

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF RHODE ISLAND

NESTOR, INC., )  
 )  
 Plaintiff )  
 )  
 v. )  
 ) C.A. No. 98-569L  
 HNC SOFTWARE, INC. )  
 )  
 Defendant )

MEMORANDUM AND ORDER

Ronald R. Lagueux, District Judge

Plaintiff Nestor, Inc. ("Nestor") filed suit against HNC Software, Inc. ("HNC") seeking, *inter alia*, a declaratory judgment of patent invalidity, unenforceability and non-infringement of HNC's 5,819,226 patent ("the '226 patent"). In response, HNC filed a compulsory counter-claim against Nestor for infringement of the '226 patent. HNC now moves to voluntarily dismiss its counter-claim for infringement pursuant to Federal Rule of Civil Procedure 41(a)(2). In addition, HNC covenants not to sue Nestor for infringement of the '226 patent, and therefore moves to dismiss Nestor's declaratory judgment claims (Count IX of the First Amended Complaint) pursuant to Federal Rule of Civil Procedure 12(b)(1). For the reasons stated below, HNC's motions are granted.

I. Discussion

A. HNC's Motion to Voluntarily Dismiss the Infringement Counter-Claim

Federal Rule of Civil Procedure 41(a)(2) provides that "an action shall not be dismissed at the [movant's] instance save upon order of the court and upon such terms and conditions as the court deems proper." The purpose of the rule is to allow voluntarily dismissal of a claim as long as no other party will be prejudiced by the dismissal. See Doe v. Urohealth Sys., Inc., 216 F.3d 157, 160 (1st Cir. 2000); Alamance Indus., Inc. v. Filene's, 291 F.2d 142, 146 (1st Cir. 1961). Although the decision to grant a motion for voluntary dismissal is left to the discretion of the district court, "dismissal should be allowed unless clear legal prejudice to the objecting party is shown." M.A. Gammino Constr. Co. v. Great Am. Ins. Co., 52 F.R.D. 323, 325 (D.R.I. 1971).

Whether the non-movant will suffer plain legal prejudice by the granting of a Rule 41(a)(2) motion is typically determined by reference to the following factors: (1) the non-movant's effort and expense in preparation for trial, (2) whether the movant has demonstrated a lack of diligence or occasioned excessive delay in prosecuting the action, (3) the sufficiency of the reason for the need to take a dismissal, and (4) whether a motion for summary judgment has been filed by the non-movant. See Urohealth, 216 F.3d at 160. Dismissal may be granted even if all four factors are not resolved in favor of the movant, and the district court may also consider additional factors. See id.

In the present case, all four factors dictate that the dismissal should be granted. HNC's infringement claim was brought as a compulsory counter-claim to Nestor's claims for declaratory judgment of invalidity, unenforceability, and non-infringement of the '226 patent. Although Nestor made expenditures in defending the infringement claim, this Court is mindful of the fact that it is Nestor who initiated this lawsuit and necessitated HNC's compulsory counter-claim. Moreover, Nestor's efforts in defense of the infringement claim will be relevant to the issues of validity and unenforceability of the '226 patent, which must be resolved as part and parcel of the remaining anti-trust and tort claims. Therefore, Nestor's expenditures were not needlessly increased as a result of HNC's counter-claim for infringement.

HNC has not caused excessive delay or demonstrated a lack of diligence in prosecuting its infringement action. In fact, HNC is seeking this voluntary dismissal because it chose to settle its infringement claim against the distributor of Nestor's products.<sup>1</sup> This demonstrates that HNC diligently prosecuted its infringement action. In addition, the resolution of HNC's infringement claim against Nestor's distributor provides a sufficient reason for the need to seek a dismissal. Finally, no

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<sup>1</sup> HNC Software, Inc. v. Transactional Systems Architects Inc., Case No. 99CV 1232 TW(NLS), S. Dist. Cal.

motion for summary judgment has been filed in this case.

Therefore, application of the Urohealth factors leads to the conclusion that the dismissal should be granted.

Nestor argues that it will suffer plain legal prejudice if HNC's voluntary dismissal is granted without the imposition of two conditions. It asks this Court to dismiss the counter-claim with prejudice, and to condition the dismissal on a promise from HNC that it will not bring future infringement claims against Nestor, Nestor's customers, or Nestor's distributors based on the '226 patent, any patents derived from the '226 patent, or any substantially similar foreign patents.

This request confuses the legal standard the Court must apply in deciding HNC's motion to dismiss Nestor's declaratory judgment claims, specifically, whether the covenant not to sue precludes the existence of an actual controversy, with the inquiry this Court must perform before granting a voluntary dismissal. Although reasonable apprehension of an infringement suit would preclude HNC's motion to dismiss Nestor's claims for declaratory relief pursuant to Rule 12(b)(1), "the mere prospect of a second lawsuit" is insufficient to establish plain legal prejudice. Urohealth, 216 F.3d at 160-61 (quoting Cone v. West Virginia Pulp & Paper Co., 330 U.S. 212, 217 (1947)). For this reason, Nestor's objection fails to demonstrate that Nestor will suffer plain legal prejudice if the voluntary dismissal is

granted. Accordingly, the Court declines to attach any terms or conditions to the granting of HNC's motion for voluntary dismissal of its infringement counter-claim.

B. HNC's Motion to Dismiss Nestor's Claims for Declaratory Relief

Under the Declaratory Judgment Act, 28 U.S.C. § 2201(a) (1994), a district court has subject matter jurisdiction over an action for declaratory relief only where there is an actual controversy at all stages of review. See Amana Refrigeration, Inc. v. Quadlux, Inc., 172 F.3d 852, 855 (Fed. Cir. 1999)(citing Preiser v. Newkirk, 422 U.S. 395, 401 (1975)). An actual controversy exists where there is (1) a threat or action by the patentee creating reasonable apprehension of an infringement suit on behalf of the declaratory judgment plaintiff, and (2) present activity by the plaintiff exposing it to liability for patent infringement. See BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993).

A patentee can moot the existence of an actual controversy, thereby divesting the district court of jurisdiction over the action, by promising not to sue the declaratory judgment plaintiff for patent infringement. The Federal Circuit has held that a covenant not to sue for any infringing acts involving products "made, sold, or used" on or before the filing date is sufficient to divest the district court of jurisdiction. See Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054,

1060 (Fed. Cir. 1995). A promise not to sue with respect to any product "previously or currently advertised, manufactured, marketed, or sold" under the patent "as it presently reads" is also sufficient to divest the district court of jurisdiction. See Amana, 172 F.3d at 855.

In the present case, HNC has promised that it will not assert any claims against Nestor for infringement of the '226 patent "in connection with any current or past product, service or method practiced, offered for sale, sold, or manufactured by Nestor." Decl. of John Mutch, ¶ 4. At the hearing on this motion, HNC also represented to the Court that there is no distinction between the sale of software and the licensing of software.<sup>2</sup> As a result of this representation, HNC is estopped from asserting that the covenant not to sue does not embrace current or past products, services, or methods licensed by Nestor. Consequently, the covenant not to sue removes the existence of an actual controversy, and this Court is thereby divested of jurisdiction over Nestor's claims for declaratory relief.

Notwithstanding HNC's broad covenant not to sue, Nestor claims to have a reasonable apprehension of an infringement suit because (1) the covenant does not cover future products manufactured or sold by Nestor, (2) the covenant does not cover

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<sup>2</sup> See Mot. Hr'g Tr., September 26, 2000, p. 13.

foreign patents that may have issued or might be issued in the future, and (3) the covenant does not extend to some of Nestor's customers and distributors, to whom Nestor owes a duty of indemnity. All three of these arguments must fail because they are too speculative to provide a basis for jurisdiction under the Declaratory Judgment Act.

"[A]n actual controversy cannot be based on a fear of litigation over future products." Amana, 172 F.3d at 855. Similarly, the existence of foreign patents held by HNC is speculative at the present time. Although Nestor claims that HNC received a European patent based on the '226 patent, no proof of this patent was presented to the Court. Furthermore, Nestor concedes that no patent has been issued in Japan, where HNC is allegedly prosecuting its '226 patent. The Federal Circuit has held that the future existence of a reissue patent is too speculative to provide the basis for jurisdiction over a declaratory judgment action for non-infringement. This Court concludes that the future existence of a foreign patent is equally speculative and cannot provide the basis for jurisdiction under the Declaratory Judgment Act. In addition, the possibility that HNC might file suit in the future against a customer or distributor of HNC to whom HNC may owe a duty of indemnity is also speculative, and cannot provide a basis for opposing dismissal of the declaratory judgment claims.

As a final matter, Nestor urges this Court to confirm its order dated August 31, 1999 staying discovery and severing the antitrust claims while allowing discovery and a separate trial on the patent issues. Because the absence of an actual controversy divests the Court of jurisdiction over all aspects of Nestor's declaratory relief claim under the Declaratory Judgment Act, the patent issues can only be resolved by proceeding with the antitrust and tort claims. Accordingly, Nestor should address the issue of discovery and a separate trial on the issues of validity and unenforceability of the '226 patent in connection with a motion to lift the stay or other appropriate motion.

## II. Conclusion

For the preceding reasons, HNC's motion to voluntarily dismiss its infringement counter-claim is granted without prejudice. HNC's motion to dismiss Count IX of Nestor's First Amended Complaint is also granted for lack of jurisdiction over the subject matter.

It is so ordered.

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Ronald R. Lagueux  
U.S. District Judge  
January , 2001