

No. 05-608

IN THE
Supreme Court of the United States

MEDIMMUNE, INC.,

Petitioner,

v.

GENENTECH, INC., *et al.*,

Respondents.

**ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

**BRIEF OF NEW YORK INTELLECTUAL PROPERTY
LAW ASSOCIATION AS *AMICUS CURIAE*
IN SUPPORT OF RESPONDENTS**

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STATEMENT OF INTEREST OF AMICUS CURIAE

This brief amicus curiae is submitted in support of Respondents by the New York Intellectual Property Law Association (the “NYIPLA” or the “Association”), a professional association of more than 1,300 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law.¹

NYIPLA members include in-house attorneys working for businesses that own, enforce and challenge patents as well as attorneys in private practice who represent both patent owners and accused infringers. NYIPLA members frequently engage in patent licensing matters, representing both patent licensors and licensees.

NYIPLA members represent both plaintiffs and defendants in infringement litigation and also regularly participate in proceedings before the United States Patent and Trademark Office (“PTO”), including representation of applicants for patents and parties to interferences. A substantial percentage of NYIPLA members participate actively in patent litigation. Many NYIPLA members engaged in patent litigation also negotiate patent licenses in the context of settlement.

1. Pursuant to SUP. CT. R. 37.6, the NYIPLA and its counsel represent that they have authored this brief in whole, and that no person or entity other than the amicus curiae and its counsel have made a monetary contribution to the preparation or submission of this brief. Pursuant to SUP. CT. R. 37.3, both petitioner and respondents have consented to the filing of this brief.

QUESTION PRESENTED

Does Article III’s grant of jurisdiction of “all Cases . . . arising under . . . the Laws of the United States,” implemented in the “actual controversy” requirement of the Declaratory Judgment Act, 28 U.S.C. § 2201(a), require a patent licensee to refuse to pay royalties and commit material breach of the license agreement before suing to declare the patent invalid, unenforceable or not infringed?

**POSITION OF AMICUS REGARDING
QUESTION PRESENTED**

The Association respectfully submits that a patent licensee in full compliance with its license obligations should not be permitted to sue so as to declare the licensed patent invalid, unenforceable or not infringed.

SUMMARY OF ARGUMENT

A patent licensee should not be permitted to wield the sword of patent challenge while at the same time using the license as a shield against infringement liability and the risk of an injunction. A patentee should not be required to grant an unconditional waiver of its right to sue for infringement if the licensee can challenge a licensed patent without consequence.

As discussed in Part I, Respondents’ inability to sue Petitioner for patent infringement and the absolute lack of risk of future litigation against Petitioner as long as it maintains good standing under the license mandate that there is no actual controversy here under principles of mutuality.

As discussed in Part II, no extension of *Lear v. Adkins* is warranted because of subsequent changes in statutory provisions and case law.

Finally, as discussed in Part III, if a licensee in good standing were allowed to maintain litigation by attacking a licensed patent, perverse incentives and a moral hazard would be created whereby: (1) patentees would be less likely to grant licenses because the patentee would be in a worse position for having granted a license; and (2) an accused infringer would have strong incentive to enter into a sham license and then proceed from the bargaining table to the courthouse.

ARGUMENT

I. PETITIONER'S ARGUMENT CONTRAVENES THE REQUIREMENT OF MUTUALITY SET FORTH IN *AETNA LIFE INSURANCE CO. v. HAWORTH*.

Petitioner cannot be sued so long as it complies with its license obligations. Accordingly, no justiciable controversy exists because Respondents are barred from suing Petitioner in a suit for patent infringement or breach of contract. For justiciability, “[i]t is the nature of the controversy, *not the method of its presentation or the particular party who presents it*, that is determinative.” *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 244 (U.S. 1937) (emphasis added). But if this action were to go forward, justiciability *would* depend on the method of its presentation or the particular party who presented it: only Petitioner could bring it.

The existence of an “actual controversy” under the Declaratory Judgment Act is based on the totality of the circumstances.

Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.

Maryland Casualty Co. v. Pac. Coal & Oil Co., 312 U.S. 270, 273 (1941).

An actual controversy requires mutuality, at least potentially. Justiciability attaches to the controversy and not to the party that presents it. *Aetna Life Ins.*, 300 U.S. at 244. A party need not immediately be exposed to liability, but there must at least be the potential for liability in the reasonably foreseeable future. *Maryland Casualty*, 312 U.S. at 273 (likely future liability of insurer against party injured by insured). In the patent context, the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) has fairly synthesized these principles into a rule that an actual controversy exists when there is “a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit”.² *MedImmune, Inc. v. Genentech*,

2. This rule also is a legal standard guiding discretion to hear patent declaratory judgment actions. “[C]onsiderations of practicality and wise judicial administration” permit courts to refuse to take jurisdiction over declaratory judgment actions *Wilton v. Seven Falls Co.*, 515 U.S. 277, 288 (U.S. 1995). Ordinarily, “the fitness of the case for resolution, are peculiarly within the[] grasp [of the district

(Cont’d)

Inc., 427 F.3d 958, 964 (Fed. Cir. 2005); *see also MedImmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376 (Fed. Cir. 2005); *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 977-78 (Fed. Cir. 1993) (synthesis of rule).

Maryland Casualty is a good example of mutuality. An actual controversy existed between an insurer and a party injured in an automobile accident with the insured, but before the insured's liability had been established. *Maryland Casualty*, 312 U.S. at 271-72. In every real sense, because of the insurance relationship, the insurer was a party to the ongoing controversy between the insured and injured party — “the potential or prospective claim of the injured person against the insurance company makes him a proper, if not indeed a necessary party defendant in a suit by the insurance company against the insured for a declaration of non-liability.” EDWIN BORCHARD, *DECLARATORY JUDGMENTS* 42 (2d ed. 1941). The insurer was presently obliged to defend the insured and to indemnify the insured, if the accident was within the scope of the coverage. *Maryland Casualty*, 312 U.S. at 271. The insurer also was basically a stakeholder potentially subject to inconsistent judgments from suit by the insured and injured party. *Id.* at 274.

Mutuality of controversy is consistent with the historical background of the Declaratory Judgment Act. Before the Act, patentees, in particular, enjoyed “[u]nfair [p]rivileges”.

(Cont'd)

courts].” *Id.* at 289. But “[d]iscretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.” *Martin v. Franklin Capital Corp.*, 126 S. Ct. 704, 710 (2005). Patentees, licensees, and accused infringers should have clear rules regarding justiciability.

BORCHARD at 803. Only a patentee could instigate litigation that could conclusively establish the infringement, validity or enforceability of a patent. The accused infringer was powerless to compel litigation via a declaratory judgment action, even when threatened. *Id.* The Act put the patentee and an accused infringer on equal footing – an accused infringer could now compel litigation when actually accused of infringing a patent and litigate the defenses of invalidity, noninfringement and unenforceability.

Declaratory judgment actions often are “inverted” – “the plaintiff seeking the declaratory judgment is . . . the party who would be the defendant in a coercive suit for damages or an injunction.” *Gator.com Corp. v. L.L. Bean, Inc.*, 398 F.3d 1125, 1137 (9th Cir. 2005) (Feltcher, J., dissenting); see also *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 504 (U.S. 1959). Inverted actions allow defenses to be raised as affirmative actions. See *Public Service Comm’n. v. Wycoff Co.*, 344 U.S. 237, 248 (U.S. 1952). “It is immaterial that frequently, in the declaratory judgment suit, the positions of the parties in the conventional suit are reversed; *the inquiry is the same in either case.*” *Maryland Casualty*, 312 U.S. at 273 (emphasis added).

Here, Petitioner’s action is an inverted patent infringement or contract enforcement action in which patent defenses would be raised affirmatively. Invalidity, unenforceability and noninfringement are specifically enumerated patent defenses under 35 U.S.C. § 282.

Petitioner’s action is not analogous to a declaration construing the scope of a contract. Each of the issues to be litigated is an explicit statutory patent infringement defense, and the patent law, in turn, makes them defenses to patent

license enforcement. *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (invalidity of licensed patent is a defense to the enforcement of license). While the issues can formally be phrased as construction of a contract — through construction of the underlying patent — that results in putting form over substance.

Formation of the precise inverted suit is difficult. Absent a license, an accused infringer’s declaratory judgment action for patent invalidity is an inverted patent infringement action in which the affirmative defense of invalidity would be pleaded. *See In re Lockwood*, 50 F.3d 966, 974 (Fed. Cir. 1995), *cert. granted sub nom. Am. Airlines v. Lockwood*, 515 U.S. 1121 (1995), *cert. dismissed, vacated as moot*, 515 U.S. 1182 (1995) (jury trial request withdrawn); *see also id.* at 975 n.11.

But both a patent and a license are involved. A patent license is a contract that is “a mere waiver of the right to sue by the patentee” for infringement. *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 242 (U.S. 1927) (quoting *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1911)). A license also is an authorization that makes certain uses of an invention constitute noninfringement. 35 U.S.C. §§ 271(a) and (g). Thus, a license is a “complete defense against a suit for infringement.” *De Forest*, 273 U.S. at 242. Violation of a license, however, is cognizable *both* as patent infringement *and* a breach of the license. *Gen. Talking Pictures Corp. v. West. Elec. Co.*, 304 U.S. 175, 181-82 (U.S. 1938). A patentee may, *at its choice*, sue for breach of contract or infringement, or both, following a breach. *Id.*

A declaratory judgment action initiated by a breaching licensee can be characterized as an inverted breach of a patent

or a contract action, or perhaps both, in which patent defenses are pleaded.³

However, Petitioner has not materially breached the license, making Petitioner's suit ambiguous. Petitioner is immune from suit for both patent infringement and breach of contract because the patentee has waived that right, so long as there is no material breach. Clearly, no action lies for breach. Respondents are absolutely barred from suing, so long as the licensee continues to pay royalties and otherwise complies with the license. *See De Forest Radio*,

3. The ambiguous nature of this suit may raise an appellate subject matter jurisdiction issue. A patentee's choice of theories in a coercive action determines whether the action arises under the patent laws. 28 U.S.C. § 1338(a); *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988); *see also Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). Jurisdiction in an inverted declaratory judgment action is based on a hypothetical affirmative action, not the defense to be litigated. *Public Service Comm'n. v. Wycoff Co.*, 344 U.S. 237, 248 (U.S. 1952). A breach of patent license action does not arise under the patent laws, even if patent defenses are raised. *See, e.g., Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (state court license action); *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 217 (Cal. 1957). Under Federal Circuit law, a licensee's declaratory action challenging a licensed patent arises under the patent laws thus resulting in Federal Circuit appellate jurisdiction, *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 878-80 (Fed. Cir. 1983), but other Circuits have held that these actions sound in contract and *do not* arise under the patent laws, *Id.*; *see, e.g., Thiokol Chem. Corp. v. Burlington Indus., Inc.*, 448 F.2d 1328, 1330-31 (3d Cir. 1971); *Prod. Eng'g & Mfg., Inc. v. Barnes*, 424 F.2d 42, 44 (10th Cir. 1970). *C.R. Bard* may be inconsistent with *Christianson* and *Holmes Group*. In this case, aside from the declaratory judgment action, "no other claims in MedImmune's complaint 'arise under' patent law." *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 971 (Fed. Cir. 2005) (Clevenger, J. dissenting).

273 U.S. at 242 (sustaining demurrer and dismissing petition seeking infringement damages because accused infringer had a license).

Finally, Respondents are estopped from terminating a license while a licensee complies with its license obligations. *See MedImmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376, 1381 (Fed. Cir. 2005). Consequently, there is not even *risk* of future liability on Petitioner’s part so long as it continues to comply with its license obligations.

Permitting this suit to go forward would contravene the mutuality required under *Aetna Life* and *Maryland Casualty*. The justiciability of the claim would depend on the party presenting it: Petitioner, and *only* Petitioner, could force judicial resolution of this ostensible controversy. Consequently, there is no “actual controversy.”

Altvater v. Freeman does not mandate a different result. *Altvater v. Freeman*, 319 U.S. 359 (1943). The issue in *Altvater* was mootness, not, as here, whether there was a justiciable controversy in the first instance. A declaratory judgment of patent invalidity was brought as a counterclaim after the licensee already had been sued for specific performance of the license, an accounting and an injunction regarding (allegedly) licensed reissued patents. *Id.* at 360. The licensee counterclaimed for a declaratory judgment that the patent was invalid, or, if valid, that the license covered their actions. The Circuit Court of Appeals eventually held the invalidity counterclaims became moot based on the district court finding noninfringement and the contract having been terminated. *Id.* at 362-63. This Court held that “the issues raised by the present counterclaim were justiciable and did not come to an end . . . on the dismissal of the bill

for non-infringement. . . .” *Id.* at 363-64. Ultimately, “the issues raised by the counterclaim . . . were not . . . moot.” *Id.* at 365.

The fact that the patentee-licensor originally sued the licensee for breach of the license, the equivalent of infringement of the patent, is critical. The act of suing created a mutual controversy sufficient to support the licensee’s declaratory judgment counterclaims over the whole patent, not just the particular claims the patentee wished to litigate. Once “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 [Declaratory Judgment] Act.” *Cardinal Chem. Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 96 (U.S. 1993). The royalties in *Altvater* were irrelevant. The licensee could have accordingly been liable for infringement or breach.

II. *LEAR* SHOULD NOT BE EXTENDED TO PERMIT PATENT CHALLENGES BY A LICENSEE WHO CONTINUES TO PAY ROYALTIES.

Lear v. Adkins does not give a licensee a right to challenge a licensed patent while continuing to pay royalties. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). *Lear* “permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties.” *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Fdn.*, 402 U.S. 313, 346 (1971). That is, *Lear* permits a licensee to raise invalidity as a *defense* when sued after ceasing to pay royalties, and by extension, in an inverted declaratory judgment action – just

as the law presently allows. *Cf. Cordis Corp. v. Medtronic, Inc.*, 780 F.2d 991, 995 (Fed. Cir. 1985) (*Lear* “permit[s] a licensee to cease payments due under a contract while challenging the validity of a patent. It does not permit the licensees to avoid facing the consequences that such an action would bring.”).

Lear was undoubtedly correctly decided, but more recent decision of this Court along with statutory changes militate against extending a licensee’s right to challenge a patent while continuing to pay royalties. *Lear* reasoned, in part, that a licensee should not “pay tribute to would-be monopolists” and that “the *ex parte* nature of the prosecution proceeding is inherently suspect.” *Lear*, 395 U.S. at 670.

This Court recently held that a patent does not create a presumption that a patentee has market power over the covered products and, therefore, that patentees are not truly “would be monopolists.” *Ill. Tool Works, Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1284 (2006). In addition, although a “policy of free competition runs deep in our law”, “the policy of stimulating invention that underlies the entire patent system runs no less deep.” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980). A patentee also is free to enforce its patent rights without fear of antitrust liability so long as its infringement claim is not subjectively and objectively baseless. *See Prof’l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993).

As for the *ex parte* prosecution system, changes to the Patent Statute enacted by Congress have made it possible for licensees to challenge patents without having to engage in direct litigation with the patentee. At the time of *Lear*, the only way a private party could challenge an issued patent

was through litigation between itself and the patentee. A licensee may now rely on the preclusive effect of an invalidated patent in litigation with another party. *Blonder-Tongue*, 402 U.S. at 346-47.

Moreover, in 1980, Congress created the reexamination process, which allows PTO review of issued patents for substantial new questions of patentability and can be initiated by a private party's submission of prior art not considered in the original prosecution. P.L. 96-517 (1980), codified as amended at 35 U.S.C. §§ 301-307 (2000 & Supp. III 2003) (*ex parte*); *see also* P.L. 106-113 (1999) (creating *inter partes* reexamination), codified as amended at 35 U.S.C. §§ 311-318; P.L. 107-273 (2002) (expanding the scope of reexamination). Thus, while licensees needed access to the courts to challenge licensed patents at the time of *Lear*, today's licensees are not so limited. In fact, the patent involved in this case is presently in reexamination. Pet. Br. at 48 n. 18. Finally, the decisions of the PTO, an administrative agency, are now due even greater deference than they were at the time of *Lear*. *See, e.g., Dickinson v. Zurko*, 527 U.S. 150 (1999).

III. PETITIONER'S PROPOSED CHANGE WOULD CREATE NEEDLESS LITIGATION AND REDUCE THE LIKELIHOOD THAT PATENT DISPUTES CAN BE SETTLED BY LICENSING.

Patent licenses serve two important functions: (1) they encourage the development and commercialization of inventions; and (2) they allow settlement of patent litigation. The change in the law proposed by Petitioner would decrease a patentee's incentive to license and would therefore discourage commercialization and encourage wasteful litigation.

Patent licensing is generally economically efficient and pro-competitive. See U.S. DEP'T OF JUSTICE & FTC, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 2 (1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132 (1995), (“intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.”). But licensing is voluntary on the patentee’s part⁴, so creating sufficient incentives for patentees to license their inventions is important.

Commercialization of inventions often relies on licensing. Many times, patentees are unable to bring their product to market alone and, therefore, rely on a licensee to do so. Also, the potential for licensing revenue is what drives many inventors to invent.

Congress encourages the licensing of patented inventions developed with federal funds because it encourages invention and commercialization of the inventions. “It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions . . . [including] to promote the commercialization and public availability of inventions made in the United States by United States industry and labor.” 35 U.S.C. § 200. The Bayh-Dole Act, 35 U.S.C. §§ 200-212, “enables universities to profit from their federally-funded research.” *Univ. of Rochester v. G.D. Searle & Co.*, 358 F.3d 916, 929 (Fed. Cir. 2004). Universities profit by owning and having the right to license patents from their federally-funded research. The government retains the right to march-in and grant licenses to the invention for lack of “effective steps to achieve practical application of the subject invention,” i.e., commercialization. 35 U.S.C. § 203 (a)(i).

4. See, e.g., 35 U.S.C. § 271(d)(4) (refusal to license not misuse); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981) (unilateral refusal to license not antitrust violation).

Furthermore, patent licensing is critical to settlement of patent disputes. One of the most common ways to settle a dispute over patent rights, either before or during litigation, is through a license. Indeed, promotion of settlement of litigation in general, and patent litigation in particular, constitutes strong federal policy.⁵

Public policy strongly favors settlement of disputes without litigation. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit. By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and to the citizens whose taxes support the latter.

Aro Corp. v. Allied Witan Co., 531 F.2d 1368, 1372 (6th Cir. 1975) (Markey, C.J., sitting by designation). Both the Federal

5. See, e.g., *Callen v. Penn.R.R. Co.*, 332 U.S. 625, 630 (1948); *Asberry v. U. S. Postal Serv.*, 692 F.2d 1378 (Fed. Cir. 1982); *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1369-70 (Fed. Cir. 2001). See also *Schering-Plough Corp. v. FTC*, 402 F.3d 1056, 1075 (11th Cir. 2005), *cert. denied*, 74 U.S.L.W. 3722 (Jun. 26, 2006) (“[t]here is no question that settlements provide a number of private and social benefits as opposed to the inveterate and costly effects of litigation.”); *Asahi Glass Co. v. Pentech Pharms., Inc.*, 289 F. Supp. 2d 986, 991 (N.D. Ill. 2003) (Posner, J., sitting by designation) (“[t]he general policy of the law is to favor the settlement of litigation, and the policy extends to the settlement of patent infringement suits.”).

Rules of Civil Procedure and the Federal Rules of Evidence have been tailored specifically to promote settlement. *See Advanced Cardiovascular Inc. v. Medtronic, Inc.*, 265 F.3d 1294, 1308 (Fed. Cir. 2001) (FED. R. EVID. 408); *Marek v. Chesny*, 473 U.S. 1, 5 (1985) (FED. R. CIV. P. 68).⁶

Settlement of a patent infringement suit with a license is a rational and mutually advantageous arrangement that removes the parties' uncertainty about the scope or validity of a patent. An accused infringer may practice the invention without fear of infringement liability in exchange for some consideration to the patentee. Both parties benefit and the courts are spared from having to resolve the dispute.

6. In *Marek v. Chesny*, 473 U.S. at 5, this Court explained:

The plain purpose of Rule 68 is to encourage settlement and avoid litigation. The Rule prompts both parties to a suit to evaluate the risks and costs of litigation, and to balance them against the likelihood of success upon trial on the merits.

(citing *Advisory Committee Note on Rules of Civil Procedure, Report of Proposed Amendments*, 5 F.R.D. 433, 483 n. 1 (1946), 28 U.S.C.App., p. 637). This Court went on to note that “[r]ule 68’s policy of encouraging settlements is neutral, favoring neither plaintiffs nor defendants; it expresses a clear policy of favoring settlement of *all* lawsuits.” *Id.* at 10 (emphasis added). *See also Evans v. Jeff D.*, 475 U.S. 717, 733 (1986) (“[i]n approving the package offer in *Marek v. Chesny* we recognized that a rule prohibiting the comprehensive negotiation of all outstanding issues in a pending case might well preclude the settlement of a substantial number of cases: . . .”).

But licensing is attractive only if the parties have the proper incentives. At a minimum, licensing must be more attractive than litigation. Few parties would enter into a settlement that put them in a worse position — i.e., that still allowed the other party to the settlement to sue them with impunity. Allowing a licensee in good standing to attack a licensed patent through a declaratory judgment action would do just that — once an accused infringer is licensed, a patentee is barred from suing the licensee, so long as the licensee complies with its license obligations. *See, supra*, Part I.

Under current law, the licensee generally has to materially breach the license in order to establish declaratory judgment jurisdiction, thereby subjecting the licensee to both contract and patent remedies in favor of the patentee. That is, the parties return to basically the *status quo ante* the license. A patentee knows today that, if the licensee later challenges the patent, the patentee will be in no worse a position than had there been no license.

The rule sought by the Petitioner would have the effect of giving a licensee an unfettered right to challenge the patent, at the time of its choosing, without fear of infringement liability or an injunction, for only the cost of its royalties and litigation expense. A licensee would have everything to gain and, at worst, would end up back in the position it was in before the litigation.

This would be profoundly unfair. As the Federal Circuit reasoned in *Gen-Probe Inc. v. Vysis Inc.*,

Vysis voluntarily relinquished its statutory right to exclude by granting Gen-Probe a nonexclusive

license. In so doing, Vysis chose to avoid litigation as an avenue of enforcing its rights. Allowing this action to proceed would effectively defeat those contractual covenants and discourage patentees from granting licenses. In other words, in this situation, the licensor would bear all the risk, while licensee would benefit from the license's effective cap on damages or royalties in the event its challenge to the patent's scope or validity fails.

Gen-Probe Inc. v. Vysis, Inc., 359 F.3d 1376, 1382 (Fed. Cir. 2004).

A moral dilemma also could arise from the fact that a potential licensee would have a strong incentive to enter into a license while still contemplating initiation of a declaratory judgment action thereafter. Under Petitioner's proposed rule, a patentee would be powerless to stop an accused infringer from taking a license in bad faith and then proceeding directly from the bargaining table to the courthouse.

Under such a proposed rule, patentees would be less likely to grant licenses rather than litigate. Indeed, patentees could be expected to sue and aggressively litigate rather than settle potential litigation — if only to have the eventual settlement incorporated into a consent judgment to which claim and issue preclusion would apply.

CONCLUSION

For the foregoing reasons, the judgment of Federal Circuit dismissing Petitioner's declaratory judgment action should be affirmed because the inability of Respondents to sue Petitioner mandates that Petitioner likewise be barred from suing Respondents.

Respectfully submitted,

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