit. In response to Plaintiff's filing, Defendant's counsel contacted Plaintiff's counsel and withdrew all infringement claims against Plaintiff. (Motion 4:26-27; Opposition 6:28-7:1.).) The letter made the following covenant ("Covenant"):

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> Gabriel Ofiesh II does hereby withdraws [sic] any accusation of infringement previously made and agrees not to assert any claim of infringement under U.S. Patent No.s 6,295,732, 6,497,117, and D424,966 against David Tishbi in connection with Tishbi's offer or sale, making or using of the products included in Tishbi's product offerings.

(Soni Declaration, Exhibit A.)

Defendant now argues that the withdrawal of claims means that no controversy exists between the parties, and moves to dismiss for lack of subject matter jurisdiction.

LEGAL STANDARD

Federal Rule of Civil Procedure 12(b) provides for dismissal of a complaint for lack of subject matter jurisdiction. Fed. R. Civ. P. 12(b)(1). Because federal courts are courts of limited jurisdiction, it is "presumed that a cause lies outside this limited jurisdiction, and the burden of establishing the contrary rests upon the party asserting jurisdiction." *Vacek v. United States Postal Serv.*, 447 F.3d 1248, 1250 (9th Cir. 2006) (quoting *Kokkonen v. Guardian Life Ins. Co. of Am.*, 511 U.S. 375, 377 (1994) (citations omitted)).

Federal courts have jurisdiction over actions for declaratory relief under the Declaratory Judgment Act, which provides that "[i]n a case of actual controversy within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration." 28 U.S.C. § 2201(a). For there to be an "actual controversy," the facts alleged must "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." *MedImmune, Inc. v. Genentech*, 549 U.S. 118 (2007) (citing *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

A Federal Rule of Civil Procedure 12(b)(1) motion "can attack the substance of a complaint's jurisdictional allegations despite their formal sufficiency, and in so doing rely on affidavits or any other evidence properly before the court." *St. Clair v. City of Chico*, 880 F.2d 199, 201 (9th Cir. 1989) (citations omitted). "It then becomes necessary for the party opposing the motion to present affidavits or any other evidence necessary to satisfy its burden of establishing that the court, in fact, possesses subject matter jurisdiction." *Id.*

ANALYSIS

Defendant argues that because he has withdrawn his allegation of infringement against Plaintiff,

there is no actual controversy giving rise to subject matter jurisdiction. Plaintiff responds that the Covenant does not dispose of the controversy, because it

> is only given to David Tishbi, and does not extend to Tishbi's distributors, customers or parties who under contract with Tishbi manufacture Tishbi's products for sale to Tishbi's distributors and customers. The Covenant would leave Ofiesh free to make allegations of infringement and institute or threaten to institute litigation against Tishbi's customers, distributors, and manufacturers.

(Opposition 3:5-12.) Thus, Plaintiff argues that even if Defendant has agreed not to sue, he can affect Plaintiff's sales by suing Plaintiff's customers, distributors, and manufacturers. Defendant responds that, under *Microchip Technology Inc. v. Chamberlain Group, Inc.*, 441 F.3d 936 (Fed. Cir. 2006), this does not constitute an actual controversy.

The *Microchip* case is very similar to this case. In that case, the declaratory relief defendant had, in an earlier action, promised not to bring suit against the declaratory relief plaintiff for infringement of certain patents. *Id.* at 939. Still, the declaratory relief plaintiff brought suit seeking a declaration that the patents were invalid and unenforceable. *Id.* The plaintiff argued that there was an actual controversy because the defendant could sue plaintiff's customer's for patent infringement. The district court agreed, finding that a controversy existed where the plaintiff "retained a reasonable apprehension that its customers would be exposed to legal action." *Id.* at 940.

The Federal Circuit reversed the district court. According to the Federal Circuit, a plaintiff's "purported apprehension of its customers being sued . . . absent any 'adverse legal interest,' does not" create declaratory judgment jurisdiction. *Id.* at 942. The Federal Circuit explained that declaratory judgment jurisdiction requires

> that there be an underlying legal cause of action that the declaratory defendant could have brought or threatened to bring, if not for the fact that the declaratory plaintiff has preempted it. Without an underlying legal cause of action, any adverse economic interest that the declaratory plaintiff may have against the declaratory defendant is not a legally congnizable interest sufficient to confer declaratory judgment jurisdiction.

Id. at 943. Thus, *Microchip* held that threat of legal action against a company's customers does not create declaratory judgment jurisdiction for the company. Instead, *Microchip* held that threat of legal action against a company's customers creates only economic harm against the company, which does not give rise to declaratory judgment jurisdiction.

Plaintiff distinguishes *Microchip*. Plaintiff argues that this case, unlike *Microchip*, involves a legal relationship between the declaratory relief plaintiff and its customers, which gives rise to an actual controversy. In *Microchip*, the court recognized that an indemnity agreement between a declaratory relief plaintiff and a customer could give rise to declaratory relief jurisdiction. *Id.* at 943. This is because the existence of an indemnity agreement could have put plaintiff at risk of legal harm from suit by its customers.

Plaintiff argues that this case involves a similar legal interest. Plaintiff argues that, as a business that sells goods under Article 2 of the Uniform Commercial Code, Plaintiff warrants against infringement claims. As codified in the California Commercial Code, "a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like." Cal. Comm. Code § 2312(3). A seller whose goods are not free of an infringement claim can be sued for breach of statutory warranty. *See Linear Technology Corp. v. Applied Materials, Inc.*, 152 Cal. App. 4th 115, 127 (2007). Thus, Plaintiff argues, since Plaintiff will be liable to suit from its customers if it sells infringing products, it has a legal interest in determining whether its products infringe, and thus jurisdiction is proper.

Defendant's only response to this argument is that "Microchip was also a seller of goods and its Article 2 obligations did not make a difference in the analysis by the *Microchip* court." (Reply 4:4-5.) But it does not appear that the Article 2 argument was raised to the *Microchip* court. Under the reasoning in *Microchip*, this Court concludes that Plaintiff's statutory warranty to its customers is enough to establish that it has a legal interest in determining whether its products infringe.

Accordingly, declaratory judgment jurisdiction exists as long as the controversy between the parties is "of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Maryland Casualty Co.*, 312 U.S. at 273. Plaintiff has submitted some evidence to show that its customers have been threatened with patent infringement actions. Some of Plaintiff's evidence is inadmissible, and the remaining evidence does not prove that any of Plaintiff's customers are at risk of an infringement suit. Plaintiff is invited to bring any evidence supporting these allegations to the hearing.

Thus far, Plaintiff has not shown an actual controversy giving rise to subject matter jurisdiction in this case. The Motion to Dismiss is GRANTED.

DISPOSITION

Defendants' Motion to Dismiss is GRANTED, pending a factual showing by Plaintiff at the August 4, 1008 hearing. The Motion for Sanctions is DENIED.

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