

EXHIBIT A



Not Reported in Cal.Rptr.2d
 Not Reported in Cal.Rptr.2d, 2003 WL 170418 (Cal.App. 2 Dist.)
 (Cite as: **Not Reported in Cal.Rptr.2d, 2003 WL 170418**)

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Foerstel v. Jeffrey
 Cal.App. 2 Dist., 2003.
 Only the Westlaw citation is currently available.

California Rules of Court, rule 8.1115, restricts citation of unpublished opinions in California courts.

Court of Appeal, Second District, Division 7, California.

Raymond J. FOERSTEL, Plaintiff and Appellant,
 v.

John Paul JEFFREY, Defendant and Respondent.

No. B154638.

(Super.Ct.No. VC029970).

Jan. 27, 2003.

Plaintiff brought action against former girlfriend and her stepfather alleging fraud, breach of contract, common counts, and conspiracy, and seeking return of funds he advanced for purchase of home for girlfriend. After bench trial, the Superior Court, County of Los Angeles, No. VC029970, James R. Sutton, J., found former girlfriend liable on common counts, but found stepfather not liable on any claims. Plaintiff appealed. The Court of Appeal, Perluss, P.J., held that: (1) stepfather was not unjustly enriched, and (2) plaintiff waived claim for breach of fiduciary duty against stepfather.

Affirmed.

West Headnotes

[1] Implied and Constructive Contracts 205H
 123

205H Implied and Constructive Contracts

205HII Actions

205HII(E) Trial and Judgment

205Hk123 k. Verdict and Findings. Most

Cited Cases

Trial court's finding, in action to recover funds

plaintiff advanced to former girlfriend to purchase home, that plaintiff's former girlfriend retained entire proceeds from sale of home, and that girlfriend's stepfather was not responsible to plaintiff for damages, constituted finding that girlfriend was only party who was unjustly enriched. West's Ann.Cal.C.C.P. § 632.

[2] Appeal and Error 30 171(1)

30 Appeal and Error

30V Presentation and Reservation in Lower Court of Grounds of Review

30V(A) Issues and Questions in Lower Court

30k171 Nature and Theory of Cause

30k171(1) k. In General; Adhering to

Theory Pursued Below. Most Cited Cases

In action to recover funds plaintiff advanced to former girlfriend to purchase home, plaintiff waived claim that former girlfriend's stepfather, in whose name home was titled, was plaintiff's agent and breached fiduciary duty by selling house and retaining entire proceeds, where plaintiff did not raise claim in trial court.

APPEAL from the judgment of the Superior Court for the County of Los Angeles, James R. Sutton, Judge. Affirmed.

Douglas L. Hamilton for Plaintiff and Appellant.

Joseph M. Aliberti for Defendant and Respondent.

PERLUSS, P.J.

*1 Raymond J. Foerstel sued his former girlfriend Betty Duelley and her stepfather John Paul Jeffrey to recover sums advanced for the purchase of a home Foerstel had hoped to occupy with Duelley. The trial court entered judgment in favor of Foerstel against Duelley, but found Jeffrey not liable. We affirm.

FACTUAL AND PROCEDURAL BACKGROUND

Foerstel began dating Duelley in early 1997. Shortly afterwards, Duelley asked Foerstel for as-

sistance in purchasing a house. Foerstel provided a \$2,000 deposit toward a house for Duellely and her children. Because both Foerstel and Duellely had poor credit and were unable to qualify for financing, Jeffrey agreed to act as a "straw man" in the transaction by taking title and obtaining the home loan. Although Jeffrey's name was on the title and loan documents, he did not contribute any money to the purchase: The \$25,000 down payment came entirely from Foerstel.

Foerstel expected to live in the house with Duellely and her children in the future. However, no agreement to that effect was ever reached. When Duellely had trouble making the scheduled mortgage payments shortly after the close of escrow, Foerstel stepped in and made eight payments totaling \$15,232.

Duellely and Foerstel's relationship eventually came to an end. Foerstel demanded return of the money he had paid for the deposit, the down payment and the mortgage payments. Duellely refused to return any of the money. Jeffrey later sold the house for a profit of approximately \$40,000.

Foerstel sued Duellely and Jeffrey for return of the money, alleging fraud, breach of contract, common counts and conspiracy.^{FN1} After a one day bench trial, the trial court issued a memorandum of decision in which it found Foerstel had failed to present sufficient evidence to prevail on his claims for fraud or breach of contract and held his claim for conspiracy was barred by unclean hands because he had participated with Duellely and Jeffrey in a scheme to defraud the mortgage lender. The trial court found Duellely liable on the common count for \$42,232, the amount Foerstel had contributed toward purchase of the house. The trial court found Jeffrey not liable on any of Foerstel's claims. After his objections to the statement of decision were overruled, Foerstel timely appealed.

FN1. Foerstel's second amended complaint also included causes of action for malicious prosecution and related claims con-

cerning reports made by Duellely to the police. Those claims are not part of this appeal.

DISCUSSION

[1] Code of Civil Procedure section 632 provides, "In superior and municipal courts, upon the trial of a question of fact by the court, written findings of fact and conclusions of law shall not be required. The court shall issue a statement of decision explaining the factual and legal basis for its decision as to each of the principal controverted issues at trial upon the request of any party appearing at the trial.... The request for a statement of decision shall specify those controverted issues as to which the party is requesting a statement of decision...."

Foerstel filed a timely request for statement of decision, raising issues including "whether or not Jeffrey was enriched by the sale of the Real Property in 2000" and "whether or not Jeffrey was unjustly enriched at the time of receipt of the proceeds of sale of the Real Property in 2000." Relying on *Miramar Hotel Corp. v. Frank B. Hall & Co.* (1985) 163 Cal.App.3d 1126, 210 Cal.Rptr. 114 (*Miramar Hotel Corp.*), Foerstel contends the trial court's failure to directly address these questions renders its statement of decision inadequate and constitutes reversible error. We hold it does not.

*2 In *Miramar Hotel Corp.*, *supra*, 163 Cal.App.3d 1126, 210 Cal.Rptr. 114, the trial court issued a minute order stating only, " 'In this matter, heretofore taken under submission as of August 2, 1983, the Court renders its decision as follows: [¶] The Court finds that the preponderance of evidence establishes the following: [¶] 1) Cross-Complainant did not justifiably rely on any representation or misrepresentation uttered by cross-defendant or its agents. [¶] 2) No implied or express contract to indemnify cross-complainant was ever created by the acts or statements of the respective parties or their agents. [¶] 3) The cross-complainant is not entitled to recover its attorney fees as damages or under any

other theory presented.’ “ (*Id.* at p. 1127, 210 Cal.Rptr. 114.)Although a request for statement of decision was filed, the trial court did not respond to the request; and judgment was filed without any formal statement of decision having been rendered. (*Id.* at p. 1128, 210 Cal.Rptr. 114.)The Court of Appeal reversed, holding the trial court had failed to comply with Code of Civil Procedure section 632's requirements for statements of decision. (*Id.* at p. 1129,210 Cal.Rptr. 114.)The court also held the minute order failed to explain “ ‘the factual and legal basis for [the trial court's] decision as to ... the principal controverted issues at trial.’ “ (*Ibid.*)

Miramar Hotel Corp. is readily distinguishable. It is undisputed that the trial court in this case followed the statutory procedure for statements of decision. Moreover, the statement of decision adequately explains the factual and legal bases for the court's ruling on each of Foerstel's claims. It states “the retention of all proceeds of the sale unjustly enriched defendant DUELLEY in the sum of \$42,232.00,” and “Defendant Jeffrey is not responsible to the plaintiff for anything or any damages.”Taken together, those two statements constitute a finding that Duellley retained the entire proceeds from the sale of the house, and, therefore, was the only party who was unjustly enriched. Although Foerstel proposed other issues to be included in the statement of decision, the trial court's findings on the issue of unjust enrichment (the only issue addressed on appeal) are sufficient to support and explain the judgment in Jeffrey's favor.^{FN2}(*Miramar Hotel Corp.*, *supra*, 163 Cal.App.3d at p. 1130, 210 Cal.Rptr. 114 [“In issuing its statement of decision, the court need not address each question listed in appellants' request. All that is required is an explanation of the factual and legal basis for the court's decision regarding such principal controverted issues at trial as are listed in the request.”].)

FN2. Foerstel does not argue the trial court's findings are not supported by substantial evidence. Nor could he: The

“substantial evidence” standard is inappropriate in this case because it would improperly shift the burden to Jeffrey to prove his non-liability. As the plaintiff, Foerstel had the burden of proving Jeffrey was unjustly enriched by retaining the proceeds from the sale of the house. The trial court was not required to believe or accept his evidence (*Ortzman v. Van Der Waal* (1952) 114 Cal.App.2d 167, 170-171), and acted well within its discretion in finding Foerstel failed to carry his burden of proof. We will not disturb the judgment based on any claim the evidence was insufficient to *disprove* Jeffrey's liability.

[2] Despite the trial court's finding Duellley retained the proceeds from the sale of the house, Foerstel now contends Jeffrey was his agent and is therefore liable for breach of fiduciary duty even if he did not take possession of the proceeds from the sale. He argues that, as a fiduciary, Jeffrey “has the burden to show his good faith and full disclosure to appellant regarding the manner of disbursing the proceeds of sale of the subject residence.”

*3 Although it is undeniably true that a fiduciary owes a duty of full disclosure to his principal (*Batson v. Strehlow* (1968) 68 Cal.2d 662, 675, 68 Cal.Rptr. 589, 441 P.2d 101), Foerstel did not sue Jeffrey for breach of fiduciary duty. His request for statement of decision and his proposed statement of decision did not include any mention of breach of fiduciary duty. To the contrary, in the trial court Foerstel relied solely on the theory that Jeffrey was directly enriched by retention of the proceeds of the sale of the house. Accordingly, any claim for breach of fiduciary duty is waived. In any event, the trial court's finding that Jeffrey “is not responsible to the plaintiff for anything” necessarily constitutes a finding that Foerstel did not prove Jeffrey owed him a fiduciary duty.

DISPOSITION

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The judgment is affirmed. Jeffrey is to recover his costs on appeal.

We concur: JOHNSON and MUNOZ (AURELIO),
J.^{FN*}

FN* Judge of the Los Angeles Superior Court, assigned by the Chief Justice pursuant to article VI, section 6 of the California Constitution.

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Foerstel v. Jeffrey

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END OF DOCUMENT

EXHIBIT B



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 Not Reported in Cal.Rptr.3d, 2004 WL 1119735 (Cal.App. 6 Dist.)
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In re Marriage of Kapczynski
 Cal.App. 6 Dist., 2004.
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Court of Appeal, Sixth District, California.
 In re MARRIAGE OF Kara KAPCZYNSKI and
 Michael Cormier.
 Kara Kapczynski, Appellant,
 v.
 Michael Cormier, Respondent.
No. H025433.
(Santa Clara County Super. Ct. No. FL085974).

May 20, 2004.

Russell J. Hanlon, Law Offices of Russell J. Hanlon, San Jose, CA, for Appellant.

Roger L. Hartsell, Law Offices of Roger L. Hartsell, San Jose, CA, Jeffrey P. Tone, Tone & Tone, Morgan Hill, CA, for Respondent.

PREMO, J.

*1 In this dissolution matter, petitioner Kara Kapczynski (Kara) appeals from a judgment dividing community property and from the court's award of attorneys' fees and costs pursuant to Family Code section 271 ^{FN1} to respondent Michael Cormier (Michael). Kara makes several claims of error. We find merit in two of them. We conclude that the family court erred in unequally dividing the cash proceeds from the sale of certain community property stocks. The court's division of the cash was based upon the faulty assumption that Kara's oral instruction to Michael to sell "her" share of the stock was a valid, post-separation agreement to divide the community property. We further conclude that there is insufficient evidence to support the court's finding that Kara breached her fiduciary duty when she failed to exercise certain stock options she had received through her employer. We

find no merit to Kara's other claims. We shall modify the judgment consistent with our conclusions and as modified, affirm.

FN1. Hereafter, all undesignated statutory references are to the Family Code.

FACTUAL AND PROCEDURAL BACKGROUND

Michael and Kara were married on April 29, 1995 and they separated July 6, 1999. Both spouses worked in the technology industry. Michael had been working for a company named Tivoli since 1993. In 1996, IBM acquired Tivoli and Michael continued as an IBM employee until he resigned in 1997 and began working for Marimba. During the course of his employment with both Marimba and Tivoli/IBM, Michael exercised all the stock options that were available to him as an employee.

Kara worked for several different companies before landing at Cambridge Technology Partners (CTP), where she remained until she resigned from her position as vice president in December 1999. Kara and Michael had acquired some CTP stock during their marriage. When Kara left CTP, she had additional CTP stock options available to her, but she did not exercise them.

During marriage, Michael managed the couple's stock portfolio. They had two brokerage accounts at Charles Schwab, which were referred to at trial by the last four digits of the account numbers: the 8188 account and the 8205 account. The 8188 account was margined ^{FN2} and Michael actively traded stocks through this account during and after the marriage. After the couple separated in mid-1999, Michael continued to manage the community's stock portfolio, which included shares of Marimba, IBM, CTP, and Micro Tempus, until Kara had the accounts frozen in February 2000.

FN2. A margin account permits the account holder to borrow money to buy more

stock using the account assets as collateral.

A marital status-only judgment was entered on August 3, 2000 and trial of the property issues was conducted in the spring of 2002. Kara raised a number of claims at trial. Among other things, she argued that Michael had breached his fiduciary duty to the community by concealing the Marimba stock and allowing it to decline in value. She also claimed that Michael had improperly divided their Micro Tempus stock into "his" and "hers" shares, selling her share at a low price and his share at a high price. For his part, Michael claimed that Kara had breached her fiduciary duty in failing to exercise the remaining CTP options when she left CTP.

*2 The family court rejected Kara's testimony, finding that she had "substantially overstated her claims without any basis therefore ...; appeared to not provide key or complete information to her forensic accounting expert ...; and, appeared to conveniently ignore various aspects of her own conduct relating to the stocks and stock options in question in a self-serving effort to justify her claims herein.... [¶] ... [H]er testimony was generally evasive on many key issues, and her claims of inappropriate conduct on the part of [Michael] appeared to be based more on emotion and conjecture, rather than facts."

The court found against Kara and in favor of Michael on nearly every claim and characterized and divided the couple's assets in the manner proposed by Michael's accounting expert. The court also granted Michael's motion for sanctions pursuant to section 271, awarding him \$125,000 in attorney's fees and \$30,786.54 in costs.

ISSUES ON APPEAL

1. Did the family court err in ordering an unequal division of the proceeds from the sale of the community's Micro Tempus stock?
2. Is there sufficient evidence to support the trial court's conclusion that Kara had breached her fiduciary duty by failing to exercise the CTP options?

3. Did Kara meet her burden of proof on her claim that Michael had breached his fiduciary duty in managing the community's Marimba stock?

4. Was the family court's division of the Schwab 8188 account improper because it did not divide the community IBM and CTP stock and related dividends and proceeds equally between the spouses?

5. Did the family court abuse its discretion by awarding Michael fees and costs of \$155,786.54?

DISCUSSION

Micro Tempus

Background

The 8205 account had contained 100,000 shares of Micro Tempus stock, all of which the parties agreed was community property. Michael testified that in or around June 1999 Kara instructed him, by way of a voicemail message, to sell "half of her shares-half of the shares" of Micro Tempus and to use the proceeds to buy 1,000 shares of Tibco at \$20 per share when Tibco made its initial public offering in July. According to Michael, he processed Kara's request by selling 50,000 shares of Micro Tempus on June 30, 1999 realizing \$17,085. Michael was unable to purchase the Tibco stock according to Kara's instructions because the stock opened at more than \$20 per share. He ultimately left the \$17,085 in the 8205 account. In a December 1999 email Kara asked Michael about the status of the Tibco stock, "that I authorized you to buy in August with my portion of the funds ..." because by then Tibco had doubled in value. Michael, of course, had to tell her that there was no Tibco stock. In January and February 2000, Michael sold the remaining 50,000 shares of Micro Tempus for \$306,843. Those proceeds also remained in the 8205 account. At trial, Michael argued that Kara was entitled to only the \$17,085 and the \$306,843 was solely his.

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*3 Kara agreed that she had instructed Michael to buy Tibco. Indeed, Kara claimed that if Michael had purchased Tibco according to her instructions, the \$20,000 purchase would have yielded a \$421,000 gain. She claimed the full amount of this loss at trial. The family court rejected this claim and Kara does not challenge that ruling on appeal.

Kara's version of the Micro Tempus issue was that she never authorized Michael to sell any of that stock. She said that Michael could have purchased Tibco on margin or with the other cash that remained in the accounts. As to the Micro Tempus, Kara insisted that the proceeds from the sale of all 100,000 shares were community property and should be divided equally. The family court disagreed: "The proceeds of the sale of this community asset [the Micro Tempus stock] which are maintained in the Schwab # 8205 account, are allocated as follows: \$306,843.00 to [Michael], and \$17,085.00 to [Kara]. The disparity in value is based upon the sale of [Kara's] one-half interest in this asset on June 30, 1999, pursuant to her specific instructions to [Michael] (as will be discussed further below), and the sale of [Michael's] one-half interest on January 31, 2000."

Kara now argues that even if she had instructed Michael to sell "her" half of the Micro Tempus shares in June 1999, the instruction would not have changed the community character of the stock and all its proceeds should have been divided equally.

Analysis

During marriage, community property remains community unless it is transmuted by "an express declaration" in writing. (§ 852.) Following separation, community property retains its character as such until it is divided by the court or by the parties. The court must divide community property equally between the parties. The parties may divide the property in any manner they choose so long as they make their agreement in writing or by an oral stipulation in court. (§ 2550.) Kara argues that as a

matter of law her oral instruction on Michael's voicemail could not have been either a valid transmutation of the property during marriage or a valid post-separation agreement on the subject.

Michael concedes that in general the parties cannot validly transmute or divide their property with a simple oral agreement. He contends, however, that the family court made the unequal division based upon an alternate valuation date. This argument is unavailing. An alternate valuation date is a date "after separation and before trial" that may be used "to accomplish an equal division of the community estate of the parties in an equitable manner." (§ 2552, subd. (b).) The statute requires a noticed motion. Here there was no motion. Indeed, the question of an alternate valuation date was never discussed. More to the point, the property to be divided was cash. There was no need for valuation.

Michael also argues that Kara waived the point by not specifically raising it below. Although Kara did not challenge the validity of an oral agreement at trial, she consistently denied having made the statement; she insisted that the stock was community; and finally, she argued that Michael's "burden of proof" on the question of an oral agreement was "not satisfied." Although her final point was based on a legally incorrect assumption, i.e., that an agreement to divide the property could be valid, we do not consider that Kara invited the error as Michael contends since Michael was the one who advanced the faulty premise.

*4 Although Kara failed to specifically identify at trial the argument she pursues here, because the argument is based upon the evidence that Michael adduced at trial and does not put Michael to any unfair disadvantage, we find it appropriate to consider the merits. (*Bayside Timber Co. v. Board of Supervisors* (1971) 20 Cal.App.3d 1, 5.)

The family court expressly characterized the cash resulting from the sale of the Micro Tempus stock as community property. The only finding that would support the court's unequal division of this

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community asset would be a finding that the parties had entered into a valid agreement to divide the property that way. Section 2550, however, requires such an agreement to be written or by stipulation in open court. (See *In re Marriage of Maricle* (1990) 220 Cal.App.3d 55, 58.) Kara's oral instruction to Michael to sell "her" half of the Micro Tempus stock is insufficient to meet the requirements of section 2550. Kara's later email referring to "my portion of the funds," although written, at most suggests that Kara thought of their assets as divisible into "his and hers" shares. It does not refer to Micro Tempus or to any agreement to divide the property. In short, although we must defer to the trial court's assessment of Michael's believability, Michael's testimony is insufficient, as a matter of law, to warrant the unequal division of the Micro Tempus proceeds.

Michael counters that Kara's claim is barred by the doctrines of equitable or judicial estoppel. Neither doctrine is applicable here. "Judicial estoppel precludes a party from gaining an advantage by taking one position, and then seeking a second advantage by taking an incompatible position." (*People ex rel. Sneddon v. Torch Energy Services, Inc.* (2002) 102 Cal.App.4th 181, 189.) Michael's argument is that Kara was inconsistent in claiming that the Tibco stock would have been her separate property because she had instructed him to sell Micro Tempus, a concededly community asset, to buy it. Michael ignores the fact that he was the one that connected the sale of Micro Tempus to the Tibco purchase. Kara consistently denied that she told him to sell Micro Tempus. Thus, it was Michael's version of the facts, not Kara's, that created the inconsistency.

Equitable estoppel requires, among other things, that the party asserting the estoppel demonstrate that he or she was ignorant of the true facts and relied upon the conduct of the other party to his or her injury. (*In re Marriage of Thompson* (1996) 41 Cal.App.4th 1049, 1061.) As we understand Michael's argument, when Kara instructed him to sell her share, he believed she was dividing the stock

between them and he let her do what she wanted with it. If he had known he still had an interest in the stock, presumably he might have handled the transaction differently. But this does not mean that Michael was ignorant of the facts. Rather, he and Kara misunderstood the law. "Acts or conduct performed under a mutual mistake of law do not constitute grounds for estoppel." (*Adams v. County of Sacramento* (1991) 235 Cal.App.3d 872, 883.) In short, Kara is not estopped from raising the issue on appeal.

*5 We conclude that there is no basis for the family court's unequal division of the community property at issue. We shall modify the judgment to equally divide the proceeds of the sale of the community's 100,000 shares of Micro Tempus stock (\$323,938) contained in the 8205 account.

Kara's Breach of Fiduciary Duty

(The CTP Options)

Background

In the first part of December 1999, Kara sent Michael an email asking him to sell the CTP stock that was in their portfolio. Michael did not want to sell then because of the potential negative tax implications. Although he expressed that concern to Kara and asked for further guidance on the subject, she did not respond. Then, on December 17, 1999, Kara sent Michael an email informing him that she had resigned from CTP, stating "[s]o much for the CTP options." According to Michael, he believed this statement meant that Kara had forfeited any options she had not yet exercised. In fact, she had 90 days to exercise the remaining options.

The exercise price of the remaining options was \$15.50 and \$22.50 per share. On December 30, 1999 and February 17, 2000, CTP stock was trading at \$25.625 per share. Had Kara chosen to exercise

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the options then, the community stood to gain \$64,691. Kara waited until March 16, 2000, however, to attempt to exercise the remaining CTP options but ultimately did not do so because the stock was trading at less than the exercise price. The options expired shortly afterward.

The family court found that Kara had breached her fiduciary duty by failing to exercise the options at the high point between December 1999 and February 2000 and ordered her to reimburse Michael for half of the \$64,691 loss. Kara contends that there is insufficient evidence to support this ruling.

Analysis

We begin with the presumption that the judgment of the family court is correct. (*In re Marriage of Bower* (2002) 96 Cal.App.4th 893, 898.) Where the family court's determination rests upon its factual findings, we review the ruling under the substantial evidence standard. (*Bono v. Clark* (2002) 103 Cal.App.4th 1409, 1430.) We view the entire record in the light most favorable to the prevailing party to determine whether there is substantial evidence to support the trial court's findings and resolve all conflicts in the evidence and draw all reasonable inferences in favor of the findings. (*In re Marriage of Duffy* (2001) 91 Cal.App.4th 923, 931.)

Under section 1100 a spouse has a claim against the other spouse for a breach of fiduciary duty that impairs the claimant spouse's interest in the community.^{FN3} The statute requires each spouse to act in accordance with the general rules governing fiduciary relationships as specified in section 721, until the assets and liabilities have been divided by the parties or by a court.^{FN4} A spouse breaches his or her fiduciary duty if the spouse's conduct in handling the community assets is grossly negligent or reckless conduct, intentional misconduct, or a knowing violation of law. (§ 721; Corp.Code, § 16404.)

FN3. Section 1100, subdivision (e) reads in

pertinent part: "Each spouse shall act with respect to the other spouse in the management and control of the community assets and liabilities in accordance with the general rules governing fiduciary relationships which control the actions of persons having relationships of personal confidence as specified in Section 721, until such time as the assets and liabilities have been divided by the parties or by a court. This duty includes the obligation to make full disclosure to the other spouse of all material facts and information regarding the existence, characterization, and valuation of all assets in which the community has or may have an interest and debts for which the community is or may be liable, and to provide equal access to all information, records, and books that pertain to the value and character of those assets and debts, upon request."

FN4. With exceptions not pertinent here, section 721, subdivision (b) provides that "in transactions between themselves, a husband and wife are subject to the general rules governing fiduciary relationships which control the actions of persons occupying confidential relations with each other. This confidential relationship imposes a duty of the highest good faith and fair dealing on each spouse, and neither shall take any unfair advantage of the other. This confidential relationship is a fiduciary relationship subject to the same rights and duties of nonmarital business partners, as provided in Sections 16403, 16404, and 16503 of the Corporations Code, including, but not limited to, the following:

"(1) Providing each spouse access at all times to any books kept regarding a transaction for the purposes of inspection and copying.

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“(2) Rendering upon request, true and full information of all things affecting any transaction which concerns the community property. Nothing in this section is intended to impose a duty for either spouse to keep detailed books and records of community property transactions.

“(3) Accounting to the spouse, and holding as a trustee, any benefit or profit derived from any transaction by one spouse without the consent of the other spouse which concerns the community property.”

*6 Although Kara's failure to promptly exercise the CTP options may have resulted in a loss to the community, there is no evidence to support the court's implied finding that Kara's conduct was grossly negligent, reckless, or intentional misconduct. Such a finding would require us to draw the unsupported inference that Kara should have known in advance what price would ultimately be the highest or that she could have predicted that after the price dropped it would not rebound before the options expired.

Although Kara might have been able to accomplish a cashless transaction in December 1999 as Michael argues, he presented no evidence to show that her failure to do so was grossly negligent or reckless, let alone intentional misconduct. Michael points to Kara's remark: “so much for the options” as indicating to him that she believed she had forfeited the options. We fail to see the import of this evidence. The remark is, at best, ambiguous. Furthermore, Michael had declined to sell the existing CTP stock in December and had been willing to risk losing money on it while waiting for the most tax-advantageous time to sell. If Michael's decision was not a breach of his duty, it follows that Kara's failure to exercise the options immediately upon her resignation was not a breach, either.

We conclude that viewed in the light most favor-

able to the judgment, there is insufficient evidence to support the conclusion that Kara breached her fiduciary duty by failing to exercise the remaining CTP options. We shall modify the judgment to strike the reimbursement the family court ordered in connection with this claim.

Michael's Breach of Fiduciary Duty

(The Marimba Stock)

Background

In the course of his employment with Marimba, Michael earned a number of stock options, all of which he exercised. Once the stock itself was vested, Marimba would deposit it directly into an account in the employee's name at one of two financial institutions, Deutsche Banc Alex Brown (Alex Brown) or one other. After Michael and Kara had separated, Michael opened an Alex Brown account for the deposit of Marimba shares when they vested. By February 2000, Marimba had deposited 27,152 shares of stock into this account. Most of the stock was community property. The stock was restricted (could not be traded) until April 2000.

When Michael moved to the East Coast, he opened a different Alex Brown account in New York and the community Marimba shares were transferred to it. Michael opened this account as a margin account. He deposited his own cash into the New York Alex Brown account, purchased more shares of Marimba for himself, and bought and sold other stocks as well. He never sold any of the community's Marimba shares.

The Marimba stock price steadily declined from April 2000, when it traded at \$34.50, to June 2001, when it was \$2.11 per share. The most precipitous decline took place in the first part of October 2000, when the stock lost more than half its value in one day. To protect the stock, Michael deposited more

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of his own cash into the Alex Brown account. He also deposited money he obtained as loans from friends as well as some of his brother's stocks. Michael added his brother as a joint tenant on the Alex Brown account sometime in June 2000. Michael did not know that the legal definition of a joint tenant meant that the co-owner had a right of survivorship.

*7 Michael did not consult with Kara about the transactions he conducted on his own behalf through the Alex Brown account or about adding his brother as a joint tenant. In fact, Michael did not personally tell Kara about the existence of the Alex Brown account since, according to Michael, by the time the account was opened most of his communication with Kara was conducted through counsel.

In October 2000, through his attorney, Michael asked Kara what they should do about the Marimba shares because the prices were falling. Kara's attorney responded by directing that all the stock be sold immediately. Michael did not want to sell the stock at that time, so he offered to transfer half the shares to Kara for her to deal with as she pleased. In order to effect the transfer, Michael's attorney sent transfer forms to Kara's attorney. There were blanks on the forms for the broker to fill in. In the cover letter, Michael's attorney told Kara's attorney that Kara could contact the broker directly if she had any questions. Kara refused to sign the documents because of the blanks and took no further action on the subject.

At trial, Kara claimed that Michael breached his fiduciary duty in handling the Marimba stock. Kara argued that Michael had concealed the location of the stock until their October 2000 communications, when the stock had already lost much of its value. She also contended that Michael had jeopardized the community's interest in the stock by margining the account and by granting his brother joint tenancy. In relief, Kara demanded a cash set-off in the amount \$445,093.80, which represents half the net amount the community would have realized if the stock had been sold at its highest price after becoming unrestricted. Her theory was that by concealing

the location of the stock and margining the account, Michael had prevented her from selling the stock when it was worth the most.

The family court concluded that Kara had failed to sustain her burden of proof. Kara contends the ruling is error.

Analysis

On appeal, Kara reiterates her argument that Michael breached his fiduciary duty by failing to disclose the location of the stock. In order to prevail on a cause of action for breach of fiduciary duty, Kara has the burden to prove both the breach of duty and damage proximately caused by that breach. (See *Pierce v. Lyman* (1991) 1 Cal.App.4th 1093, 1101.) Even assuming that Michael's failure to disclose the location of the stock was a breach of his duty, Kara has not demonstrated any damage caused by the breach. She contends that his concealment prevented her "from taking any steps to protect the community's interest in the asset." But there is no evidence to support a finding that she would have done so.

The family court found that Kara was aware that Michael had received the actual shares. There is ample evidence in the record to support this finding. Kara admitted that during marriage she and Michael purchased all the interest in Marimba to which Michael was entitled. Kara subpoenaed documents from Marimba in November 1999. In January or February 2000, Kara inquired about the stock and was informed that it was then restricted. And in April 2000, the same month the shares became unrestricted, she took Michael's deposition. Since Kara knew the community owned the stock, Michael's failure to personally inform her about where the shares were held did not prevent her from demanding their sale. Yet there is no evidence that Kara ever made such a demand or even suggested selling the stock. To the contrary, Kara insisted that she was opposed to selling the stock in October and refused to cooperate in accepting a transfer of the

shares so that she could sell them if she desired.

*8 Second, Kara contends that Michael breached his duty by reckless, speculative stock trading and using the community's Marimba stock as collateral for his investments. That is, as the Marimba stock price plummeted between April and October 2000, its value as collateral diminished, and Michael faced the possibility of having to sell it in order to pay back some of what he had borrowed. But Michael went to great lengths to preserve the stock. He deposited his own funds and got loans from friends and family to avoid a forced sale. There was likewise no evidence that Michael's designation of his brother as a joint tenant caused any harm to the community interest. So again, assuming Michael's margining of the Alex Brown account and his inclusion of his brother on the title breached his duty to the community, the community was not damaged by either act because Michael ultimately protected the stock.

Embedded in Kara's argument is the suggestion that Michael should have sold the stock sometime before October 2000 when the community could have made a great deal of money. As we explained in connection with Kara's handling of the CTP options, to conclude that Michael's failure to sell the stock at its high price would require that we draw the unsupported inference that Michael should have known, without benefit of hindsight, the optimal time to sell. In any event, there was no evidence that holding the shares until October was grossly negligent or reckless or intentional misconduct.

The family court correctly concluded that Kara failed to prove her claim for breach of fiduciary duty.

Charles Schwab Account 8188

Background

On the date of separation, the 8188 account held all the Tivoli/IBM stock, the CTP stock, other stocks,

and cash. The parties agreed that the CTP stock was entirely community. The Tivoli/IBM was a mix of Michael's separate property and community property.

Kara retained Sally White as her accounting expert. White viewed the 8188 account as containing sub accounts of community and separate property. When the account was opened, Michael's separate property share of the account was about 60 percent and the community share was 40 percent. A small amount of Kara's separate property was added sometime later.

Beginning when the account was opened, White characterized all transactions into and out of the account as either community or separate. For example, she treated the withdrawal of \$394,000 to purchase the parties' residence as a debit to the community's share. An IBM dividend would be credited pro rata according to the proportion of community and separate interests in the IBM stock. White applied and characterized the transactions through the valuation date, which was February 28, 2002, just shortly before trial.

Given the mixture of property in the 8188 account, White believed that the most equitable way of dividing it was to look at it as one pot of money with each party having a percentage interest. White determined the proportionate share of each sub account on the valuation date. She then determined the total value of the account by adding the cash to the market value of all the securities on that day. The character of the individual assets was disregarded and the parties' were allocated a pro rata share of the total value of the account. White calculated the total value on the valuation date as including \$248,305 attributable to the community and \$724,893 to Michael's separate property. That put Michael's total interest at 87.2 percent and Kara's share was 12.8 percent.

*9 Michael's expert, Michael Thompson adopted White's pooling method, although he criticized it as potentially distorting the allocation. The main dif-

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ference between White's report and that of Thompson involved three changes to the figures. Thompson recharacterized a \$40,000 debit as coming from community rather than from Michael's separate property; he added a small amount received as a dividend from IBM that White had missed; and he adjusted White's characterization of 2,598 shares of IBM stock deposited in 1997. Thompson's analysis reduced the community's interest in the account to \$16,293.23. Michael's separate property interest was increased to \$956,712.87. The parties' pro rata shares were 98.9 percent and 1.1 percent. Neither expert provided an opinion that divided the 8188 account by dividing the stocks in kind.

The family court adopted Thompson's analysis.^{FN5}The dollar amount of Kara's 1.1 percent share was \$10,726.34, which represented half the value of the community property in the account on the valuation date (\$16,293.23) and all of the value of her separate property (\$2,577.75). In order to take into consideration that the value of the account will have fluctuated by the time it is actually divided, the judgment directs that any overage or shortage be added to or deducted from each party's share, pro rata.

FN5. The court's order refers to July 6, 1999 as the date of valuation. The record is clear, however, that the figures the court chose were based upon a valuation date of February 28, 2002. The July 6, 1999 date refers to the agreed date of separation.

Kara now contends that the family court's division of the 8188 account is facially improper because she did not receive half of the community's IBM and CTP stocks.

Analysis

There is no question that the trial court is bound to divide the community property equally between the spouses. (§ 2550.) In so doing the trial court pos-

sesses broad discretion to determine the manner in which the property should be divided in order to accomplish an equal division. (*In re Marriage of Cream* (1993) 13 Cal.App.4th 81, 88.)As long as the court's determination is within the range of the evidence presented, the court also has broad discretion to determine the value of community assets. (*Ibid.*) On appeal, the court's factual findings will be upheld if supported by substantial evidence. We review the court's order for abuse of discretion. (*In re Marriage of Quay* (1993) 18 Cal.App.4th 961, 966.)

The family court adopted Thompson's analysis and, by extension, White's method of division. Kara now claims that White's method was not based upon "a legally proper characterization and division of the assets in the account," citing Thompson's criticism. To remedy the problem, Kara argues that the IBM and CTP stock must be divided in kind and any proceeds or dividends from either must be divided exactly in half. She does not say how the balance of the account, if there is a balance, should be treated.

There are several reasons to reject Kara's argument. First, Kara cites no authority for her contention that the pooling method of division is legally improper. Our review is necessarily limited to issues that have been adequately raised and supported in the briefs. (*Reyes v. Kosha* (1998) 65 Cal.App.4th 451, 466.)Second, Kara waived the argument by failing to raise it below. The court's proposed statement of decision specified the use of the White/Thompson pooling method. In her 70 pages of objections to the trial court's proposed statement of decision, Kara did not object to the method of division. Third, if the method was improper, Kara invited the error because it was she who offered it. (*In re Marriage of Ilas* (1993) 12 Cal.App.4th 1630, 1640.)To the extent it skewed the allocation, it could have skewed it either way. Kara complains now only because she believes it was skewed in Michael's favor.

*10 In any event, the court's order represents a substantially equal division of the community's interest

in the account. When the 8188 account was opened in 1996, Kara's own expert opined that the community's interest was 40 percent and Michael's separate property share was 60 percent. Over the course of the marriage, funds were regularly moved in and out of the account, and much of that which was removed was for community purchases. Michael's separate property remained intact, which explains why the community's proportionate share decreased over time. More directly pertinent is the fact, omitted from Kara's opening brief, that the parties sold 3000 shares of community IBM stock and withdrew \$341,400 in community funds just months before the valuation date. This withdrawal alone accounts for a good part of the diminished community interest in the account.

In short, Thompson's evaluation was substantial evidence that the total value of the community property in the account on the valuation date was \$16,293.23 and that the value of Kara's separate property was \$2,577.75. The court's award to Kara of \$10,726.34 includes half the value of the community property contained in the account. There was no abuse of discretion.

Sanctions

Background

Following trial, Michael moved for an award of attorney's fees and costs under section 271. In connection with his motion, Michael's counsel submitted declarations explaining that Michael's total litigation expenses were around \$170,000. His attorney's fees were over \$136,000. Pursuant to section 271, Michael asked the court to award him \$120,000 in fees and \$30,786.54 in costs.

The family court granted the motion in the full amount Michael had requested plus an additional \$5,000 for attorney's fees. The court found that Kara had "ha[d] engaged in actions and made totally baseless demands that frustrated any possib-

ility of settlement; that were without basis in fact, but rather based primarily on emotion; that were undertaken at her sole direction and with the perception by the Court as being contrary to the advice of her own counsel; by providing, at best, incomplete and misleading information to her own forensic accountant; the cumulative impact of all of the foregoing necessitating [Michael] to go to significant time and expense to respond thereto, not only as to the extensive trial herein but by means of motions precedent thereto; ..."

Kara argues that some of the grounds for the sanctions lacked merit and that the amount of the award "exceeded the extent and severity of the sanctioned conduct."

Analysis

Section 271, subdivision (a), provides that a court may base an award of attorney's fees and costs "on the extent to which the conduct of each party or attorney furthers or frustrates the policy of the law to promote settlement of litigation and, where possible, to reduce the cost of litigation by encouraging cooperation between the parties and attorneys." An award of attorney's fees and costs under section 271 is in the nature of a sanction; the moving party need not show any financial need for the award. (*Ibid.*) Our review is for abuse of discretion. " '[T]he trial court's order will be overturned only if, considering all the evidence viewed most favorably in support of its order, no judge could reasonably make the order made. [Citations.]' [Citation.]" (*In re Marriage of Sullivan* (1984) 37 Cal.3d 762, 769.) The complaining party has the burden to establish abuse of discretion. "The showing on appeal is insufficient if it presents a state of facts which simply affords an opportunity for a difference of opinion." (*In re Marriage of Rosevear* (1998) 65 Cal.App.4th 673, 682.)

*11 Applying this deferential standard of review, we find no abuse of discretion. There is ample evidence that Kara was unreasonable in her settlement demands. For example, Kara had demanded reim-

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bursement of \$1.2 million, which was half of the “highest market value of the [Marimba] stock prior to the stock's loss in value.” Kara made similar unreasonable demands with respect to other assets or transactions, essentially arguing that Michael should have and could have managed their stock portfolio to avoid the decline in value that occurred when the market collapsed a year or so after the couple separated.

Further, Kara was unable to produce evidence to support several of her claims. Kara had claimed that all the Tivoli/IBM stock was community property by virtue of Michael's “written agreement” to that effect. Although Kara insisted at trial that Michael had promised to give her half of his Tivoli/IBM stock if she would marry him and resign her job to have children, at trial she denied that the promise was ever reduced to writing. Kara also claimed \$75,000 in damage to the couple's Los Altos residence, which she alleged resulted from Michael's removal of a washing machine. At trial she increased the amount of the claim but ultimately withdrew it altogether for lack of evidence to support it.

Kara was uncooperative in the course of the litigation and caused unnecessary delay and expense. Kara would not cooperate in the transfer of the Marimba stock even after her attorney had demanded that the stock be sold. She resisted Michael's efforts to sell their home after both of them had moved out of state. Kara took numerous unnecessary depositions, including those of Michael's parents in Connecticut and Kara's former neighbors in Los Angeles. She also attempted to take the deposition of Michael's therapist, which required Michael to file a motion to quash the deposition subpoena to protect his confidential communications.

Our own review of the record is consistent with the family court's observation that Kara's trial testimony was vague and evasive. She rarely answered a question without equivocating. And finally, we defer to the family court's determination that Kara's testimony was not credible.

In light of the foregoing and the fact that the amount of the award is consistent with the evidence of the fees and costs that Michael actually incurred, we cannot say that no judge would have made the order that the family court made here. There was no abuse of discretion.

DISPOSITION

The judgment is modified as follows:

Page 1, paragraph 1, subdivision (b) is stricken in its entirety.

Page 3, paragraph 9 is modified to read:

“The funds in Charles Schwab account No. 2513-8205 are divided between the parties as follows:

“a) To Petitioner, the sum of \$161,964, as her share of community funds;

“b) To Respondent, the sum of \$161,964, as his share of community funds;

“c) To Respondent, the sum of \$3,106.07 as his separate property;

*12 “d) Any overage or shortage in the account from \$327,034.07 (the total of (a), (b) and (c)) shall be added or deducted from each party's share in a pro rata, percentage manner based upon the amounts stated herein. (Petitioner's percentage share is 49.5 percent and Respondent's percentage share is 50.5 percent.)”

As modified the judgment is affirmed.

The parties shall bear their own costs on appeal.

WE CONCUR: RUSHING, P.J., and ELIA, J.

Cal.App. 6 Dist., 2004.

In re Marriage of Kapczynski

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EXHIBIT C



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Benitec Australia, Ltd. v. Nucleonics, Inc.
 C.A.Fed. (Del.),2007.

United States Court of Appeals,Federal Circuit.
 BENITEC AUSTRALIA, LTD., Plaintiff-Appellee,
 v.
 NUCLEONICS, INC., Defendant-Appellant.
No. 06-1122.

July 20, 2007.

Background: Patent holder brought action against competitor alleging infringement of patent that related to human application of RNA-based disease therapy through gene silencing. Competitor counterclaimed seeking declaratory judgment of invalidity and unenforceability. The United States District Court for the District of Delaware, Joseph J. Farnan, Jr., J., 2005 WL 2415959, dismissed patent holder's claims on patent holder's motion and then dismissed competitor's declaratory judgment invalidity and unenforceability counterclaims for lack of subject matter jurisdiction. Competitor appealed.

Holdings: The Court of Appeals, Whyte, District Judge, sitting by designation, held that:

- (1) sufficient immediacy and reality did not exist to support declaratory judgment jurisdiction, and
- (2) competitor's vaguely defined potential expansion to animal husbandry and veterinary products did not meet immediacy and reality requirement.

Affirmed.

Dyk, Circuit Judge, filed dissenting opinion.

West Headnotes

[1] Declaratory Judgment 118A 341.1

118A Declaratory Judgment
 118AIII Proceedings
 118AIII(E) Evidence

118Ak341 Presumptions and Burden of Proof

118Ak341.1 k. In General. Most Cited Cases

A party seeking to base jurisdiction on the Declaratory Judgment Act bears the burden of proving that the facts alleged, under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment. 28 U.S.C.A. § 2201.

[2] Declaratory Judgment 118A 341.1

118A Declaratory Judgment

118AIII Proceedings

118AIII(E) Evidence

118Ak341 Presumptions and Burden of Proof

118Ak341.1 k. In General. Most Cited Cases

Burden is on the party claiming declaratory judgment jurisdiction to establish that such jurisdiction existed at the time the claim for declaratory relief was filed and that it has continued since. 28 U.S.C.A. § 2201.

[3] Declaratory Judgment 118A 232

118A Declaratory Judgment

118AII Subjects of Declaratory Relief

118AII(L) Patents

118Ak231 Patents

118Ak232 k. Validity of Patents. Most Cited Cases

Sufficient immediacy and reality did not exist to support declaratory judgment jurisdiction over competitor's invalidity and unenforceability counterclaims after court granted patent holder's motion to voluntarily dismiss its claims of infringement of patent that related to human application of RNA-based disease therapy through gene silencing, since competitor did not anticipate filing new drug ap-

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plication (NDA) for number of years, if ever. 28 U.S.C.A. § 2201; 35 U.S.C.A. § 271(a), (e)(1).

[4] Declaratory Judgment 118A 232

118A Declaratory Judgment

118AII Subjects of Declaratory Relief

118AII(L) Patents

118Ak231 Patents

118Ak232 k. Validity of Patents. Most

Cited Cases

Competitor's vaguely defined potential expansion to animal husbandry and veterinary products with product that was based on RNA-based disease therapy through gene silencing did not meet immediacy and reality requirement necessary to establish justiciable case or controversy to support declaratory judgment jurisdiction over competitor's invalidity and unenforceability counterclaims after court granted patent holder's motion to voluntarily dismiss its claims of infringement of patent that related to human application of RNA-based disease therapy through gene silencing. 28 U.S.C.A. § 2201; 35 U.S.C.A. § 271(a), (e)(1).

Patents 291 328(2)

291 Patents

291XIII Decisions on the Validity, Construction, and Infringement of Particular Patents

291k328 Patents Enumerated

291k328(2) k. Original Utility. Most

Cited Cases

6,573,099. Cited.

***1341** Scott A.M. Chambers, Patton Boggs, LLP, of McLean, VA, argued for plaintiff-appellee. On the brief were Marc R. Labgold, Kevin M. Bell, and Richard J. Oparil, of Washington, DC.

Jason A. Lief, McDermott, Will & Emery, of New York, NY, argued for defendant-appellant. With him on the brief were Dennis J. Mondolino, and Christine A. Pepe.

Before RADER and DYK, Circuit Judges, and WHYTE, District Judge. ^{FN*}

FN* Honorable Ronald M. Whyte, District Judge, United States District Court for the Northern District of California, sitting by designation.

Opinion for the court filed by District Judge WHYTE. Dissenting opinion filed by Circuit Judge DYK.

WHYTE, District Judge.

Nucleonics, Inc. (“Nucleonics”) appeals from the judgment of dismissal for lack of subject matter jurisdiction entered by the United States District Court for the District***1342** of Delaware on Nucleonics's declaratory judgment counterclaims against Benitec Australia, Ltd. (“Benitec”). We affirm.

I. BACKGROUND

On March 22, 2004, Benitec sued Nucleonics for infringing U.S. Patent No. 6,573,099 (“099 patent”), which relates to RNA-based disease therapy. Both parties are biotechnology companies that are engaged in gene silencing, which involves silencing the expression of disease-causing genes. A cell is exposed to a piece of foreign DNA that is specifically engineered to contain certain portions or copies of the target gene to be silenced. The foreign DNA then produces other molecules (double-stranded RNA) that shut down the expression of the target gene. This technology is known as RNA interference (“RNAi”) gene silencing.

Nucleonics filed a timely answer to the complaint on March 24, 2004. On July 13, 2004, Nucleonics moved to dismiss Benitec's complaint and argued:

Nucleonics now moves to dismiss Benitec's complaint for lack of jurisdiction and failure to state a claim upon which relief can be granted.... Simply stated, Benitec has shot before there is even a target. Nucleonics' accused activities are directed to developing and submitting information to the U.S. Food and Drug Administration ... and are therefore exempt from infringement under 35 U.S.C. §

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271(e)(1)....

Further, Nucleonics contended that:

it [would] not be ready to file a New Drug Application to manufacture and market a new drug product until at least 2010-2012, if ever, depending on the progress of its clinical trials.... As a result, Benitec lacks a statutory basis to sue for infringement at this time, and it is premature for this Court even to entertain such a claim.

The court denied the motion, but without prejudice to reconsideration depending upon the outcome of the Supreme Court's review of *Integra Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860 (Fed.Cir.2003).

On October 4, 2004, Nucleonics filed a request with the U.S. Patent and Trademark Office ("PTO") for reexamination of the '099 patent.^{FN1}

FN1. Nucleonics filed a second request for reexamination on May 18, 2006. In both instances, the PTO ordered reexamination of the '099 patent. The PTO recently merged the two proceedings. Benitec canceled claims 1, 2, and 8 during the reexamination. In April 2006, the examiner rejected all other claims of the patent in a non-final office action. In June 2006, Benitec submitted argument in an attempt to overcome the rejection, to which the examiner had not substantively responded as of December 13, 2006.

In 2005, Benitec encountered a pair of obstacles. First, Nucleonics received evidence indicating that the inventor named in the '099 patent may have misappropriated the idea for the invention from others, or at least should have named others as co-inventors on the patent application. On February 16, 2005, Nucleonics sought leave of court to amend its answer and add declaratory relief counterclaims of invalidity and unenforceability based upon alleged inventorship fraud. After some dis-

covery skirmishes, Nucleonics obtained testimony in June 2005 from Australian scientists Peter Waterhouse and Ming-Bo Wang that they had contributed to the subject matter of the '099 patent. Neither, however, is named as an inventor in the '099 patent.

Second, and in the same month, the Supreme Court decided *Merck KGaA v. Integra Lifesciences I, Ltd.*, reading expansively the pharmaceutical research exception of § 271(e)(1). 545 U.S. 193, 125 S.Ct. 2372, 162 L.Ed.2d 160 (2005).

*1343 On August 1, 2005, Benitec moved to dismiss its complaint without prejudice under Federal Rule of Civil Procedure 41(a)(2). Benitec claims it sought dismissal only because the *Merck* decision indicated that it had no presently viable infringement claim against Nucleonics. Nucleonics, on the other hand, claims Benitec sought dismissal in an attempt to prevent the district court from declaring the '099 patent invalid.

The district court granted Nucleonics's motion to amend its answer on September 14, 2005. Two weeks later, however, the court granted Benitec's motion to dismiss its complaint without prejudice and dismissed Nucleonics's counterclaims for lack of jurisdiction under the Declaratory Judgment Act, 28 U.S.C. §§ 2201-02.

During the time between the filing of Nucleonics's motion to amend to assert its counterclaims and the court's dismissal of those counterclaims, Nucleonics allegedly began discussing expanding its efforts beyond human health to animal husbandry and veterinary products.

Nucleonics appeals the dismissal of its declaratory judgment counterclaims. In its appellee's brief, Benitec "covenants and promises not to sue Nucleonics for patent infringement arising from activities and/or products occurring on or before the date dismissal was entered in this action-September 29, 2005."

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The critical question on appeal is whether, in light of the circumstances, the court at this time has declaratory judgment jurisdiction over Nucleonics's counterclaims seeking declarations of invalidity and unenforceability of Benitec's '099 patent.

II. ANALYSIS

A. Developments Following Notice of Appeal

Subsequent to the oral argument in this case, the Supreme Court decided *MedImmune, Inc. v. Genentech, Inc.*, --- U.S. ---, 127 S.Ct. 764, 166 L.Ed.2d 604 (2007). In view of that decision, particularly footnote 11 expressing disapproval of our previously used “reasonable apprehension of imminent suit” test for determining declaratory judgment jurisdiction,^{FN2} we requested further briefing. The court has considered that briefing and is now also informed by this court's recent decisions in *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, 482 F.3d 1330 (Fed.Cir.2007), and *SanDisk Corp. v. STMicroelectronics NV*, 480 F.3d 1372 (Fed.Cir.2007), both of which involve the application of the standards set forth in *MedImmune* for determining declaratory judgment jurisdiction.

FN2. The *MedImmune* Court noted that the “reasonable apprehension of imminent suit” test is an evolved form of the “reasonable apprehension of suit” test, which the Court also rejected.

B. Standard for Determining Declaratory Relief Jurisdiction

[1] A party seeking to base jurisdiction on the Declaratory Judgment Act bears the burden of proving that the facts alleged, “ ‘under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.’ ” *MedImmune*, 127 S.Ct. at 771 (quoting *Md. Cas.*

Co. v. Pac. Coal & Oil Co., 312 U.S. 270, 273, 61 S.Ct. 510, 85 L.Ed. 826 (1941)). Prior to *MedImmune*, our case law required that there be “both (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement *1344 suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity.” See, e.g., *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed.Cir.1993). However, “[t]he Supreme Court's opinion in *MedImmune* represents a rejection of our reasonable apprehension of suit test.” *SanDisk*, 480 F.3d at 1380; see also *Teva*, 482 F.3d at 1339. In *MedImmune*, the Supreme Court held that in order for a court to have jurisdiction over a declaratory judgment action:

the dispute be definite and concrete, touching the legal relations of parties having adverse legal interests; and that it be real and substantial and admit 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. 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.

127 S.Ct. at 771 (internal citation and quotations omitted).

In *SanDisk*, we further explain:

Article III jurisdiction may be met where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do.... We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise

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and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.

SanDisk, 480 F.3d at 1381. A useful question to ask in determining whether an actual controversy exists is what, if any, cause of action the declaratory judgment defendant may have against the declaratory judgment plaintiff:

The concepts of “adverse legal rights” and “legal risk,” used in [prior] cases to describe the standard for jurisdiction require 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 cognizable interest sufficient to confer declaratory judgment jurisdiction.

Microchip Tech. Inc. v. Chamberlain Group, Inc., 441 F.3d 936, 943 (Fed.Cir.2006).

[2] The burden is on the party claiming declaratory judgment jurisdiction to establish that such jurisdiction existed at the time the claim for declaratory relief was filed and that it has continued since. *See Steffel v. Thompson*, 415 U.S. 452, 459 n. 10, 94 S.Ct. 1209, 39 L.Ed.2d 505 (1974); *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed.Cir.1995); *Int'l Med. Prosthetics Research Assocs., Inc. v. Gore Enter. Holdings, Inc.*, 787 F.2d 572, 575 (Fed.Cir.1986). “If ... a party has actually been charged with infringement of the patent, there is, *necessarily*, a case or controversy adequate to support jurisdiction” at that time. *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96, 113 S.Ct. 1967, 124 L.Ed.2d 1 (1993). Further, once that burden has been met, *absent further information*, that *1345 jurisdiction continues. *Id.* at 98, 113 S.Ct. 1967. The burden of bringing forth such further information may logically rest with the party challenging jurisdiction, *see id.* at 98, 113 S.Ct. 1967, but the actual burden of proof remains with the party seeking to invoke jurisdiction. *See*

Super Sack, 57 F.3d at 1058; *Int'l Med. Prosthetics Research Assocs.*, 787 F.2d at 575. “The rule in federal cases is that an actual controversy must be extant at all stages of review, not merely at the time the complaint [was] filed.” *Steffel*, 415 U.S. at 459 n. 10, 94 S.Ct. 1209.

The dissent's view that *Cardinal Chemical* holds that “the burden shifts to the party seeking to divest the court of jurisdiction to prove there is no longer a current case or controversy” reads more into the language of *Cardinal Chemical* than is justified. First, the Supreme Court makes clear at the outset of its opinion that “[the] practice [the Federal Circuit's uniform practice of declaring the issue of validity moot if it affirms the district court's finding of noninfringement], and the issue before us, therefore concern the jurisdiction of an intermediate appellate court—not the jurisdiction of either a trial court or this Court. In the trial court, of course, a party seeking a declaratory judgment has the burden of establishing the existence of an actual case or controversy.” 508 U.S. at 95, 113 S.Ct. 1967. Further, the Court only said that “[i]f a party to an appeal suggests that the controversy has, since the rendering of the judgment below, become moot, that party bears the *burden of coming forward* with subsequent events that have produced that alleged result.” *Id.* at 98, 113 S.Ct. 1967 (emphasis added). The Court did not hold that the ultimate burden of proof in the trial court was on other than the party seeking to invoke declaratory judgment jurisdiction.

With the basic principles for determining declaratory judgment jurisdiction in mind, we analyze the question of whether the court currently has declaratory judgment jurisdiction over Nucleonics's counterclaims.

C. Application of Standard for Declaratory Judgment Jurisdiction

1. Declaratory Judgment Jurisdiction Existed at the Time Nucleonics Filed its Counterclaims

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[3] At the time Nucleonics filed its counterclaims for declarations of invalidity and unenforceability, Benitec's patent infringement claims were pending. Because Nucleonics had been charged with infringement of the '099 patent, there was, as dictated by *Cardinal Chemical*, necessarily a case or controversy adequate to support jurisdiction at that time. *See id.*

2. Declaratory Judgment Jurisdiction at the Present Time

a. Human Application of RNAi

Cardinal Chemical, however, does not address whether subsequent events can divest the district court of jurisdiction, specifically here, over Nucleonics's counterclaims. This court has rejected the argument that subsequent events cannot divest the trial court of jurisdiction, noting that *Cardinal Chemical* dealt primarily with this court's previous practice of vacating findings of patent invalidity as moot in light of non-infringement. *Super Sack*, 57 F.3d at 1060; *see also Amana Refrigeration, Inc. v. Quadlux, Inc.*, 172 F.3d 852, 855 (Fed.Cir.1999).

In *Super Sack*, we found that Super Sack's unconditional agreement "not to sue Chase for infringement as to any claim of the patents-in-suit based upon the products currently manufactured and sold by Chase" was sufficient to divest the court of jurisdiction over Chase's counterclaims for non-infringement, invalidity and unenforceability*1346 because Chase was engaged in no "present activity" placing it at risk of an infringement suit and Chase did not claim it was planning to make any new infringing product. 57 F.3d at 1059-60 (quoting *BP Chems.*, 4 F.3d at 978). We further explained that "[t]he residual possibility of a future infringement suit based on Chase's future acts is simply too speculative a basis for jurisdiction over Chase's counterclaim for declaratory judgments of invalidity." *Id.* at 1060.

In *Amana Refrigeration*, Amana sued Quadlux for "declaratory judgments of patent invalidity and noninfringement." 172 F.3d at 855. Quadlux responded with a promise not to sue Amana for patent infringement based on the patent-in-suit "as it presently reads, with respect to any product currently advertised, manufactured, marketed or sold by Amana, or any product which was advertised, manufactured, marketed or sold by Amana prior to the date of" the promise. *Id.* We held that this promise divested the district court of jurisdiction, notwithstanding that at some indefinite point in the future, Amana might develop new products or the PTO might reissue the patent-in-suit with altered claims. *Id.* at 855-56.

Although neither *Super Sack* nor *Amana* has been expressly overruled, both applied the disapproved "reasonable apprehension of imminent suit" test. Therefore, although the holdings in both cases are not necessarily dependent on the "reasonable apprehension of imminent suit" requirement, we nevertheless base our analysis of whether jurisdiction currently exists over Nucleonics's declaratory judgment counterclaims strictly on the framework of *MedImmune*.

Nucleonics is currently researching applications of RNAi with an eye to treating human diseases, such as hepatitis B. Section 271(e)(1) of Title 35 of the United States Code provides:

It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act and the Act of March 4, 1913) which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

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The parties have now both taken the position that Nucleonics's present activities related to the human medical application of RNAi are, in light of § 271 and the Supreme Court's decision in *Merck*, not infringing and cannot become infringing until after Nucleonics files a new drug application (“NDA”) with the U.S. Food and Drug Administration (“FDA”). Nucleonics took this position, which the dissent does not mention, even before the decision in *Merck*. Benitec acknowledged lack of infringement later when it moved to dismiss its infringement claims. Nucleonics does not even anticipate filing an NDA before “at least 2010-2012, if ever.” Therefore, Nucleonics's activities of developing and submitting information to the FDA related to human application of RNAi does not present a case or controversy of sufficient immediacy and reality to warrant declaratory judgment jurisdiction over the enforceability of the '099 patent. The fact that Nucleonics may file an NDA in a few years does not provide the immediacy and reality required for a declaratory judgment. The situation is analogous to that in **1347Telectronics Pacing Systems, Inc. v. Ventritex, Inc.*, 982 F.2d 1520, 1527 (Fed.Cir.1992), where we affirmed the district court finding that a defibrillator component manufacturer's claim for future patent infringement lacked a sufficient allegation of immediacy to support a declaratory judgment action since the potentially infringing defibrillator had only recently begun clinical trials and was years away from possible FDA approval.

Nucleonics argues that *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1342 (Fed.Cir.2005), supports its position that the court has jurisdiction. In *Fort James*, the plaintiff sued Solo Cup for infringement of three patents. Solo Cup “counterclaimed for declarations that the patents were invalid, unenforceable, and not infringed.” *Id.* at 1343. The district court bifurcated the proceedings; all issues were to be tried to a jury first, except Solo Cup's unenforceability counterclaim, which was to be tried by the court following the jury trial. *Id.* at 1344. The jury found that one of the

patents-in-suit was neither invalid nor infringed. *Id.* at 1345. Fort James then promised not to sue Solo Cup on any of the three patents for any product Solo Cup currently or previously manufactured and to “not seek to overturn the jury's verdict.” *Id.* Solo Cup nonetheless wished to press forward with its declaratory claim for invalidity of one of the patents. *Id.* We held that there was still declaratory judgment jurisdiction over Solo Cup's counterclaim. *Id.* at 1349. The majority stated that Fort James's promise not to sue “had no effect on Fort James's claim for infringement, because that controversy had already been resolved by the jury's verdict.” *Id.* at 1348. The majority concluded that “the jury verdict holding that Solo Cup did not infringe Fort James's patents did not moot Solo Cup's counterclaim for unenforceability nor did it act to divest the district court of jurisdiction to hear that unlitigated counterclaim.” *Id.*

Contrary to Nucleonics's assertions, *Fort James* does not compel jurisdiction here. The instant setting is different because no trial of the infringement issue has taken place. Benitec instead had its claims dismissed at its request before a trial and the considerable effort connected therewith had taken place. The court in *Fort James* distinguished *Super Sack* on this “unique procedural posture”:

In *Super Sack* and its progeny, the patentee's covenant not to sue was filed prior to consideration or resolution of the underlying infringement claim. In such circumstances, the promise not to sue obviated any reasonable apprehension that the declaratory judgment plaintiff might have of being held liable for its acts of infringement.... Here, however, the Post-Verdict Covenant had no effect on Fort James's claim for infringement, because that controversy had already been resolved by the jury's verdict.

Id. at 1348.

In *SanDisk*, we did hold that the statement of STMicroelectronics NV's (“ST”) vice president of intellectual property and licensing that “ST has ab-

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solutely no plan whatsoever to sue SanDisk” did not eliminate the justiciable controversy created by ST’s actions. 480 F.3d at 1382. However, ST’s statement was made when ST had engaged in a course of conduct that showed a willingness to enforce its patent rights despite its vice-president’s statement. ST had approached SanDisk having made a studied and considered determination of infringement by SanDisk and having communicated that determination to SanDisk. It then only stated that it did not *intend* to sue SanDisk; it did not say it *would not* sue SanDisk in the future for its alleged infringement. *Id.* at 1382-83. In the instant case, Benitec made its covenant and sought dismissal of its infringement claim after it concluded that the *Merck**1348 decision precluded an infringement claim based upon the activities of Nucleonics on which it, Benitec, had instituted its suit. Under these circumstances, there is no controversy between the parties concerning infringement by Nucleonics in its development of human applications of RNAi technology.

b. Animal Application of RNAi

[4] Nucleonics now states, however, that it wishes to expand into animal RNAi products. Such products presumably would not be protected from infringement by § 271(e)(1) because they would appear to fall within its parenthetical exception to the safe harbor that exempts from infringement protection any “new animal drug or veterinary biological product ... which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques.”

Nucleonics submitted to the district court the declaration of its president ^{FN3} who stated:

FN3. Benitec did not raise evidentiary objections to the declaration before the district court and therefore will not be heard to object now.

Nucleonics wishes to expand its efforts beyond human health to animal husbandry and veterinary products. To this end, Nucleonics has entered into discussion with a large supplier of breeding stock for a variety of livestock food species regarding their needs and how RNA interference might be utilized to provide them a competitive advantage. These discussions began around May 25 of 2005; a meeting was held in Nashville on July 27. Nucleonics has executed a confidentiality agreement between the parties, which is a prerequisite to detailed technical discussions. Nucleonics expects work and research involving RNAi technology will commence shortly.

Nucleonics argues that the evidence offered by its president shows a justiciable case or controversy that supports declaratory judgment jurisdiction over its potential expansion to animal husbandry and veterinary products. To be liable as an infringer, Nucleonics must be one who “without authority makes, uses, offers to sell, or sells” a product that infringes the '099 patent. *See* 35 U.S.C. § 271(a). There was no evidence before the district court that Nucleonics had made or sold any infringing product.^{FN4}

FN4. In fact, when Nucleonics moved for leave to file its counterclaims of invalidity and unenforceability on January 16, 2005, it apparently had not even begun discussions about expanding into animal husbandry and veterinary products.

The meaning of “offer to sell” in § 271(a) is the offer of common law contracts. *Rotec Indus. v. Mitsubishi Corp.*, 215 F.3d 1246, 1254-55 (Fed.Cir.2000). The declaration of Nucleonics’s president does not indicate that Nucleonics’s desire to expand into animal markets has yet produced any definite offer which the unnamed “supplier of breeding stock” could accept. Nucleonics has not shown that it is engaged in any “use” of the patented invention that could subject it to an infringement suit by Benitec. Nucleonics has therefore not met its burden of showing that it is engaged in any

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present activity that could subject it to a claim of infringement by Benitec. See *Microchip Tech.*, 441 F.3d at 943. In other words, Nucleonics has not shown that its discussions regarding expansion into animal husbandry and veterinary products meet the immediacy and reality requirement of *MedImmune*. See *MedImmune*, 127 S.Ct. at 771.

Nucleonics has also failed to show that its future plans meet the immediacy and ***1349** reality requirement of *MedImmune* necessary to support a justiciable controversy. Three reasons compel the conclusion that Nucleonics has not done so.

First, Nucleonics's only steps toward potentially-infringing animal research are discussions with an unnamed potential customer and execution of an undescribed confidentiality agreement. Nucleonics merely "expects" to begin work "shortly." We do not doubt the veracity of Nucleonics's president's statements-indeed, there is no evidence to the contrary. However, to allow such a scant showing to provoke a declaratory judgment suit would be to allow nearly anyone who so desired to challenge a patent.

Second, and particularly given the uncertain contours of § 271(e)(1), see *Merck*, 545 U.S. at 202, 125 S.Ct. 2372, Nucleonics has provided insufficient information for a court to assess whether Nucleonics's possible future animal work would be infringing or not. The Supreme Court in *Merck* held that § 271(e)(1)"exempted from infringement *all* uses of patented compounds 'reasonably related' to the process of developing information for submission under *any* federal law regulating the manufacture, use, or distribution of drugs." 545 U.S. at 206, 125 S.Ct. 2372 (emphases in original). Although the allegedly infringing activity at issue in *Merck* did not implicate § 271(e)(1)'s parenthetical exception for animal drugs, here, based on the evidence Nucleonics has presented, one cannot tell if Nucleonics intends to undertake activity that would fall within § 271(e)(1)'s parenthetical exception or would otherwise be infringing.

Third, although Benitec originally argued that animal testing for human use was infringing activity, it has now concluded that such testing falls within § 271(e)(1)'s protection. Benitec has never challenged use of the technology in testing in animals for animal use and claims another company owns any right to do so. In any event, there is no evidence of a justiciable controversy between Benitec and Nucleonics over Nucleonics's vaguely defined potential expansion to animal husbandry and veterinary products.

We recognize that Nucleonics would like to remove any concerns it or its potential investors might have over possible infringement of the Benitec patent. We do not express an opinion on whether Nucleonics's animal work could ever be the subject of an infringement suit. We merely hold that Nucleonics did not carry its burden of showing an existing justiciable controversy. As we observed in *Teva*:

federal courts are to decide only actual controversies by judgment which can be carried into effect, and not to give opinions on moot questions or abstract propositions.... Although there can be a fine line between declaratory judgments and advisory opinions, the Supreme Court maintains the necessity of avoiding issuing advisory opinions on hypothetical facts.

482 F.3d at 1338-39 (internal quotations and citation omitted). We also recognize that Nucleonics wishes to receive the benefit of a ruling on the validity and scope of Benitec's patent now, while Nucleonics undertakes any nascent animal work. There is currently, however, no "substantial controversy, between [Benitec and Nucleonics], of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *MedImmune*, 127 S.Ct. at 771. And there may never be.

III. CONCLUSION

Nucleonics has not made a showing of "sufficient immediacy and reality" to support declaratory judg-

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ment jurisdiction. The district court's judgment of dismissal for lack of jurisdiction is affirmed.

AFFIRMED

***1350** DYK, Circuit Judge, dissenting.

If this declaratory judgment action were filed today, I would agree with the majority that the required case or controversy had not been established. I also agree that there must be a case or controversy at all stages of the litigation. See *Steffel v. Thompson*, 415 U.S. 452, 459 n. 10, 94 S.Ct. 1209, 39 L.Ed.2d 505 (1974). However, in my view, a different test for determining whether there is a case or controversy applies when the allegation of infringement is withdrawn during the course of litigation. Supreme Court precedent requires that, if a patentee files an infringement lawsuit and the particular claim of infringement is mooted, a counterclaim for invalidity should not be dismissed unless the patentee demonstrates that there is no possibility of a future controversy with respect to invalidity. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 98, 113 S.Ct. 1967, 124 L.Ed.2d 1 (1993). In my view, Benitec made no such showing.

I

There is a strong public interest in permitting accused infringers to challenge invalid or unenforceable patents. See *Cardinal Chem.*, 508 U.S. at 100, 113 S.Ct. 1967; *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 345-47, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971); *Lear, Inc. v. Adkins*, 395 U.S. 653, 663-64, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969); *Altwater v. Freeman*, 319 U.S. 359, 364-65, 63 S.Ct. 1115, 87 L.Ed. 1450 (1943). The Declaratory Judgment Act, 28 U.S.C. §§ 2201-02 (1934), plays an important role in facilitating such challenges, in particular by preventing patent holders from threatening enforcement while avoiding litigation that might render the patent invalid or unenforceable. See *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 734-35 (Fed.Cir.1988). The Supreme Court in *MedImmune*,

Inc. v. Genentech, Inc., --- U.S. ---, 127 S.Ct. 764, 166 L.Ed.2d 604 (2007), has recently emphasized the importance the Declaratory Judgment Act plays in protecting against the Hobson's choice of abandoning lawful endeavors or risking liability for infringement.^{FN1} *Id.* at 772-73.

FN1. The Advisory Committee Notes accompanying the 1937 adoption of Federal Rule of Civil Procedure 57 explain that

[t]he controversy must necessarily be of a justiciable nature, thus excluding an advisory decree upon a hypothetical state of facts.... The existence or non-existence of any right, duty, power, liability, privilege, disability, or immunity or of any fact upon which such legal relations depend, or of a status, may be declared.

(internal quotation marks and citations omitted).

Here Benitec sued Nucleonics for infringement of Benitec's patent, broadly alleging that Nucleonics is "engaged in making, using, offering to sell, and selling gene silencing technologies that are the same or equivalent to the technologies claimed in the Benitec patent." J.A. at 71. Nucleonics timely answered the complaint, denying infringement and, nearly ten months later, moved to add declaratory judgment counterclaims asserting invalidity and unenforceability. At the time of Nucleonics's counterclaim filing, it was clear that there was declaratory jurisdiction because "[i]f ... a party has actually been charged with infringement of the patent, there is, necessarily, a case or controversy adequate to support jurisdiction of a complaint, or a counterclaim, under the Act." *Cardinal Chem.*, 508 U.S. at 96, 113 S.Ct. 1967 (emphasis in original); see also *Arrowhead*, 846 F.2d at 736.

Nonetheless, the majority holds that when the accused infringer has been sued ***1351** "[t]he burden is on the party claiming declaratory judgment juris-

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diction to establish that such jurisdiction existed at the time the claim for declaratory relief was filed and that it has continued since.” Op. at 1344. In my view, the majority's approach erroneously applies the same standard for judging continuing declaratory jurisdiction as for judging original declaratory jurisdiction.

II

Here the patentee's manipulative efforts to defeat declaratory jurisdiction are clear enough. After Nucleonics moved to add the counterclaims, the Supreme Court decided *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 125 S.Ct. 2372, 162 L.Ed.2d 160 (2005), which addressed the 35 U.S.C. § 271(e)(1) safe harbor for research.^{FN2} In *Merck*, the Supreme Court clarified that the safe harbor protects any research using a patented compound where the “drugmaker has a reasonable basis for believing that [the] patented compound may work ... to produce a particular physiological effect, and uses the compound in research that, if successful, would be appropriate to include in a submission to the FDA.” *Merck*, 545 U.S. at 207, 125 S.Ct. 2372. The patentee does not claim that *Merck* provides any protection for commercial production of compounds for humans or production of or, even research for, animal compounds.

FN2. Section 271(e)(1) provides:

It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product ... which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information under a Federal law which regulates the

manufacture, use, or sale of drugs or veterinary biological products.

Following the *Merck* decision, Benitec, suggesting that it was unlikely to prevail on infringement claims directed to research on medical compounds for humans, filed a motion to dismiss the case without prejudice under Federal Rule of Civil Procedure 41(a)(2), asserting that there was no longer a continuing case or controversy. As the majority appears to recognize, op. at 1342-43, the motion may well have been motivated by a desire to avoid a patent invalidity determination.

Benitec did not offer a formal covenant not to sue before the district court. Rather, it stated in its motion to dismiss that it “could only bring new claims if Nucleonics is ultimately successful in obtaining FDA approval for its infringing products or otherwise engages in infringing activities not otherwise permitted under the § 271(e) exemption.” J.A. at 1379. Nucleonics opposed the motion to dismiss on several grounds, including that there was a continuing controversy because it had taken “concrete steps ... with the intent to conduct” allegedly infringing activity, including research on drugs for animals. *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed.Cir.1993).^{FN3} The district *1352 court granted the motion to dismiss without prejudice finding that, although “Nucleonics has demonstrated a reasonable apprehension of suit,” it “has not demonstrated that it has produced or has prepared to produce a product that would be the target of an infringement lawsuit by Benitec.” *Benitec Austl. Ltd. v. Nucleonics, Inc.*, No. 04-0174, slip op. at 6-8, 2005 WL 2415959 (D.Del. Sept. 29, 2005).

FN3. Nucleonics submitted the declaration of Robert J. Towarnicki, Nucleonics's president and CEO, stating that:

Nucleonics wishes to expand its efforts beyond human health to animal husbandry and veterinary products. To this end, Nucleonics has entered into discussion with a large supplier of breeding

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stock for a variety of livestock food species regarding their needs and how RNA interference might be utilized to provide them a competitive advantage. These discussions began around May 25 of 2005; a meeting was held in Nashville on July 27. Nucleonics has executed a confidentiality agreement between the parties, which is a prerequisite to detailed technical discussions. Nucleonics expects work and research involving RNAi technology will commence shortly.

J.A. at 1412.

Nucleonics filed this appeal, arguing that Benitec's statement was insufficient to eliminate declaratory jurisdiction. In an effort to defeat jurisdiction, Benitec expanded its representation, stating that its argument to the district court included-and was intended to include-a promise "not to sue Nucleonics for patent infringement arising from activities and/or products occurring on or before the date dismissal was entered in this action-September 29, 2005." Appellee's Br. 45. At oral argument, Benitec again purported to clarify its covenant. Benitec stated that it would not sue "for any research that was going on prior to the dismissal" or "for animal research that was done at the time of the dismissal." Notably, Benitec offered no covenant with respect to future human or animal products or animal re- search.

The majority holds that Nucleonics has the burden of demonstrating a continuing case or controversy as narrowed by Benitec's promises. Op. at 1344. It concludes that Nucleonics has not met this burden as to either its human application of RNAi or its animal application of RNAi. Op. at 1347, 1349. In my view, the majority applies an erroneous test.

III

The Supreme Court has clearly established that

once declaratory jurisdiction has been established, the burden shifts to the party seeking to divest the court of jurisdiction to prove that there is no longer a current case or controversy. *See Cardinal Chem.*, 508 U.S. at 98, 113 S.Ct. 1967. In *Cardinal Chemical*, we initially held that a finding of non-infringement moots a declaratory counterclaim for invalidity. *Id.* at 87, 113 S.Ct. 1967. The Supreme Court reversed finding that "it is perfectly clear that the District Court had jurisdiction to entertain Cardinal's counterclaim" because "if ... a party has actually been charged with infringement of the patent, there is, *necessarily*, a case or controversy adequate to support jurisdiction of a complaint, or a counterclaim, under the Act." *Id.* at 96, 113 S.Ct. 1967 (emphasis in original). The Court explained that while the initial burden of establishing declaratory judgment jurisdiction rests on the party seeking a declaratory judgment, "once that burden has been met courts are entitled to presume, absent further information, that jurisdiction continues." *Id.* at 98, 113 S.Ct. 1967.

In explaining the policy reasons for shifting the burden, the Court stated that "[a] company once charged with infringement must remain concerned about the risk of similar charges if it develops and markets similar products in the future." *Id.* at 99-100, 113 S.Ct. 1967. Moreover, declining jurisdiction over invalidity counterclaims "creates [the] potential for relitigation and imposes ongoing burdens on competitors who are convinced that a patent [is] invalid." *Id.* at 101, 113 S.Ct. 1967; *see also Textron Lycoming Reciprocating Engine Div., Avco Corp. v. United Auto., Aerospace and Agric. Implementation Workers of Am.*, 523 U.S. 653, 660, 118 S.Ct. 1626, 140 L.Ed.2d 863 (1998) ("[T]he only question is whether the parties had any concrete dispute over the contract's voidability *1353 at the time the suit was filed."(emphasis added)). Nothing in the Supreme Court's recent *MedImmune* decision, --- U.S. ---, 127 S.Ct. 764, 166 L.Ed.2d 604, suggests that the same test for determining whether a case or controversy exists applies throughout the lawsuit.

The majority distinguishes *Cardinal Chemical* as resting on the fact that at the time of the alleged mootness the case was on appeal after a judgment of non-infringement, but there is nothing in the Supreme Court's decision that restricts its burden-shifting holding to that limited context. Op. at 1345. Contrary to the majority, *Cardinal Chemical* cannot be limited to mootness at the court of appeals level. If a case is not moot when the case is on appeal, it can hardly be moot in identical circumstances at the district court level. Our decisions holding that *Cardinal Chemical* does not compel a district court to decide an invalidity counterclaim after entering a judgment of non-infringement are best understood as recognizing district court discretion under the Declaratory Judgment Act.^{FN4} Indeed, in repeatedly recognizing that a district court may decide the invalidity issue after a judgment of non-infringement, we have confirmed that such cases are not moot in the Article III sense of the term.

FN4. See, e.g., *Liquid Dynamics v. Vaughan Co., Inc.*, 355 F.3d 1361, 1371 (Fed.Cir.2004) (“A district court judge faced with an invalidity counterclaim challenging a patent that it concludes was not infringed may either hear the claim or dismiss it without prejudice, subject to review only for abuse of discretion.”); see also *Cardinal Chemical*, 508 U.S. at 95 n. 17, 113 S.Ct. 1967 (“[T]he Declaratory Judgment Act affords the district court some discretion in determining whether or not to exercise that jurisdiction, even when it has been established.”).

In any event, this is not a case in which the patentee suffered an adverse judgment, but rather one in which it voluntarily abandoned its infringement suit in the light of unfavorable developments. It is particularly inappropriate to place the burden of establishing continuing jurisdiction on declaratory plaintiffs where, as here, the claim of mootness is the result of the opposing party's acts designed, at

least in part, to defeat declaratory jurisdiction. “[T]here is an important public interest in protecting the legal system against manipulation by parties, especially those prone to involvement in repeat litigation, who might contrive to moot cases that otherwise would be likely to produce unfavorable precedents.” Hart and Wechsler, *The Federal Courts and the Federal System* 204 (5th ed.2003); see also *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053 (Fed.Cir.1995) (“[O]ne who may become liable for infringement should not be subject to manipulation by a patentee who uses careful phrases in order to avoid explicit threats, thus denying recourse to the courts while damages accrue.”).

In the closely related injunction context, the Supreme Court has repeatedly held that the defendant carries a heavy burden of demonstrating that a case is moot when it voluntarily ceases the accused conduct. As the Supreme Court noted in *Iron Arrow Honor Society v. Heckler*, 464 U.S. 67, 72, 104 S.Ct. 373, 78 L.Ed.2d 58 (1983), “[d]efendants face a heavy burden to establish mootness in such cases because otherwise they would simply be free to ‘return to [their] old ways’ after the threat of a lawsuit had passed.... Thus they must establish that ‘there is no reasonable likelihood that the wrong will be repeated.’ ” (quoting *United States v. W.T. Grant Co.*, 345 U.S. 629, 632, 73 S.Ct. 894, 97 L.Ed. 1303 (1953)); see also *Public Serv. Co. of Colo. v. Shoshone-Bannock Tribes*, 30 F.3d 1203, 1206 n. 3 (9th Cir.1994). Similarly in **1354 Friends of the Earth, Inc. v. Laidlaw Environmental Services (TOC), Inc.*, 528 U.S. 167, 189, 120 S.Ct. 693, 145 L.Ed.2d 610 (2000), the Supreme Court again concluded that “[t]he heavy burden of persuading the court that the challenged conduct cannot reasonably be expected to start up again lies with the party asserting mootness.” (internal quotation marks omitted).^{FN5} *Cardinal Chemical* confirms that the same rule governs in the declaratory context and requires a showing by the patentee that there is no reasonable likelihood that the controversy over the patent's validity and enforceability

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will recur.

V

FN5. See also *Buckhannon Bd. & Care Home v. West Virginia Dep't Health and Human Res.*, 532 U.S. 598, 609, 121 S.Ct. 1835, 149 L.Ed.2d 855 (2001) (stating that “[i]t is well settled that a defendant's voluntary cessation of a challenged practice does not deprive a federal court of its power to determine the legality of the practice” unless it is “absolutely clear that the allegedly wrongful behavior could not reasonably be expected to recur”).

IV

In my view, the patentee here has not come close to meeting its burden to show that there will be no future controversy. Even if we were to assume that there is no longer any possible controversy concerning Nucleonics's research on human drugs, there is a possibility that Nucleonics may in the future make human drugs that Benitec would challenge as infringing. Nucleonics has also stated that it intends to pursue animal research. While I agree with the majority that the future controversy would not satisfy the sufficient immediacy and reality test for the filing of a new suit today, Benitec has made no effort to demonstrate that the controversy between the parties will not recur. In fact, when asked at oral argument whether Benitec was “promising not to sue [Nucleonics] for animal product research that they begin” the day after argument, Benitec's counsel responded, “We have not made that statement that we would forebear suing them.” Here Benitec's success in defeating declaratory jurisdiction will have the effect of inhibiting Nucleonics's ability to raise funds and conduct research and development. Nucleonics has stated that the threat of litigation has “hampered its efforts to obtain funding and to continue its business activities.” Appellant's Br. 45 n. 19. Benitec has not satisfied its burden to eliminate any future controversy concerning infringement of the '099 patent.

The majority's decision here is not only inconsistent with the Supreme Court precedent; it exposes an inconsistency in this court's own jurisprudence. We have twice previously addressed the question of continuing declaratory jurisdiction in suits for infringement where the patent holder has attempted to defeat continuing jurisdiction by a covenant not to sue. See *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340 (Fed.Cir.2005); *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054 (Fed.Cir.1995). As the majority recognizes, *op. at* 1345-46, those cases rested on our now-rejected reasonable apprehension test, and may no longer be good law after *MedImmune*, 127 S.Ct. at 774 n. 11. But assuming that they are still good law, they in fact conflict with each other.

In *Super Sack*, 57 F.3d 1054, we held that a covenant not to sue defeated jurisdiction, though we noted that the accused infringer “never contended that it ha[d] taken meaningful preparatory steps toward an infringing activity by planning to make a new product that may later be said to infringe,” and that “[t]he residual possibility of a future infringement suit based on [the accused infringer's] future acts is simply too speculative a basis for jurisdiction*1355 over [the] counterclaim for declaratory judgments of invalidity.” *Id.* at 1059-60.^{FN6} In *Fort James*, 412 F.3d 1340, even though the accused infringer did not prove a controversy that would satisfy the sufficient immediacy and reality test, we held the opposite—that a covenant not to sue for existing products did not render the declaratory claim moot, even though there was no evidence of a future controversy. *Id.* at 1348. While the majority here attempts to reconcile the two cases on the ground that the covenant in *Super Sack* came before a judgment of non-infringement, whereas in *Fort James* it came after a judgment of non-infringement, I fail to see why this should make any difference, nor did the dissent in *Fort James* itself. See *id.* at 1354 (Schall, J., dissenting).

FN6. In *Amana Refrigeration, Inc. v.*

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Quadlux, Inc., 172 F.3d 852, 855 (Fed.Cir.1999), we applied the same test to a covenant not to sue filed after the commencement of a declaratory action where no infringement action had been commenced.

VI

The effect of today's decision is to limit the availability of declaratory jurisdiction to challenge invalid and unenforceable patents by allowing patentees to moot such controversies by dismissing the original infringement action and covenanting not to bring suit on existing products, without any showing that the controversy will not recur in the future. I respectfully dissent.

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