

Oh Snap: Sufficient Reasoning Must Support Declaratory Judgment Dismissal

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The US Court of Appeals for the Federal Circuit vacated and remanded the dismissal of a declaratory judgment action because the district court failed to sufficiently support its decision. *Mitek Systems, Inc. v. United Services Automobile Association*, Case No. 21-1989 (Fed. Cir. May 20, 2022) (Dyk, Taranto, Cunningham, JJ.)

United Services Automobile Association (USAA) owns four patents directed to using a mobile device to capture and transmit an image of a bank check for deposit. Mitek created software for mobile check capture called MiSnap™, which it licenses in the form of a software development kit to financial institutions. In 2017, USAA sent letters to Mitek's customers, some with claim charts and patent lists. The customers subsequently demanded indemnification by Mitek. In 2018, USAA sued Wells Fargo, a Mitek customer, in the Eastern District of Texas. As the case progressed, USAA served a subpoena on Mitek seeking documents, source code and testimony about MiSnap™. The case went to trial on two of the four patents, and Mitek and its products were frequently mentioned.

Shortly thereafter, Mitek filed a complaint in California seeking declaratory judgment of no infringement as to all four USAA patents. To support jurisdiction for its declaratory judgment claim, Mitek alleged that there was real and substantial apprehension of imminent litigation between Mitek and USAA for infringement of the patents-in-suit. In response, USAA argued that there was no case or controversy as required by Article III of the Constitution, and thus the case should be dismissed under Fed. R. Civ. P. 12(b)(1) for lack of subject matter jurisdiction. USAA also argued that the California court should exercise discretion to decline to hear claims for declaratory relief. USAA requested alternatively that the action be transferred to the Eastern District of Texas.

The California court transferred the case to the Eastern District of Texas. The Texas court then dismissed the action for lack of a case or controversy and stated that the court would exercise discretion to decline to entertain the declaratory judgment action. Mitek appealed.

Addressing subject matter jurisdiction, the Federal Circuit explained that the question was “whether the facts alleged, under all the circumstances, show that there is substantial controversy, between parties having adverse legal interest, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” Along these lines, a plaintiff must plead facts sufficient to establish jurisdiction at the time of the complaint, and a case or controversy must remain present throughout the course of

the suit. The Court found that the Texas court's decision provided insufficient reasoning for dismissal because it failed to identify first whether to treat the Rule 12(b)(1) motion as a facial or factual challenge, as required under Fifth Circuit precedent. The Federal Circuit instructed the district court on remand to explore any post-filing events that may have impacted jurisdiction, as well as similarities between Mitek's relationships with Wells Fargo and other customers.

The Federal Circuit found that the district court's case or controversy analysis was similarly inadequate. The Court explained that the first basis of the analysis for case or controversy was the potential liability for infringement, which the district court failed to address. The Court explained that the district court:

- Did not determine whether USAA had disclaimed interest in, or made decisions against, suing Mitek
- Failed to explain why failure to intervene during the Wells Fargo matter, its best indicator regarding Mitek's apprehension relating to USAA litigation, carried particular weight
- Failed to separately consider different types of infringement. For instance, the district court cited to evidence from the Wells Fargo matter that without customization, Mitek did not infringe. But the need for customization did not exclude Mitek from liability for inducement if, for example, Mitek encouraged infringement via certain manuals.

The Federal Circuit explained that the second basis was the alleged indemnity demands made by licensees after USAA sent letters. The Court found that the letters created sufficient infringement controversy for Mitek's customers to seek declaratory relief, which was a necessary element of the indemnity-based interest. The Court noted that Mitek's one example letter included a patent list with three patents-in-suit and a claim chart, and that as a consequence of the Wells Fargo litigation, the customer would also know the technology was related to Mitek. The Court also noted that the second aspect of the indemnity-based assertion, whether there was reasonable potential of Mitek's indemnification liability beyond bare indemnity demands or requests, was to be determined by the district court on remand.

The Federal Circuit recognized that if a district court "acts in accordance with the purposes of the Declaratory Judgment Act and the principles of sound judicial administration, [it] has broad discretion to refuse to entertain a declaratory judgment action." However, the Court insisted that there must be "well-founded reasons" for declining jurisdiction. The Court stated that when a decision rests on an inadequate explanation and might well be different without the deficiencies, it must vacate the decision and remand for reconsideration. The Court explained that it was following that course here and remanded for reconsideration.

The Federal Circuit refused Mitek's invitation to order the case transferred on remand back to California, despite Mitek's argument that the critical witnesses were in California. The Court found no abuse of discretion, concluding that California was not a far more convenient venue than Texas.

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