

## Patent Licensing and Declaratory Judgment Actions After *MedImmune*

By: Victor de Gyarfas<sup>\*</sup>  
Foley & Lardner LLP

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<sup>\*</sup> Victor de Gyarfas is a partner with Foley & Lardner LLP in Los Angeles, California. Any views expressed herein are solely those of the author at the time of writing and should not be attributed to Foley & Lardner LLP or any of its clients.

## **I. Introduction**

Developing technology that can be patented, obtaining patents, and maintaining patents can be very expensive propositions. For technology companies, however, patents can be an their most valuable assets, and patent licensing companies may rely entirely on revenue from patent licensing and lawsuits. Prior to enactment of the Declaratory Judgment Act, patentees were free to threaten accused infringers with patent infringement suits and allow potential damages to accrue before instituting suit while the accused infringer had no judicial remedy. With the enactment of the Declaratory Judgment Act in 1934, accused infringers were given a remedy and were successful in bringing declaratory judgment actions seeking declarations of noninfringement and invalidity, even in circumstances in which patentees had not made explicit charges of infringement.

After the creation of the Federal Circuit in 1982, the Federal Circuit evolved a two prong test for analyzing jurisdiction in declaratory judgment actions and developed a body of case law providing detailed examples of specific actions a licensor could take without risking a declaratory judgment action. The Federal Circuit's two prong test and body of case law were effectively overruled by the Supreme Court in the 2007 decision *MedImmune, Inc. v. Genentech, Inc.*<sup>1</sup> Although the facts in *MedImmune* involved an existing licensee who brought a declaratory judgment action while still paying license fees, the Supreme Court, in a footnote rejected the Federal Circuit's test for jurisdiction in declaratory judgment actions. The Federal Circuit quickly acknowledged the Supreme Court's rejection of its earlier test, and in dicta in a recent case expressed doubt that a patentee could avoid jurisdiction in a declaratory judgment action after engaging in conduct that before *MedImmune* would have not exposed it to any risk. Some patent licensing entities have felt the impact of *MedImmune* and appear to be engaging in a "sue first – ask questions later" policy instead of extensive pre-lawsuit negotiations with potential licensees.

## **II. Declaratory Judgment Actions And Effective Licensing Letters Before *MedImmune***

### **A. Policies Behind The Federal Declaratory Judgment Act**

#### **1. Relevant Provisions Of The Declaratory Judgment Act**

The Declaratory Judgment Act was enacted in 1934. It provides, in relevant part, at 28 U.S.C. § 2201:

§ 2201. Creation of remedy

(a) In a case of actual controversy within its jurisdiction, . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such

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<sup>1</sup> 127 S. Ct. 764 (2007).

declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

As discussed further below, the Declaratory Judgment Act has been invoked repeatedly by parties accused of infringing patents to obtain judicial declarations concerning, among other things, patent infringement and invalidity.

## 2. The Declaratory Judgment Act Policy Of Reducing Uncertainty

Although there was no debate in the House or Senate in 1934, bills proposing a federal declaratory judgment act had been introduced from 1919 to 1932.<sup>2</sup> Hearings from those years establish that Congress sought to provide remedies to parties who were plagued with uncertainties in business dealings. Specifically, in the 1928 Senate Hearings, Professor Edson Sunderland advocated for enactment of the Declaratory Judgment Act, describing the plight of parties accused of patent infringement.<sup>3</sup> A party accused of patent infringement had no recourse to the courts before being sued. Thus, an accused infringer had a choice of abandoning the acts accused of infringement, and perhaps even stop doing business, taking a license on potentially unfavorable terms, or continuing the acts accused of infringement, but risk letting the patent holder allow damages to accrue to the point where such a damage award could put an accused infringer into bankruptcy.

This policy was acknowledged by the United States Supreme Court in *Cardinal Chemical Co. v. Morton Int'l, Inc.*<sup>4</sup> when it cited Judge Markey's opinion in *Arrowhead Industrial Water, Inc. v. Ecolochem, Inc.*<sup>5</sup>:

In patent litigation, a party may satisfy that burden, and seek a declaratory judgment, even if the patentee has not filed an infringement action. Judge Markey has described

"the sad and saddening scenario that led to enactment of the Declaratory Judgment Act (Act), 28 U.S.C. § 2201. In the patent version of that scenario, a patent owner engages in a danse macabre, brandishing a Damoclean threat with a sheathed sword. . . . Before the Act, competitors victimized by that tactic were rendered helpless and immobile so long as the patent owner refused to grasp the nettle and sue. After the Act, those competitors were no longer restricted to an *in terrorem* choice between the incurrence of a growing potential liability for patent infringement and abandonment of their enterprises; they could

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<sup>2</sup> See 78 Cong. Rec. 8224 (1934) (House); 78 Cong. Rec. 10,564-65, 10,919 (1934)(Senate); See also, 1928 Hearings on H.R. 5623 Before a Subcomm. of the Senate Comm. on the Judiciary, 70th Cong., 1st Sess. 34-35 (1928) (hereinafter "1928 Senate Hearings").

<sup>3</sup> 1928 Senate Hearings at 35.

<sup>4</sup> 508 U.S. 83, 95-96 (1993).

<sup>5</sup> 846 F.2d 731, 734-35 (Fed. Cir. 1988).

clear the air by suing for a judgment that would settle the conflict of interests." (citations omitted).

## **B. The Declaratory Judgment Act Test For Jurisdiction**

By the statutory language of the Declaratory Judgment Act, the only requirement for jurisdiction is the existence of an "actual controversy."<sup>6</sup> In one of the early Supreme Court cases to consider the boundaries of jurisdiction under the Declaratory Judgment Act, the Court noted the distinction between an "actual controversy" and a "hypothetical" one, but provided limited guidance for analyzing the whether jurisdiction would exist:

The Declaratory Judgment Act of 1934, in its limitation to 'cases of actual controversy,' manifestly has regard to the constitutional provision and is operative only in respect to controversies which are such in the constitutional sense. The word 'actual' is one of emphasis rather than of definition. . . . A justiciable controversy is thus distinguished from a difference or dispute of a hypothetical or abstract character; from one that is academic or moot. . . . The controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests. It must be a real and substantial controversy admitting 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.<sup>7</sup>

The Supreme Court later noted the difficulty of fashioning a test for declaratory judgment jurisdiction in *Maryland Cas. Co. v. Pacific Coal & Oil Co.*,<sup>8</sup> finding, as did the Court in *Aetna Life*, that the controversy must be "substantial," but that it also had to have "sufficient immediacy and reality to warrant issuance of a declaratory judgment."<sup>9</sup>

## **C. Pre-Federal Circuit Cases Evaluating Jurisdiction In Patent Cases Under The Declaratory Judgment Act**

Some clarification of the boundaries of the Declaratory Judgment Act was provided in pre-Federal Circuit cases. In an early case before the Sixth Circuit, *E.W. Bliss Co. v. Cold Metal Process Co.*,<sup>10</sup> the patentee accused the plaintiff of infringing its patent. The patentee also sued a customer of the plaintiff for infringement, but prior to the declaratory judgment action, had not

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<sup>6</sup> *Id.* at 735: "The sole requirement for jurisdiction under the Act is that the conflict be real and immediate, i.e., that there be a true, actual 'controversy' required by the Act."

<sup>7</sup> *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-41 (1937). The Supreme Court later noted the difficulty of fashioning a test for declaratory judgment jurisdiction in *Maryland Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941).

<sup>8</sup> 312 U.S. 270 (1941).

<sup>9</sup> *Id.* at 273.

<sup>10</sup> 102 F.2d 105, 106 (6th Cir. 1939).

threatened to sue the plaintiff, even though the plaintiff invited the patentee to sue and notified the patentee of its belief that the patent was invalid and not infringed.<sup>11</sup> Further, the plaintiff contended that the patentee's threats against the plaintiff's customers allegedly made it difficult for the plaintiff to sell its products.<sup>12</sup> Although the district court dismissed the case, the Sixth Circuit found the patentee's charges of infringement, the disputes concerning invalidity and infringement, and the plaintiff's prior invitation to sue to constitute differences which were "concrete and not hypothetical or abstract" and reversed the district court's ruling, finding jurisdiction under the Declaratory Judgment Act.<sup>13</sup>

A few years later case, the Third Circuit in *Dewey & Almy Chem. Co. v. American Anode, Inc.*,<sup>14</sup> also found jurisdiction on facts less substantial than those in *E.W. Bliss*. In *Dewey*, the patentee had sued a third party that used a process similar to the plaintiff's after license negotiations between the patentee and the third party collapsed. The patentee also entered into license negotiations with the plaintiff, but the patentee never asserted that the plaintiff infringed the patent and the patentee took the uncontroverted position that it "had no knowledge" that the plaintiff was using the patented process commercially.<sup>15</sup> Again, as in *E.W. Bliss*, the district court dismissed the case, but the Court of Appeals reversed. Citing the same types of concerns voiced by Professor Sunderland during Senate Hearings that a patentee should not be permitted to let damages accrue without recourse by adversary, the Court of Appeals found that the patentee's prior enforcement of its patent against another party who refused to take a license established a "substantial controversy" between the parties "of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."<sup>16</sup> Thus, under the holding of *Dewey*, neither threatened litigation nor a charge of infringement against a plaintiff was a prerequisite to a declaratory judgment action if the patentee had sued another party engaging in similar acts.

Instead of requiring an explicit charge of infringement, various courts of appeals often required the presence of a "reasonable apprehension of liability" by the plaintiff seeking a declaratory judgment action.<sup>17</sup>

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<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> 137 F.2d 68 (3d Cir. 1943).

<sup>15</sup> *Id.* at 69-71.

<sup>16</sup> *Id.*

<sup>17</sup> See *Societe de Conditionnement en Aluminium v. Hunter Eng'g Co.*, 655 F.2d 938, 944 (9th Cir. 1981) ("[a]n action for a declaratory judgment that a patent is invalid, or that the plaintiff is not infringing, is a case or controversy if the plaintiff has a real and reasonable apprehension that he will be subject to liability if he continues to manufacture his product").

#### **D. The Federal Circuit Imposes A Higher Standard For Declaratory Judgment Jurisdiction**

The Court of Appeals for the Federal Circuit was established in 1982, at a time when it was perceived that industrial innovation was being impeded by a lack of uniformity in judicial application of patent laws.<sup>18</sup> One of the purposes of the Federal Circuit was to provide a more uniform interpretation of the patent laws.<sup>19</sup> Prior to *MedImmune*, and consistent with precedents from other circuits, the Federal Circuit developed interpretations of the Declaratory Judgment Act with respect to when jurisdiction for a declaratory judgment action would exist that gave patentees guidance on what actions they could take without risking a declaratory judgment action. For example, a patentee's mere offering of a license without an express charge of infringement, even if the patentee had sued other parties years earlier, did not confer standing to bring a declaratory judgment action.<sup>20</sup>

In the widely cited *Arrowhead* case, in 1988, the Federal Circuit discussed the policies of the Declaratory Judgment Act and reaffirmed earlier Federal Circuit precedent requiring both: (a) a reasonable apprehension that the patentee will initiate suit if the allegedly infringing activity continues; and (b) that the declaratory judgment plaintiff must actually have either produced the device or have prepared to produce the device.<sup>21</sup> The Federal Circuit made clear, however, that application by the courts of tests for declaratory judgment jurisdiction must be based on the "realities of business life"<sup>22</sup> but there need not be a "specific charge" of infringement if there exists a reasonable apprehension of suit based on all of the circumstances.<sup>23</sup>

In 1993, however, the Federal Circuit appeared to restate its test for declaratory judgment jurisdiction and limit the circumstances under which declaratory judgment jurisdiction would be found. Specifically, in *BP Chemicals, Ltd. v. Union Carbide Corp.*,<sup>24</sup> the Federal Circuit changed the first prong of the jurisdictional test, stating:

Thus in patent litigation there has evolved a pragmatic two-part test for determining declaratory justiciability. There must 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 suit, and (2) present activity which could constitute

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<sup>18</sup> The United States Court of Appeal for the Federal Circuit – A History: 1990-2002 10 (2003).

<sup>19</sup> *Id.*

<sup>20</sup> *See Indium Corp. of Am. v. Semi-Alloys, Inc.*, 781 F.2d 879, 883 (Fed. Cir. 1985).

<sup>21</sup> *Arrowhead Industrial Water Co.*, 846 F.2d at 736.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 738.

<sup>24</sup> 4 F.3d 975 (Fed. Cir. 1993).

infringement or concrete steps taken with the intent to conduct such activity.<sup>25</sup>

The Federal Circuit did not explain the reason for its new inclusion of the “explicit threat” language into the jurisdictional test. Although the Federal Circuit cited *Jervis B. Webb Co. v. Southern Sys., Inc.*,<sup>26</sup> as authority for its new test, the *Jervis B. Webb* case nowhere uses the “explicit threat” language.<sup>27</sup> Nevertheless, the Federal Circuit continued to require a plaintiff to be under a “reasonable apprehension” of suit.

The Federal Circuit continued to interpret the Declaratory Judgment Act narrowly in *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*.<sup>28</sup> Kato contacted Phillips Plastics and informed it that certain of its products were “covered” by Kato’s patent and invited Phillips Plastics to take a license.<sup>29</sup> Phillips Plastics identified to Kato prior art that Phillips Plastics believed invalidated the patent and Kato filed an application to reissue its patent.<sup>30</sup> The patent was reissued and several months after the patent was reissued, Kato’s counsel again wrote to Phillips Plastics and again offered a license. After further communications, Phillips Plastics filed a declaratory judgment action.<sup>31</sup> The district court dismissed the case and Phillips Plastics appealed. On appeal, Kato argued that it carefully refrained from threatening to sue Phillips Plastics and it attempted to keep license negotiations open after successful completion of the reissue procedure. While Kato stated that a license under the patent was necessary to make certain products, it did not threaten suit or exhibit impatience with the progress of the negotiations.<sup>32</sup> The court agreed with Kato that an offer of a patent license does not create an actual controversy and even cited the ongoing license negotiations stating: “a litigation controversy normally does not arise until the negotiations have broken down.”<sup>33</sup> Accordingly, the plaintiff had no reasonable apprehension of suit.

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<sup>25</sup> *Id.* at. 978 (emphasis added).

<sup>26</sup> 742 F.2d 1388, 1398-99 (Fed. Cir. 1984).

<sup>27</sup> The test provided in the *Jervis B. Webb* case is:

The case or controversy requirement for a patent invalidity declaratory judgment action requires the presence of two elements. First, the defendant in such an action must have engaged in conduct that created on the part of the declaratory plaintiff a reasonable apprehension that it will face an infringement suit if it commences or continues the activity in question. . . Next, the plaintiff seeking a declaration of invalidity must have actually produced the accused device or have actually prepared to produce such a device. (internal citations omitted).

<sup>28</sup> 57 F.3d 1051 (Fed. Cir. 1995).

<sup>29</sup> *Id.* at 1052.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.* at 1052-53.

<sup>33</sup> *Id.* at 1053.

The Federal Circuit continued applying the “reasonable apprehension of suit” in cases such as *Teva Pharm. USA, Inc. v. Pfizer, Inc.*,<sup>34</sup> Thus, before *MedImmune*, the Federal Circuit allowed patentees to communicate carefully crafted licensing letters and engage in extended licensing negotiations without risking the accused infringer being able to maintain a declaratory judgment action.

### III. The Supreme Court’s Decision In *MedImmune*

#### A. Factual Background

In *MedImmune*,<sup>35</sup> the patentee, Genentech licensed MedImmune for its products under a patent license agreement covering an existing Genentech patent and a pending patent application.<sup>36</sup> Soon after the patent on the previously pending application issued, Genentech wrote to MedImmune expressing its belief that the newly issued patent covered MedImmune’s product and its expectation that MedImmune would start paying royalties.<sup>37</sup> MedImmune’s position was that royalties were not owed, the new patent was not infringed, invalid, and unenforceable.<sup>38</sup> MedImmune, however, considered the letter to be a clear threat to enforce the patent, terminate the license agreement, and sue for patent infringement if MedImmune did not make royalty payments.<sup>39</sup>

MedImmune expressed its belief that if it did not acquiesce to Genentech’s demands for royalty payments, it would suffer the same type of harm Professor Sunderland discussed more than seventy years earlier. Specifically, if Genentech prevailed in a patent infringement action, MedImmune could be ordered to pay treble damages and attorney's fees, and could be enjoined from selling its product that accounted for more than 80 percent of its revenue. Instead of risking such consequences, MedImmune paid the demanded royalties "under protest and with reservation of all of [its] rights" and filed a declaratory judgment action.<sup>40</sup>

Both the district court and the Federal Circuit dismissed MedImmune’s case based on the Federal Circuit’s earlier case *Gen-Probe, Inc. v. Vysis, Inc.*,<sup>41</sup> which held that a patent licensee in good standing could not satisfy the test for declaratory judgment jurisdiction because payment under the license agreement obliterates “any reasonable apprehension” that the licensee would be sued for infringement.

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<sup>34</sup> 395 F.3d 1324, 1333 (Fed. Cir. 2005).

<sup>35</sup> *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

<sup>36</sup> *Id.* at 767-68.

<sup>37</sup> *Id.* at 768.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> 359 F.3d 1376 (Fed. Cir. 2004).

## **B. The Supreme Court’s Rejection Of The Federal Circuit’s “Reasonable Apprehension Of Suit” Test**

The Supreme Court, in analyzing whether jurisdiction existed for the declaratory judgment action, noted that its own early precedent did not draw the “brightest of lines” between declaratory judgment actions for which jurisdiction does and does not exist.<sup>42</sup> The Court considered its earlier *Altaver v. Freeman*<sup>43</sup> case, however, “close on the facts to the case before” it.<sup>44</sup> In *Altaver*, a licensee’s continued payment of royalties did not render nonjusticiable a dispute over patent validity.<sup>45</sup> The coercive nature of the “exaction” of the royalty payments, cessation of which could subject the licensee to actual and treble damages, preserved the right to recover the royalty payments or challenge the patent.<sup>46</sup> Just as the licensee in *Altaver* was not required to risk an injunction or a large damage award, MedImmune would not be required to take on such a risk in order for the Court to find jurisdiction.<sup>47</sup>

The Supreme Court rejected the reasoning of the Federal Circuit’s *Gen-Probe* decision, and in footnote 11 also specifically rejected the Federal Circuit’s long standing “reasonable apprehension of suit” test. The Court stated the reasonable apprehension of test conflicted with its prior authority in cases such as *Maryland Casualty*, and *Aetna Life*, wherein declaratory judgment jurisdiction existed even if a plaintiff had no indication that it would be sued and even the elimination of any apprehension of suit does not moot a declaratory judgment of patent invalidity.

## **IV. Federal Circuit Cases Post-MedImmune**

### **A. In SanDisk The Federal Circuit Acknowledges The Supreme Court’s Rejection Of The “Reasonable Apprehension Of Suit” Test**

The Federal Circuit, in its first case to address *MedImmune* substantively, *SanDisk Corp. v. STMicroelectronics, Inc.*,<sup>48</sup> acknowledged that the Supreme Court rejected the two part test the Federal Circuit had used in patent declaratory judgment actions, and that the Supreme Court specifically rejected the “reasonable apprehension” of suit prong of the test.<sup>49</sup> In *SanDisk*, the patentee sent a letter to SanDisk informing SanDisk of patents that “may be of interest.”<sup>50</sup> The

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<sup>42</sup> 127 S. Ct. at 771.

<sup>43</sup> 319 U.S. 359 (1943).

<sup>44</sup> 127 S. Ct. at 773.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at 773-74.

<sup>47</sup> *Id.* at 776.

<sup>48</sup> 480 F.3d 1372 (Fed. Cir. 2007). Other earlier Federal Circuit cases which mention MedImmune did not substantively address the Supreme Court’s holding. See *Cellco Partnership v. Broadcom Corp.*, 2007 WL 841615 (Fed. Cir. Mar. 19, 2007); *Hydril Co. LP v. Grant Prideco LP*, 474 F.3d 1344 (Fed. Cir. 2007).

<sup>49</sup> *SanDisk*, 480 F.3d at 1380.

<sup>50</sup> *Id.* at 1374.

parties met and the patentee provided SanDisk reverse engineering reports of SanDisk's products. STMicroelectronics also specifically informed SanDisk that ST Microelectronics "has absolutely no plan whatsoever to sue SanDisk" even though STMicroelectronics sought a royalty from SanDisk.<sup>51</sup>

Despite the lack of any plan to sue SanDisk, the Federal Circuit found the licensing negotiations and extensive reverse engineering reports sufficient to create "a substantial controversy, between parties having adverse legal interest, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."<sup>52</sup> The existence of that controversy did not require SanDisk to "bet the farm," and risk a suit for infringement by cutting off licensing discussions before seeking a declaratory judgment.<sup>53</sup>

The Federal Circuit's ruling in *SanDisk* was the opposite of its ruling in *Phillips Plastics*, even though the factual underpinnings of the two cases had many similarities. In dicta, the Federal Circuit gave limited guidance on what would and would not give rise to jurisdiction in a declaratory judgment lawsuit. An example of a situation where declaratory judgment jurisdiction generally will not arise is when a party learns of the existence of a patent owned by another or perceives such a patent to pose a risk of infringement, without some affirmative act by the patentee.<sup>54</sup> The Federal Circuit gave little guidance on whether a patentee could take any affirmative act without risking a declaratory judgment suit.

The concurring opinion of Judge Bryson noted that the acts taken by the patentee in SanDisk were consistent with those of a patentee availing itself of the "safe haven" of prior Federal Circuit cases such as *Phillips Plastics*.<sup>55</sup> Judge Bryson also stated that while *MedImmune* dealt with the narrow issue of whether a declaratory judgment action could be brought without terminating a license, the implications of footnote 11 were much broader.<sup>56</sup> According to Judge Bryson, "it would appear that under the court's standard virtually any invitation to take a paid license relating to the prospective licensee's activities would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct does not fall within the scope of the patent."<sup>57</sup> Further, according to Judge Bryson, if there were any doubt about a patentee's intentions, the competitor could eliminate any ambiguity very simply. That is:

all the prospective licensee has to do in order to dispel any doubt is to inquire of the patentee whether the patentee believes its activities are within the scope of the patent. If the patentee says "no," it will have made a damaging admission that will make it very hard ever to litigate the issue,

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<sup>51</sup> *Id.* at 1375.

<sup>52</sup> *Id.* at 1382.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.* at 1381-82.

<sup>55</sup> *Id.* at 1384.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

and thus will effectively end its licensing efforts. If it says “yes” or equivocates, it will have satisfied the court's test and will have set itself up for a declaratory judgment lawsuit.<sup>58</sup>

At least under Judge Bryson’s view, there appeared to be virtually no significant safe haven for patent licensors seeking to inform potential licensees of their need to license a patent without risking a declaratory judgment action.

## **B. Implications Of Federal Circuit Cases Since *SanDisk***

Several Federal Circuit cases since *SanDisk* have addressed *MedImmune* and declaratory judgment actions. In *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*,<sup>59</sup> Teva had filed an Abbreviated New Drug Application (“ANDA”) in which it certified that it did not infringe any of five related patents identified by Novartis when Novartis filed its New Drug Application (“NDA”).<sup>60</sup> Novartis sued Teva on only one of its five patents, and Teva brought a declaratory judgment action on the remaining four patents to establish “patent certainty.”<sup>61</sup> The district court dismissed Teva’s action applying the Federal Circuit’s two prong reasonable apprehension of suit test.<sup>62</sup> On appeal, the Federal Circuit recognized that after *MedImmune*, courts should not rely on the reasonable apprehension of suit test, and that Teva had demonstrated an injury-in-fact resulting in a justiciable controversy.<sup>63</sup> In dicta, the Federal Circuit even went so far as to say that in cases such as this, based on an ANDA:

We believe that the only circumstance in which a case or controversy might not exist would arise in the rare circumstance in which the patent owner and brand drug company have given the generic applicant a covenant not to sue, or otherwise formally acknowledge that the generic applicant's drug does not infringe.<sup>64</sup>

The Federal Circuit again acknowledged the rejection of the reasonable apprehension of suit test in *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*<sup>65</sup> Honeywell sued Universal Avionics asserting independent and dependent claims relating to a display system. During litigation, Honeywell represented that it would not pursue infringement of certain independent claims, but it still pursued infringement claims based on dependent claims.<sup>66</sup> The district court determined that Honeywell’s refusal to withdraw all claims left defendants with a reasonable

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<sup>58</sup> *Id.* at 1384-85.

<sup>59</sup> 482 F.3d 1330 (Fed. Cir. 2007).

<sup>60</sup> *Id.* at 1335.

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1340.

<sup>64</sup> *Id.* at 1343.

<sup>65</sup> 488 F.3d 982 (Fed. Cir. 2007).

<sup>66</sup> *Id.* at 995.

apprehension of suit. On appeal, the Federal Circuit noted that even though the reasonable apprehension of suit test no longer applied, infringement of a dependent claim also entailed infringement of the independent claim and maintenance of the assertions of infringement of the dependent claims warranted declaratory judgment jurisdiction over the withdrawn independent claims.<sup>67</sup>

An unusual post-*MedImmune* case dismissing a declaratory judgment action is *Benitec Australia Ltd. v. Nucleonics, Inc.*<sup>68</sup> After Benitec, the patentee, sued Nucleonics for infringement, Nucleonics counterclaimed for declaratory judgments of invalidity and unenforceability.<sup>69</sup> Benitec, however, moved to dismiss its infringement claims, and the district court dismissed both Benitec's claims and the counterclaims for invalidity and unenforceability.<sup>70</sup> At the time Nucleonics filed its counterclaims there was no dispute that a case or controversy existed.<sup>71</sup> Nucleonics appealed the dismissal of its declaratory judgment claims, and in its appellee's brief, Benitec provided a *Super Sack*<sup>72</sup>-like covenant not to sue, stating that it: "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."<sup>73</sup> The Federal Circuit found that the parties both took the position that Nucleonics's current activities could not infringe the patent-in-suit and therefore there was not "sufficient immediacy and reality" to support declaratory judgment jurisdiction.<sup>74</sup>

*Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*<sup>75</sup> confirms that a patentee's willingness to continue licensing negotiations will not preclude a declaratory judgment action by an accused infringer. In *Sony*, the patentee sent Sony a letter stating that Sony products were using technology patented by the patentee.<sup>76</sup> Sony informed the patentee that it had "serious questions about the validity" of the asserted patents.<sup>77</sup> The parties did not communicate until four years later when the patentee again wrote several letters requesting meetings with Sony concerning licensing of the asserted patents.<sup>78</sup> After an in-person meeting, Sony filed a

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<sup>67</sup> *Id.* at 995-96.

<sup>68</sup> 495 F.3d 1340 (Fed. Cir. 2007).

<sup>69</sup> *Id.* at 1343.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.* at 1345.

<sup>72</sup> *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1059-60 (Fed. Cir. 1995) (holding 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).

<sup>73</sup> *Benitec Australia*, 495 F.3d. at 1343.

<sup>74</sup> *Id.* at 1349.

<sup>75</sup> 497 F.3d 1271 (Fed. Cir. 2007).

<sup>76</sup> *Id.* at 1274.

<sup>77</sup> *Id.*

<sup>78</sup> *Id.* at 1275.

declaratory judgment action alleging non-infringement, invalidity, and unenforceability.<sup>79</sup> After a hearing held before the Supreme Court's decision in *MedImmune*, the district court dismissed the suit, finding that the patentee had not expressly threatened to sue and its actions did not amount to an "implicit threat of immediate litigation."<sup>80</sup> On appeal, the Federal Circuit reversed, applying the *MedImmune* test and citing *SanDisk*, noting that a patentee's willingness to engage in licensing negotiations does not prevent a plaintiff from maintaining a declaratory judgment action.<sup>81</sup> The dispute between the parties resulting from the patentee's contention that it was owed royalties and Sony's contention that it had a right to engage in its activities without a license gave rise to an actual controversy.<sup>82</sup>

Finally, in *Adenta GmbH v. Orthoarm, Inc.*,<sup>83</sup> the Federal Circuit affirmed a judgment in favor of a licensee who brought a declaratory judgment action after ceasing payments on a patent license. The district court and the Federal Circuit rejected the patentee's contention that the patentee's statement that it would "pursue its available legal remedies to protect its rights" in view of the licensee's breach of the license agreement did not give rise to declaratory judgment jurisdiction.<sup>84</sup>

As of the time of this writing, no post-*MedImmune* Federal Circuit cases have affirmed a dismissal of a declaratory judgment action in which a patent licensor offered a patent license.

## V. Avoiding Declaratory Judgment Actions After *MedImmune*

Prior to *MedImmune*, patent licensors could approach potential licensees in certain ways without much likelihood of being subject to a declaratory judgment action. Typical approaches by patentees that would not trigger a declaratory judgment action included: writing a letter enclosing a copy of a patent, stating that the patent may be of interest, and that licenses are available; inviting a party to engage in business discussions in view of a licensor's patent; and requesting information about a party's activities as it relates to a patent.

A search of post-*MedImmune* district court cases, however, located only a single case in which similar activity did not give rise to a declaratory judgment action. In *Merchandising Technologies, Inc. v. Telefonix, Inc.*,<sup>85</sup> the plaintiff had previously purchased parts from the exclusive licensee of the patent.<sup>86</sup> The CEO of the exclusive licensee of the patent wrote to

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<sup>79</sup> *Id.* at 1276.

<sup>80</sup> *Id.* at 1281.

<sup>81</sup> *Id.* at 1286.

<sup>82</sup> *Id.*

<sup>83</sup> 501 F.3d 1364 (Fed. Cir. 2007).

<sup>84</sup> *Id.* at 1366-67.

<sup>85</sup> 2007 WL 464710 (D. Or. Feb. 7, 2007)

<sup>86</sup> *Id.* at \*1.

plaintiff's CEO informing plaintiff that it did not have a license under the patent, and the licensor had "valuable intellectual property rights that we must protect."<sup>87</sup> The parties had an additional telephone call and an email in which the CEO of the exclusive licensee stated the plaintiff's products "violated" the patent and that plaintiff "should not be manufacturing and/or selling items covered by our patent unless purchased or licensed through" the exclusive licensee.<sup>88</sup> The district court considered the "totality of the circumstances" and found it significant that there were ongoing communications between the parties rather than their attorneys and that the patent licensee did not impose any short deadlines on the plaintiff.<sup>89</sup> Accordingly, the district court found there no "actual controversy existed" and there was no declaratory judgment jurisdiction.<sup>90</sup> This decision is highly suspect, however. *Merchandising Technologies* was decided almost a month after *MedImmune*, but the court did not cite *MedImmune* or acknowledged its effect on Federal Circuit precedent..

In light of *MedImmune* some patent holders are dispensing with pre-lawsuit negotiations and have adopted a policy of "sue first, ask questions later." In October 2007, Wi-LAN, Inc. sued 22 defendants in the Eastern District of Texas on patents relating to Wi-Fi technology and power consumption in digital subscriber line products. The president of Wi-LAN, Inc. was reported to have commented that in light of *MedImmune*, Wi-LAN chose the "sue first, ask questions later"<sup>91</sup> approach to avoid being forced into other courts through declaratory judgment actions.<sup>92</sup>

This strategy of suing first and asking questions later appears to have been adopted by a number of non-practicing entities, i.e., entities who own, license, and sue on patents, but do not provide technology or services embodying their patents. For the first time, the Eastern District of Texas has surpassed the Central District of California to become the district in which patent cases are most frequently filed.<sup>93</sup> The reason why the Eastern District of Texas has become the most popular venue for patent infringement suits appears to be that it is the favorite venue for non-practicing entities, based on their perception that it provides the most favorable odds of a patentee winning a lawsuit.<sup>94</sup> By November of 2007, the Eastern District of Texas appeared to have had 343 patent lawsuit filings, with 140 of those being filed by non-practicing entities, while the Central District of California had 251 patent lawsuit filings, with 17 of those being

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<sup>87</sup> *Id.* at \*7.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at \*11.

<sup>90</sup> *Id.*

<sup>91</sup> See [http://money.cnn.com/news/newsfeeds/articles/djf500200711011500DOWJONESDJONLINE001008\\_FORTUNE5.htm](http://money.cnn.com/news/newsfeeds/articles/djf500200711011500DOWJONESDJONLINE001008_FORTUNE5.htm)

<sup>92</sup> See transcript of Wi-LAN, Inc.'s fourth quarter 2007 earnings call, <http://seekingalpha.com/article/59761-wi-lan-inc-f4q07-qtr-end-10-31-07-earnings-call-transcript>.

<sup>93</sup> See Drew Combs, *U.S. Court in Texas Leaps Past L.A. in New Patent Cases*, Los Angeles Business Journal, January 7, 2008 at 7.

<sup>94</sup> *Id.*

filed by non-practicing entities.<sup>95</sup> Further, the number of defendants sued in the Eastern District of Texas in November 2007 exceeded the number of defendants sued in the Central and Northern Districts of California, New York City, Chicago, Delaware, and New Jersey combined.<sup>96</sup> Thus, an unintended consequence of *MedImmune* may be an increase in the number of patent infringement suits filed by licensing entities who seek to insure that if litigation ensues it will be in what is perceived to be a favorable forum.

## **VI. Conclusion**

After *MedImmune* and *SanDisk*, the world of patent licensing is very different. Activity that was long considered risk free may now well give rise to a declaratory judgment action by a hostile potential licensee. Certain safe havens for patent licensors no longer exist and patent licensors may find it expedient to engage in licensing negotiations after, rather than before, suing a potential licensee.

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<sup>95</sup> See <http://trolltracker.blogspot.com>.

<sup>96</sup> *Id.*