Patent Licensing and Discretion: Reevaluating the Discretionary Prong of Declaratory Judgment Jurisdiction after Medimmune

Paul J. LaVanway Jr.
Note

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Imagine that a patent holder approaches a potential licensee to initiate licensing discussions, expressly telling the licensee that she has "absolutely no plan whatsoever to sue" for patent infringement.1 Did the patent holder just expose herself to multimillion dollar liability, potentially being forced to defend the enforceability and validity of her patent in litigation?2 Before 2007, the answer was likely no,3 but after MedImmune, Inc. v. Genentech, Inc.,4 the answer changes.5

* J.D. Candidate 2009, University of Minnesota Law School; B.S. Ch.E. 2004, University of Wisconsin-Madison. The author thanks C. Michael Geise for insightful discussion and assistance in formulating the topic and content of this Note. The author also thanks the board and staff of the Minnesota Law Review for their hard work and tireless effort in seeing this Note’s journey to publication. Most importantly, the author gives special thanks to his family, and in particular Katie Mantz, for their unwavering love and support. Copyright © 2008 by Paul J. LaVanway, Jr.

1. SanDisk Corp. v. STMicroelecs., Inc., 480 F.3d 1372, 1375–76 (Fed. Cir. 2007). The hypothetical I pose actually occurred and formed the basis for the SanDisk opinion. Id.


5. See SanDisk, 480 F.3d at 1376, 1383.
In January 2007, the Supreme Court held that a nonrepu-
dating patent licensee may challenge the validity of the patent
underlying her license agreement.6 The decision resulted in a
"sweeping change" in law,7 which unsettled the licensing com-
pany by overruling a line of Federal Circuit precedent hold-
ing that a licensee in good standing lacks an actual controversy
sufficient to satisfy the jurisdictional "case or controversy"
standing requirement of Article III.8

A more insidious aspect of the MedImmune ruling was bu-
ried in the decision. In a detailed footnote, the Supreme Court
sharply criticized the Federal Circuit's two-part test for sus-
taining declaratory judgment jurisdiction.9 The abrogation of
the Federal Circuit's test, as later interpreted in that circuit,
expands declaratory judgment jurisdiction so that a mere dif-
ference of opinion between a putative licensor and licensee as to
whether a license is needed appears to satisfy the jurisdictional
prerequisites to obtaining declaratory judgment relief.10

This Note analyzes the impact the MedImmune decision
has on patent licensing activity and suggests how to mitigate
the chilling effect the decision has had on such activity. Part I
explores the history, policy, and development of law surround-
ing patent licensing and the Declaratory Judgment Act (DJA).11
Part II explains the impact of the MedImmune decision as inter-
preted by the Federal Circuit and argues in favor of restrict-
ing access to declaratory judgment relief. Finally, Part III ar-

gues that district courts should discretionarily forego accepting
declaratory judgment actions in certain licensing situations.
This Note concludes that discretion should be expanded to cap-
ture the practical realities that are involved in the patent li-
censing and negotiation process.

7. See SanDisk, 480 F.3d at 1385 (Bryson, J., concurring) (discussing the
change in Federal Circuit law mandated by the MedImmune decision).
8. See id. at 1377–81 (majority opinion) (recognizing that the Supreme
Court opinion in MedImmune represented a rejection of the prior Federal Cir-
cuit reasonable-apprehension-of-suit test).
9. MedImmune, 127 S. Ct. at 774–75 n.11.
10. See, e.g., SanDisk, 480 F.3d at 1381 ("[W]here 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 . . . ").
I. PATENT LICENSING AND DECLARATORY JUDGMENT

Declaratory judgment is a procedural mechanism that allows a party uncertain of her legal rights to obtain official adjudication of her legal position. Part I introduces the history and judicial interpretation of the DJA. Then, Part I describes the unique application of the DJA to patent licensing and patent disputes. Part I concludes by detailing the MedImmune ruling and the Federal Circuit's response to the decision.

A. REMOVING UNCERTAINTY: THE DECLARATORY JUDGMENT ACT

Before the enactment of the DJA, patentees possessed tremendous power to choose the time, place, and manner in which to file patent infringement suits. The asymmetric power between patentees and alleged infringers allowed threats of enforcement to incapacitate alleged infringers, placing them under a cloud of uncertainty without any mechanism for clarifying their legal relationships. A patentee could use threats and coercion to intimidate a competitor's customers and dealers, often forcing settlements without risking adjudication of possibly unenforceable claims.

By 1934, Congress recognized the undesirable effects that patentees' powers had on potential infringers and provided a judicial mechanism by which nonpatentees could test patent noninfringement and invalidity positions. Congress passed

14. See Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc., 148 F.3d 1355, 1360 (Fed. Cir. 1998) ("Before the Declaratory Judgment Act, competitors victimized by scare-the-customer-and-run tactics were rendered helpless and immobile so long as the patent owner refused to grasp the nettle and sue." (quoting Arrowhead, 846 F.2d at 735) (internal quotation marks omitted)); Zennie Bros. v. Miskend, 10 F. Supp. 779, 781 (S.D.N.Y. 1935) ("It is said that a suit by a private party who has no patent himself to declare a competitor's patent void is without precedent. The charge is true.")).
15. BORCHARD, supra note 12, at 803–04.
16. The congressional record accompanying passage of the DJA is sparse; Professor Lisa Dolak, however, has provided a succinct synopsis of the relevant history. Lisa A. Dolak, Declaratory Judgment Jurisdiction in Patent Cases: Restoring the Balance Between the Patentee and the Accused Infringer, 38 B.C. L. REV. 903, 910 & n.51, 911 (1997).
the DJA, which provides that "[i]n a case of actual controversy within its jurisdiction . . . any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration." The Act effectively allows a party uncertain of her legal rights to plead affirmative defenses prior to the commencement of an infringement suit by the patentee.

The Supreme Court affirmed the constitutionality of the DJA in the first years after its passage, further holding that the Act is a procedural tool wherein the actual-controversy requirement is limited only by the "case or controversy" requirements of Article III. The Court later interpreted the plain language of the Act to include discretionary grounds for refusing to grant jurisdiction.

While patents have a statutory presumption of validity, countervailing considerations of settling expectations and removing the in terrorem effects of threatened litigation are important to the public at large. The DJA addresses this public interest by allowing a party uncertain of her legal rights to confirm noninfringement positions or to challenge the validity of a patent that may be, in the words of Judge Learned Hand, nothing more than a "scarecrow." Despite the power of declaratory judgment to settle legal uncertainty, courts do not have unlimited jurisdiction to hear declaratory judgment claims.

19. See In re Lockwood, 50 F.3d 966, 974–75 (Fed. Cir. 1995) ("The primary difference between [the defendant's] action and the infringement suit that would formerly have been required for an adjudication of validity is that the parties' positions here have been inverted . . .").
20. Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 239–40 (1937) ("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. Thus the operation of the Declaratory Judgment Act is procedural only.").
B. "ACTUAL CONTROVERSY" AND THE FEDERAL CIRCUIT'S TWO-PRONG INQUIRY FOR ASSERTING DECLARATORY JUDGMENT JURISDICTION

Shortly after the passage of the DJA, the Supreme Court articulated a broad-based inquiry for determining whether an actual controversy exists sufficient to sustain declaratory judgment jurisdiction. The Court stated that the question 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." The Court also warned that application of the procedural tool involves an intensely factual inquiry that does not lend itself to a precise test.

Despite this warning, the Federal Circuit created a two-part declaratory judgment test to address the actual-controversy aspect of declaratory judgment jurisdiction. The inquiry was two-fold: First, did the defendant engage in conduct that created a "reasonable apprehension" such that the plaintiff will face an infringement suit if it commences or continues a particular activity? Second, did the plaintiff seeking a declaration of invalidity or noninfringement actually commence or prepare to commence an allegedly infringing act?

At least one commentator has criticized the accuracy of the test for erroneously focusing on whether a patentee's conduct evidenced intent to imminently commence a lawsuit instead of whether an imminent controversy (i.e., allegations of infringement) existed. Moreover, the predictability of the declaratory judgment jurisdiction remained variable because the actual-controversy requirement was just one prong of the DJA. The DJA contains a discretionary component, and the Act "created

26. Id. at 273.
27. See id. ("The difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.").
29. Id.
30. Id.
31. See Dolak, supra note 16, at 908.
an opportunity, rather than a duty,” to grant jurisdiction to qualifying litigants.33

The Federal Circuit’s declaratory judgment jurisprudence prior to MedImmune thus consisted of two levels of inquiry. First, the court inquired whether Article III jurisdiction existed based on the aforementioned two-part test.34 If jurisdiction existed, the court then performed the second inquiry to determine whether the discretionary aspect of the DJA militated against asserting jurisdiction over the action.35 While the two levels of inquiry appear to be a simple division, the Federal Circuit’s jurisprudence has been inconsistent in distinguishing between jurisdictional considerations and discretionary policy considerations.36

C. LIMITATIONS ON THE DISCRETIONARY APPLICATION OF THE DECLARATORY JUDGMENT ACT

The DJA does not afford district courts unlimited discretion in turning away declaratory judgment actions.37 The Federal Circuit may reverse a lower court’s decision not to hear a declaratory judgment action on discretionary grounds when the court’s decision was clearly unreasonable or arbitrary, the decision was based on erroneous findings or an erroneous conclusion of law, or when the record contains no evidence upon which the court could rationally have based its decision.38 Nonetheless, the Supreme Court has made clear that the Act affords courts a “unique and substantial discretion” to declare the rights of litigants.39 “Exceptional circumstances” are

34. See Spectronics Corp. v. H.B. Fuller Co., 940 F.2d 631, 634 (Fed. Cir. 1991) (“When there is no actual controversy, the court has no discretion to decide the case.”).
35. See, e.g., id. (“When there is an actual controversy and thus jurisdiction, the exercise of that jurisdiction is discretionary.”).
39. Wilton v. Seven Falls Co., 515 U.S. 277, 286 (1995) (“Since its inception, the Declaratory Judgment Act has been understood to confer on federal courts unique and substantial discretion in deciding whether to declare the
not required to exercise this discretion.\textsuperscript{40} The Supreme Court has further affirmed this broad commitment to discretion by holding that appellate courts must review district courts' decisions not to entertain declaratory judgment actions on discretionary grounds for abuse of discretion rather than de novo.\textsuperscript{41}

While neither the Supreme Court\textsuperscript{42} nor the Federal Circuit\textsuperscript{43} has delineated the outer boundaries of the discretion afforded by the DJA, one of the co-drafters of the Act, Edwin Borchard, has suggested several factors that militate against the exercise of discretion.\textsuperscript{44} Borchard suggested that courts render declaratory judgment when the judgment clarifies and settles the legal relations at issue or when it affords relief from the uncertainty, insecurity, and controversy giving rise to the proceedings.\textsuperscript{45} These issues frequently arise in the patent licensor-licensee relationship.

D. LICENSOR-LICENSEE RELATIONSHIPS IN THE PATENT CONTEXT

Evaluating declaratory judgment actions between patent licensors and licensees is difficult because competing policy considerations exist between patent law and contract law.\textsuperscript{46} Prior to the 1969 Supreme Court decision of \textit{Lear, Inc. v. Adkins},\textsuperscript{47} licensee estoppel prevented a patent licensee from raising patent invalidity as a defense in a suit for royalties under a

\textsuperscript{40}\textit{Wilton}, 515 U.S. at 286–88.

\textsuperscript{41}See \textit{id.} at 289 (“We believe it more consistent with the statute to vest district courts with discretion in the first instance, because facts bearing on the usefulness of the declaratory judgment remedy, and the fitness of the case for resolution, are peculiarly within their grasp.”).

\textsuperscript{42}See \textit{id.} at 290 (“We do not attempt at this time to delineate the outer boundaries of that discretion in other cases . . . ”).

\textsuperscript{43}SanDisk Corp. v. STMicroelecs., Inc., 480 F.3d 1372, 1381 (Fed. Cir. 2007) (“We need not define the outer boundaries of declaratory judgment jurisdiction . . . ”).

\textsuperscript{44}BORCHARD, \textit{supra} note 12, at 299.

\textsuperscript{45}\textit{Id.}

\textsuperscript{46}\textit{Lear, Inc. v. Adkins}, 395 U.S. 653, 668 (1969). A tension exists because contract law “forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made,” yet federal law “requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.” \textit{Id.}

\textsuperscript{47}\textit{Id.} at 653.
license agreement.\textsuperscript{48} The doctrine of licensee estoppel, however, was abolished in \textit{Lear} in favor of countervailing public policy interests in testing the validity of patents.\textsuperscript{49} The Court determined that enforcing contractual provisions limiting a licensee’s power to sue would unduly undermine a “strong federal policy favoring the full and free use of ideas in the public domain.”\textsuperscript{50}

In view of the public policy principles embodied in \textit{Lear}, the Federal Circuit initially took the position that a declaratory judgment action is not precluded between a patent licensor and licensee just because the patent license is still effective.\textsuperscript{51} The Federal Circuit reined in the broad reading of \textit{Lear}, however, as the court later determined that not every licensee in every circumstance had the right to challenge the validity of the licensed patent.\textsuperscript{52} The Federal Circuit continued to limit \textit{Lear} by prohibiting a licensee from invoking the \textit{Lear} doctrine until it actually ceased royalty payments and provided notice to the licensor that the reason for ceasing payment of royalties was because it doubted the validity of the patent claim.\textsuperscript{53}

Finally, in \textit{Gen-Probe, Inc. v. Vysis, Inc.}, the Federal Circuit held that a nonrepudiating licensee in good standing was

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48. \textit{See} Idaho Potato Comm’n \textit{v.} M&M Produce Farm \& Sales, 335 F.3d 130, 135 (2d Cir. 2003) (“The general rule of licensee estoppel provides that when a licensee enters into an agreement to use the intellectual property of a licensor, the licensee effectively recognizes the validity of that property and is estopped from contesting its validity in future disputes.”).

49. \textit{Lear}, 395 U.S. at 670 (“[T]he equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”).

50. \textit{Id.} at 674.

51. C.R. Bard, Inc. \textit{v.} Schwartz, 716 F.2d 874, 880 (Fed. Cir. 1983) (“To always require the termination of a license agreement as a precondition to suit would mean that a licensee must then bear the risk of liability of infringement. This would discourage licensees from contesting patent validity and would be contrary to the policies expressed in \textit{Lear}.”).


53. Studiengesellschaft, 112 F.3d at 1568.
estopped from bringing a declaratory judgment action. The court reasoned that until a licensee placed herself in material breach of the licensing contract, there was no actual controversy to sustain declaratory judgment jurisdiction. Relying on policies of contract law and the value of the patent system in fostering technology exchange, the court stated that the licensor "voluntarily relinquished its statutory right to exclude by granting [the licensee] a nonexclusive license." Allowing the action to proceed would defeat those contractual covenants and discourage patentees from granting licenses because "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."  

While some viewed the *Gen-Probe* decision as an impermissible retreat from the principles embodied in *Lear*, other patent practitioners viewed the *Gen-Probe* rule, which encouraged patent litigation settlement through licensing, as a favorable alternative to costly and risky patent litigation.  

E. PATENT LICENSES AND THE DISCRETIONARY APPLICATION OF THE DECLARATORY JUDGMENT ACT  

Courts have historically viewed a patentee's offer of a license to a possible infringer, without more, as insufficient to confer declaratory judgment jurisdiction. An express charge of patent infringement has never been required to sustain declaratory judgment jurisdiction, but a patentee merely proposing

55. Id.  
56. Id.  
57. Id. at 1382.  
59. See, e.g., EMC Corp. v. Norand Corp., 89 F.3d 807, 809 (Fed. Cir. 1996) (affirming the lower court's decision not to exercise declaratory judgment jurisdiction on discretionary grounds because there were "active license or sale negotiations"), abrogated by MedImmune, 127 S. Ct. 764; Indium Corp. of Am. v. Semi-Alloys, Inc., 781 F.2d 879, 883 (Fed. Cir. 1985) (discussing the lack of reasonable apprehension that allegedly resulted from Indium Corp.'s president sending a letter to Semi-Alloys, Inc. inviting a licensing discussion).  
60. See, e.g., Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 888 (Fed. Cir. 1992) (stating that an express charge of infringement is not required for an actual controversy to arise); Goodyear Tire & Rubber Co. v. Releasomers, Inc., 824 F.2d 953, 956 (Fed. Cir. 1987) ("[W]e cannot read the Declaratory Judgment Act so narrowly as to require that a party actually be confronted with an
or entering into licensing negotiations typically would not find itself subject to declaratory judgment jurisdiction.\textsuperscript{61} In fact, the Federal Circuit prior to \textit{MedImmune} made clear that the pendency of serious negotiations to license or sell a patent may be taken into account when considering the discretionary exercise of declaratory judgment jurisdiction.\textsuperscript{62}

Despite this freedom to negotiate licenses, the Federal Circuit has recognized that the possibility of a lawsuit always exists during licensing and that “[t]he threat of enforcement . . . is the entire source of the patentee’s bargaining power.”\textsuperscript{63} To balance this threat, courts have looked closely at the language of licensing negotiations before sustaining declaratory judgment jurisdiction, going so far as to conclude that statements that another party’s activities “fall within” a patent claim may reflect a reason for initiating licensing negotiations, but “in the context of the parties’ licensing negotiations can hardly be considered an express charge of infringement.”\textsuperscript{64}

Courts have also recognized that improvidently granted jurisdiction may decrease the market value of the defendant’s patents and improve the bargaining position of the plaintiff.\textsuperscript{65} In this context, the exercise of declaratory judgment jurisdiction may create an incentive structure that is inconsistent with the public interest in preserving declaratory proceedings for cases closer to the central objectives of declaratory judgment jurisdiction.\textsuperscript{66} Moreover, from a tactical perspective, courts recognize

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\item \textit{express threat of litigation to meet the requirements of an actual case or controversy.}, abrogated by \textit{MedImmune}, 127 S. Ct. 764.
\item \textsuperscript{61} See, e.g., Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha, 57 F.3d 1051, 1053 (Fed. Cir. 1995).
\item \textsuperscript{62} See, e.g., \textit{EMC Corp.}, 89 F.3d at 812–14 (affirming the lower court’s decision not to exercise declaratory judgment jurisdiction because there were continuing negotiations).
\item \textsuperscript{63} \textit{Id.} at 811. The court further recognized that “it is unrealistic to suggest that some negotiating patentees intend to enforce their patents while some do not, and that the first group is subject to declaratory judgment actions while the second is not.” \textit{Id.}
\item \textsuperscript{64} \textit{Shell Oil}, 970 F.2d at 888. \textit{But see EMC Corp.}, 89 F.3d at 811–12 (“The need to look to substance rather than form is especially important in this area . . . . [T]he inquiry does not turn on whether the parties have used particular ‘magic words’ in communicating with one another.”).
\item \textsuperscript{65} See, e.g., \textit{EMC Corp.}, 89 F.3d at 814 (discussing the district court’s decision not to sustain declaratory judgment jurisdiction on discretionary grounds because of the adverse incentives that would be created).
\item \textsuperscript{66} The declaratory judgment device serves multiple purposes, Borchard, \textit{supra} note 12, at 292, but the core objectives are to settle disputed legal relations and to afford relief from genuine uncertainty, insecurity, and con-
that allowing licensees in good standing to bring invalidity suits against the predicate patents dramatically shifts the risks—and hence the bargaining positions—in the licensor-licensee relationship.\(^6\)

Before sustaining declaratory judgment jurisdiction, a court must balance the competing policy considerations of limited judicial resources with the right of a party threatened with legal action to obtain an early adjudication of its rights and liabilities.\(^6\) As the Federal Circuit noted in *Shell Oil Co. v. Amoco Corp.*, "[t]he Declaratory Judgment Act was intended to protect threatened parties, not to drag a nonthreatening patentee into court."\(^6\)

F. CHANGING THE RULES: *MedImmune v. Genentech* AND ITS PROGENY

After years of applying a standard declaratory judgment test, the Supreme Court recently abrogated the Federal Circuit's two-part jurisdictional test. In *MedImmune*, the Supreme Court held that a nonrepudiating patent licensee is not per se estopped from bringing a declaratory judgment action based on the lack of an actual controversy.\(^7\)

The *MedImmune* dispute arose from a 1997 licensing agreement entered into between MedImmune and Genentech.\(^7\) The agreement granted licenses to MedImmune under Genentech's Cabilly I patent\(^7\) as well as its then-pending Cabilly II controversy, *id.* at 279, 299. In patent disputes, declaratory judgment prevents a patentee from making threats and coercive charges without actually bringing suit by allowing a potential infringer to initiate suit against the patentee. See *id.* at 803–04.

67. See Gen-Probe, Inc. v. Vysis, Inc., 359 F.3d 1376, 1382 (Fed. Cir. 2004) (stating that if licensees in good standing were allowed to sue, then "the licensor would bear all the risk, while [the] 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."), abrogated by MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764 (2007).

68. See, e.g., Minn. Mining & Mfg. Co. v. Norton Co., 929 F.2d 670, 673 (Fed. Cir. 1991) ("This case involves the competing policy considerations of, on the one hand, conserving limited judicial resources by declining jurisdiction and, on the other hand, utilizing the services of a court by permitting a party threatened with legal action to obtain an early adjudication of its rights and liabilities.").

69. 970 F.2d at 889.


71. *Id.* at 767–68.

After Genentech’s Cabilly II patent application matured into an issued patent, Genentech advised MedImmune that its Synagis product fell under Cabilly II’s claims. Genentech further demanded royalty payments on MedImmune’s Synagis product. MedImmune believed the Cabilly II patent to be invalid and unenforceable, but it was unwilling to risk treble damages for willful infringement or worse, being enjoined from selling the Synagis product, which accounted for more than eighty percent of its revenue. MedImmune proceeded to pay the demanded royalties “under protest.”

MedImmune subsequently sought declaratory judgment relief, but the district court relied on the Federal Circuit’s holding in Gen-Probe to rule that a licensee in good standing could not establish an Article III case or controversy. The Federal Circuit affirmed the district court’s ruling.

The Supreme Court was thus presented with the specific question of whether the actual-controversy requirement of the DJA required a patent licensee to stop making royalty payments—thereby committing a material breach of its licensing agreement—before being allowed to bring a declaratory judgment suit. The Court answered that a licensee is not required to breach her licensing agreement before challenging the patent underlying the agreement as invalid, unenforceable, or not infringed. In reaching its decision, the Court noted the magnitude of the risk for MedImmune as well as the fact that Med-
Immune was “coerced” into the threat-eliminating agreement. The Court further rejected Genentech’s argument that the promise to pay royalties in the license agreement contained an implied covenant not to challenge the validity of the patent.

In reaching its decision, the Court rearticulated the standard from Maryland Casualty Co. v. Pacific Coal & Oil Co. for declaratory judgment jurisdiction and sharply criticized the Federal Circuit’s two-part reasonable-apprehension test. Upon remanding the case, the Court left the “equitable, prudential, and policy arguments” favoring discretionary dismissal “for the lower courts’ consideration.”

The MedImmune decision will undoubtedly change licensing behavior. Some practitioners suggest that putative patent infringers will strategically accept a “coerced” license to avoid the treble damages associated with willful patent infringement and preserve the right to bring a declaratory judgment action. Others believe that MedImmune will change the way patent licenses are drafted and may increase licensing costs by incorporating risk premiums into the license for potential legal costs if validity or enforceability is later challenged. Still others predict a bifurcated reaction: less predictability in declaratory judgment actions may make some potential infringers more inclined to litigate rather than accept royalty demands.

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87. Id. at 772, 775 n.12 (noting that subject-matter jurisdiction is not precluded when the threat-eliminating behavior was effectively coerced).
88. Id. at 776.
89. 312 U.S. 270, 273 (1941).
90. MedImmune, 127 S. Ct. at 771 (“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.” (quoting Md. Cas., 312 U.S. at 273)).
91. Id. at 774 n.11 (“The [Federal Circuit’s] reasonable-apprehension-of-suit test also conflicts with our decisions . . . .”).
92. Id. at 777.
while others may be unable to justify the costs and risks of litigation and will forego business opportunities.\footnote{96} Regardless of these predictions, the effect of \textit{MedImmune} was apparent in the Federal Circuit's March 2007 decision in \textit{SanDisk Corp. v. STMicroelectronics, Inc.}\footnote{97} In the dispute leading up to the declaratory judgment action, STMicroelectronics (STM) engaged SanDisk in a series of discussions regarding potential licensing or cross-licensing agreements.\footnote{98} STM presented SanDisk with an infringement analysis during the discussions identifying how specific claims of STM's patents were infringed by SanDisk's products.\footnote{99} However, STM also gave a verbal promise that it had "absolutely no plan whatsoever to sue SanDisk."\footnote{100} When SanDisk subsequently brought a declaratory judgment action against STM, the district court—relying on the Federal Circuit's old two-part reasonable-apprehension test—granted summary judgment in favor of STM.\footnote{101}

On appeal, the Federal Circuit reversed the district court's dismissal of the declaratory judgment action.\footnote{102} The Federal Circuit recognized that \textit{MedImmune} rejected its two-part reasonable-apprehension test.\footnote{103} The court further articulated a new standard for sustaining declaratory judgment jurisdiction: "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."\footnote{104} The breadth of this new standard is a "sweeping change," and Judge William Bryson's concurring opinion fully recognized the potential for this new standard to infect licensing negotiations.\footnote{105} Judge Bryson noted 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."\footnote{106}
The Federal Circuit’s broad new standard appears ready to inject litigation into almost all patent licensing relationships. If the discretionary rejection of declaratory judgment jurisdiction is the only tool remaining to save patent licensing, the contours of how courts should conduct their post-MedImmune discretionary analyses remain unclear.

II. PATENT LICENSING IN THE WAKE OF MEDIMMUNE

Part I described the DJA and its application to patent licensing disputes. Part II evaluates the Federal Circuit’s response to MedImmune and discusses rationales for restricting access to declaratory judgment jurisdiction. In particular, Part II identifies special patent licensing considerations that militate against broad application of declaratory judgment jurisdiction.

A. APPLYING MEDIMMUNE IN THE LICENSING CONTEXT

In a single footnote, MedImmune abrogated the Federal Circuit’s reasonable-apprehension test for declaratory judgment jurisdiction, replacing a semipredictable jurisdictional standard with uncertainty. The Federal Circuit, in subsequent applications of MedImmune, has neither limited the decision to its facts (i.e., declaratory judgment actions between parties to an existing license agreement) nor ameliorated the decision’s harsh effect by retaining some of the strictures of its prior jurisprudence. Instead, the Federal Circuit has extended the full impact of MedImmune to preliminary licensing negotiations and nonlicensing relationships. The practical problems that MedImmune and its progeny now pose for a patentee seeking to license her invention are two-fold. First, a patentee’s mere offer to license her technology can subject her to declaratory judgment jurisdiction and the burdens of defending her patent. Second, even if a licensing agreement is consum-
mated, a licensee can challenge the validity of the underlying patent without repudiating her license to the extent that the license was “coerced.” A patentee may be able to mitigate the latter problem through contracting procedures, but the former problem remains a dangerous and lingering hazard to a patentee's attempts to license her technology.

The extended problem with preliminary licensing overtures is that an offer to take a license generally carries with it at least an implied assertion of infringement, and after SanDisk, a mere difference of opinion between a putative licensor and licensee as to whether a license is needed appears to satisfy the jurisdictional prerequisites for obtaining declaratory judgment relief. The recent treatment of declaratory judgment jurisdiction, however, does not appear to be compelled by Supreme Court precedent.


The trouble with the Federal Circuit's broad SanDisk standard for obtaining declaratory judgment jurisdiction (i.e., satisfying the jurisdictional requirements of Article III) is that the standard is not compelled by MedImmune nor entirely consistent with Supreme Court jurisprudence. The MedImm-

111. See, e.g., John W. Schlicher, Patent Licensing, What to Do After MedImmune v. Genentech, 89 J. PAT. & TRADEMARK OFF. SOC'Y 364, 367 (2007) (noting that MedImmune should have no impact on licensing agreements that define royalty obligations without reference to validity); Diner & Ahmed, supra note 95, at 5 (suggesting that licensors can add a provision allowing them to terminate the license if the licensee challenges the predicate patent).

112. See SanDisk, 480 F.3d at 1384 (Bryson, J., concurring) (stating that underlying a license offer is an express or implied suggestion that the other party's conduct falls within the scope of the patent); EMC Corp. v. Norand Corp., 89 F.3d 807, 811 (Fed. Cir. 1996) (noting that the threat of enforcement is the source of a patentee's bargaining power during licensing negotiations), abrogated by MedImmune, 127 S. Ct. 764.

113. See SanDisk, 480 F.3d at 1381 (majority opinion). It is important to note that different formulations for declaratory judgment jurisdiction appear to have emerged between panels of the Federal Circuit. Compare id. ("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 .... ") and Sony, 497 F.3d at 1286 (same), with Teva Pharms., 482 F.3d at 1337 (stating that declaratory judgment requires a showing that an Article III controversy exists, which is determined based on concepts of standing and ripeness).

114. The operation of the DJA is procedural only, and limited only by the Constitution. See Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 239-40 (1937).
Court, while deciding declaratory judgment jurisdiction in the context of an existing license, spoke of declaratory judgment relief in the context of “imminent threat of harm,”115 “bet[ting] the farm,”116 “[t]he coercion principle,”117 and ultimately as “an alternative to pursuit of . . . arguably illegal activity.”118 The vocabulary and import of MedImmune is consistent with previous Supreme Court cases requiring a legal dispute to be “definite and concrete” and “real and substantial” before declaratory judgment jurisdiction could attach.119 Even the Supreme Court’s Maryland Casualty standard, which was rearticulated in MedImmune and cited approvingly in SanDisk, requires a “substantial controversy” of “sufficient immediacy and reality” before declaratory judgment jurisdiction is available.120

The broad SanDisk standard, by contrast, appears to place declaratory judgment jurisdiction at the option of the potential licensee without inquiring how definite, immediate, concrete, or substantial the purported legal dispute is.121 As Judge Bryson acknowledged in his concurring opinion, the new rule offers “no practical stopping point short of allowing declaratory judgment actions in virtually any case in which the recipient of an invitation to take a patent license elects to dispute the need for a license.”122 The problem with the SanDisk standard is that the “difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act is necessarily one of degree.”123 A jurisdictional standard where “virtually any invitation to take a paid license relating to the prospective licensee's activities [gives] rise to an Article III case or controversy”124 is inconsistent with the broader factual inquiry requiring a finding of a substantial controversy of sufficient immediacy and reality before declaratory judgment jurisdiction can be sustained.125

115. MedImmune, 127 S. Ct. at 772.
116. Id. at 775.
117. Id. at 775 n.12.
118. Id. at 772 (citation omitted).
121. See SanDisk Corp. v. STMicroelecs., Inc., 480 F.3d 1372, 1381 (Fed. Cir. 2007) (describing the jurisdiction standard).
122. Id. at 1385 (Bryson, J., concurring).
123. Md. Cas., 312 U.S. at 273.
124. SanDisk, 480 F.3d at 1384 (Bryson, J., concurring).
125. See Md. Cas., 312 U.S. at 273.

The broad discretion afforded by the DJA was reaffirmed in MedImmune, where the Court expressly left the "equitable, prudential, and policy arguments in favor of... discretionary dismissal for the lower courts' consideration on remand." Discretion is arguably a useful tool for mitigating MedImmune's adverse effects on licensing efforts. However, the Federal Circuit's limited treatment of discretion after MedImmune has not countenanced broad discretion.

For example, in Sony Electronics, Inc. v. Guardian Media Technologies, Ltd., the Federal Circuit reversed a district court's discretionary refusal to accept declaratory judgment jurisdiction where the district court concluded that "the facts as a whole create[d] an appearance that Plaintiffs filed these lawsuits as an intimidation tactic to gain leverage in the licensing negotiations." The court distinguished a pre-MedImmune decision with a similar factual predicate sustaining a district court's discretionary refusal to entertain declaratory judgment jurisdiction. In that case, the district court discretionarily refused declaratory judgment jurisdiction when it concluded that "a party in [the plaintiff's] position could abuse the declaratory judgment device to obtain a more favorable bargaining position in its ongoing negotiations with the patentee." The Sony court found that its case, unlike the prior case, lacked "affirmative evidence" that the plaintiffs filed suit "to obtain a more favorable bargaining position in any ongoing license negotiations."

What is surprising about the Sony court's decision is not that the court reached its decision after reviewing the district court's dismissal of jurisdiction under a deferential abuse of discretion standard, nor that it imposed a heightened "affirma-
tive evidence" standard. Instead, what is surprising about the decision is the broader dicta implying hostility toward discretionary dismissal of jurisdiction. The court reasoned that "[e]ven if these suits have had the effect of placing appellants in a more favorable negotiating position, that effect is not a sufficient reason to decline to hear the suit."134

These remarks are similar to the Federal Circuit's remarks in SanDisk There, the court chose not to reaffirm the unique and substantial discretion afforded to district courts by the DJA. Instead, the court went out of its way to remind district courts that their discretion has limits; the court noted that "there are boundaries to that discretion,"137 and "in the usual circumstance the declaratory judgment is not subject to dismissal."138

Despite the apparent newfound hostility towards discretion in the declaratory judgment context, compelling arguments still exist for restricting declaratory judgment relief.

B. RATIONALE FOR RESTRICTING ACCESS TO DECLARATORY JUDGMENT RELIEF

MedImmune and its progeny have unquestionably lowered the requirements for qualifying for declaratory judgment jurisdiction. Based on this significant change in law, it is useful to inquire what, if any, contrarian rationales exist for maintaining restrictive declaratory judgment relief.

To begin, it is appropriate to acknowledge that declaratory judgment relief is a powerful remedy that is usefully exercised in many circumstances. For example, declaratory judgment can provide an opportunity for early adjudication of an issue, potentially preventing economic waste and useless expenditure of money in a lengthy trial. Likewise, declaratory judgment relief is productively exercised when core purposes of the DJA are implicated, such as when a plaintiff is assailed by uncertainty or insecurity over her legal rights and needs an authoritative adjudication of her rights before risking action. When these

133. Id. at 1289.
134. Id.
135. SanDisk Corp. v. STMicroelecs., Inc., 480 F.3d 1372 (Fed. Cir. 2007).
136. See id. at 1383 (describing the jurisdiction standards under the DJA).
137. Id.
138. Id. (citation omitted) (emphasis added).
139. BORCHARD, supra note 12, at 807.
140. See id. at 931.
purposes of declaratory judgment are considered in light of Lear's pronouncement of a strong public policy favoring testing patents for invalidity, broad application of the declaratory judgment remedy would seem particularly germane in the patent context. Despite these strong arguments, countervailing considerations justify restricting access to the declaratory judgment remedy in many circumstances.

A judicial policy that the public be allowed to challenge patents that may be invalid holds little sway when considering the congressional command that issued patents are presumptively valid. Subjecting patents to easy challenge tends to undermine and impair the presumptive strengths given to patents by Congress. Moreover, allowing patents to be easily challenged diminishes the national patent system by reducing the ex ante expected value of a patent. Reducing the value of a patent will encourage some inventors to forego patent protection and prevent disclosure of their acquired knowledge in the public domain.

Restricted access to declaratory judgment relief is also beneficial because it encourages adversaries to divert resources away from litigation and toward more socially beneficial efforts. For example, encouraging a competitor's efforts to design around a patentee's patented product—instead of challenging the patent in court—advantages the public and promotes the useful arts. Furthermore, limiting access to the declaratory

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143. Cf. In re McKellin, 529 F.2d 1324, 1333 (C.C.P.A. 1976) (Markey, C.J., concurring) ("There being no common law of patents, we should take care to fill the Holmesian interstices of the statute with judge-made law only under the gravest and most impelling circumstances.").
146. See Slimfold Mfg. Co. v. Kinkead Indus., Inc., 932 F.2d 1453, 1457 (Fed. Cir. 1991) ("Designing around patents is, in fact, one of the ways in
judgment remedy encourages negotiated resolution of disputes, potentially resulting in less disruptive, less costly, and more amicable conclusions to disputes.\textsuperscript{147}

Likewise, restrictive declaratory judgment jurisdiction may be beneficial where a party's anticipated conduct has not fully developed. If a product could undergo alterations before reaching the marketplace—alterations that may be critical to questions of infringement—it is potentially impossible to accurately adjudicate noninfringement claims.\textsuperscript{148}

All the aforementioned situations are exemplars of the benefits of restricting access to declaratory judgment relief. A broader rationale for discretionarily foregoing declaratory judgment jurisdiction rests in considerations of judicial economy and the allocation of judicial resources.\textsuperscript{149} The systemic danger of investing resources on wasted effort provides an overarching policy justification for restricting declaratory judgment relief.\textsuperscript{150}

C. SPECIAL CONSIDERATIONS FOR THE LICENSOR-LICENSEE CONTEXT

Special considerations exist for restricting declaratory judgment access in the patent licensing context. Before MedImmune, a patentee-licensor could manage her risk of declaratory judgment action by restricting her communications and interactions with a potential licensee.\textsuperscript{151} The Federal Circuit's


\textsuperscript{148} Many claimants, however, seek a determination on questions of invalidity or enforceability that do not require a comparison to specific products. See Dolak, supra note 36, at 436.


\textsuperscript{150} See Serco Servs. Co. v. Kelley Co., 51 F.3d 1037, 1039–40 (Fed. Cir. 1995) (affirming the dismissal of a first-filed declaratory judgment action in favor of a patent infringement action filed three days later, where witness and document availability and convenience favored the latter forum and the first action was filed in anticipation of the patent suit); Cingular Wireless L.L.C. v. Freedom Wireless, Inc., No. CV06-1935, 2007 WL 1876377, at *6 (D. Ariz. June 27, 2007) (foregoing declaratory judgment jurisdiction where cases were pending in a different jurisdiction).

structured two-part reasonable-apprehension test resulted in de facto restricted access to declaratory judgment relief and allowed a patentee to attempt to license her patent without being subjected to the costs and burdens of litigation. Considering the expense of patent litigation, MedImmune's abrogation of the reasonable-apprehension test exposes licensors to potentially tremendous pecuniary burdens. Given the unique social benefits that flow from patent licensing activities, compelling rationales exist for restricting declaratory judgment relief in the context of licensing overtures.

1. Understanding How Licensors Operate: Dispelling Notions

To understand why it is desirous to encourage licensing activity, it is first necessary to understand who the typical licensors are and how they operate. Notions of the independent inventor, such as Henry Ford or the Wright Brothers, are largely misplaced if not antedated in the modern economy. In one study, over eighty-five percent of patents surveyed were assigned from individual inventors to some type of corporate entity, and over seventy percent of patents were assigned to large firms. Based on these figures, the exclusive right to make, use, or sell most patented technology resides in the hands of discrete corporate entities.

Among large corporate intellectual property departments, there are at least two different views on intellectual property management. The first view is that the purpose and best use of a firm's intellectual property portfolio is to protect its innovations from competitive attack. This defensive posturing keeps a firm's technology in-house yet allows it to trade patent rights via cross-licensing and patent exchanges to settle disputes.

152. Bessen & Meurer, supra note 2, at 2 (citing AM. INTELLECTUAL PROP. LAW ASSOC., supra note 2, at 22).
154. See id. (describing the results from a study of one thousand patent samples).
156. This largely defensive view generally opposes the idea that IP portfolios be used for any strategic purpose other than protecting the firm's innovations. PATRICK H. SULLIVAN, PROFITING FROM INTELLECTUAL CAPITAL: EXTRACTING VALUE FROM INNOVATION 104 (1998).
The contrasting view is that a firm's intellectual property portfolio is a value-enhancing feature because of other firms' willingness to exploit the contents of the intellectual property right. These firms seek to actively market and license their technology, and the technology may sit dormant in the hands of the patent holder if there is no licensee for the technology.

Because a significant number of patents fall within one of these two business models, it is necessary to incentivize licensing activity if the public is to reap the full benefits of the patent system. Increased licensing activity by defensive patent holders can represent a shift away from the portfolio-as-protection-only view to the portfolio-as-corporate-revenue-generator view, placing additional technology in the hands of a user. Similarly, increased licensing activity in the latter business model can place a stagnant asset in the hands of a user. The public benefits in either case because new technology and ideas are placed in a broader domain.

The uncertainty that MedImmune injects into the licensing community inhibits this important licensing activity. If licensing activities are dangerous to the licensor or the rights undefined to the licensee, transactions will be hampered because of perceived risks. Restricting declaratory judgment relief can renew incentives to license by reducing the costs and risks associated with declaratory judgment action.

2. The Information Disclosure Benefits of Licensing Activity

It has long been understood that the patent system's design and existence benefits the public. The public benefits

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158. This perspective allows firms to maximize the value of their intellectual property, but it requires the firm to realize that it is no longer in the technology-application manufacturing business but instead is in the technology-commercialization business. See SULLIVAN, supra note 156, at 105.


160. See SULLIVAN, supra note 156, at 104.


162. See, e.g., Kendall v. Winsor, 62 U.S. 322, 327–28 (1858) ("It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public
because the patent system encourages the invention of new and improved technology, disclosure of technology to the public, and investment in the commercialization of patented ideas. Among these various benefits, the disclosure feature of the patent system is one of the primary public benefits and rationales for the existence of the patent system.

Disclosure is a predicate to obtaining a patent in the United States, and an inventor must disclose her invention sufficiently to enable others skilled in the art to make and use the invention without undue experimentation. The Supreme Court has noted that the federal government is willing to pay a high price for the disclosure of information because "disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art." Despite these disclosure requirements, significant effort can still be required to practice a patented invention. The "knowledge gap" between what the patentee knows and what is disclosed in the patent is frequently filled by the licensing system.

Patents and their associated licenses constitute channels that allow knowledge to circulate among otherwise closed firms. License agreements, in addition to transferring the right to make, use, sell, or import a patented invention, may require disclosure of private information about the patented invention that is retained by the patentee. The undisclosed complementary information (i.e., know-how) is disclosed through the license purchase, which spreads knowledge in the economic

or community at large was another and doubtless the primary object in granting and securing that monopoly.")

163. See Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1575 (Fed. Cir. 1995) (Nies, J., dissenting) ("The patent system was established to provide certain incentives for the conduct of activities critical to our economic and technological prosperity—the invention of new and improved technology, the disclosure of this technology to the public, and the investment in its commercialization.").


167. See TECHNOLOGY AND MARKETS FOR KNOWLEDGE, supra note 161, at 13. Likewise, it is possible to "define markets for knowledge as places where transactions for scientific and intangible assets occur." Id. at 11.
3. Inventions Can Arise in the Hands of a Party That Is Incapable of Fully Exploiting the Right

The patent system rewards invention, or "the practical implementation of the inventor's idea." Innovation, by contrast, is the "functional version of the invention," such as the version first commercially offered for sale. While innovation is only rewarded indirectly through the patent system—which grants patents on inventions—the development of commercialized products is seen as one of the primary benefits of the patent system. Significant development work may be necessary, however, to turn an invention into an innovation. This distinction highlights how patent rights can "arise in the hands of persons or firms who are not in the best position to exploit them," leading to a useful discovery that is underexploited by the public. The inventor may not have the financial resources, technical know-how, or even desire to see her invention transformed into an innovation.

Similarly, when a patent covers a basic invention, the inventor can at most be expected to develop the basic technology and some improvements thereon. The discovery embodied in the patent may be underdeveloped if the inventor is inhibited from allowing others to develop potential improvements.

In order for the public to fully exploit a new invention, or to have an invention turned into commercial innovation, an in-

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168. See id. at 13–14.
170. Id.
171. See, e.g., Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1575 (Fed. Cir. 1995) (Nies, J., dissenting) (recognizing that investment in commercialization is one of the activities the patent system seeks to incentivize).
172. See Merges, supra note 169, at 809.
174. See Robert P. Merges & Richard R. Nelson, On the Complex Economics of Patent Scope, 90 COLUM. L. REV. 839, 873 (1990). Merges and Nelson suggest that "[t]he only way to find out what works and what does not is to let a variety of minds try." Id. The authors further argue that a basic invention potentially covers many improvements, and "a single rightholder may underdevelop—or even ignore totally—many of the potential improvements encompassed by their broad property right." Id. at 873–74.
175. See id. at 873.
VENTOR must frequently involve additional parties in the development process. This requires that the inventor be able to enter into a wide range of arrangements with other firms.\textsuperscript{176} The post-\textit{MedImmune} jurisprudence, however, does not recognize that innovation is frequently a multiple-actor process that requires low-risk transferability of inventions. This failure is significant because an inventive system that does not properly incentivize post-inventive activities runs the risk of failing.\textsuperscript{177}

Despite the apparent gloom, discretionary rejection of declaratory judgment jurisdiction offers an opportunity to disen- cumber patent licensing.

\section*{III. DISCRETION AFTER \textit{MEDIMMUNE}}

The post-\textit{MedImmune} period provides a fresh opportunity to rationalize and disambiguate the discretionary component of the DJA. The effort to cleave discretion from jurisdiction is confused by the corpus of Federal Circuit jurisprudence that is inconsistent and oftentimes misguided in distinguishing between power and prudence.\textsuperscript{178} The appropriate exercise of courts' discretion can, however, service the core policies behind the DJA while mitigating \textit{MedImmune}'s chilling effects on socially productive licensing activity.

At a high level of abstraction, discretion is ground in broad considerations of "equit[y], pruden[ce], and policy."\textsuperscript{179} An important policy consideration after \textit{MedImmune} is the extent to which the incentives of the patent system are prioritized over the benefits of declaratory judgment jurisdiction. Specifically, to what extent is the free transfer of patent licenses encouraged and to what extent is this activity inhibited by easy declaratory judgment jurisdiction? The answers to these questions, as discussed above, necessarily implicate the degree to which patentees are rewarded for their inventive activity and the extent to which the public benefits from the patent system.

\begin{itemize}
\item \textsuperscript{176} See id.
\item \textsuperscript{177} See F. Scott Kieff, \textit{Property Rights and Property Rules for Commercializing Inventions}, 85 MINN. L. REV. 697, 707–08 (2001) (cataloguing potential post-patent activities, including: developing the invention into a commercial embodiment, raising capital, obtaining production facilities and labor, and informing consumers of the product or service).
\item \textsuperscript{178} See, \textit{e.g.}, Teva Pharms. USA, Inc. v. Pfizer Inc., 405 F.3d 990, 994 (Fed. Cir. 2005) (Gajarsa, J., dissenting); Dolak, \textit{supra} note 36, at 419.
\item \textsuperscript{179} See MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764, 777 (2007) (describing the discretionary considerations the district court could consider upon remand).
\end{itemize}
Considering the benefits of patent licensing activity discussed in Part II, courts should incentivize socially useful licensing activity by giving greater deference to patentee’s licensing efforts. In particular, discretion should be based on the totality of circumstances, with courts making a “pragmatic judgment, aware of the business realities that are involved” in the licensing and negotiation process.\footnote{180}{Shorewood Med. Indus., Inc. v. Deknatel, Inc., 512 F.2d 724, 728 (8th Cir. 1975).}

The difficulty with articulating a broader, more coherent discretionary standard is that discretion is an ambiguous concept, and the propriety of using discretion to refuse jurisdiction in a particular case must be based on the facts and circumstances of each case.\footnote{181}{See, e.g., Edwin Borchard, Discretion to Refuse Jurisdiction of Actions for Declaratory Judgments, 26 MINN. L. REV. 677, 681–82 (1942) (discussing declaratory judgment in the insurance context).} Nonetheless, the wide discretion given to courts can and should be used to meet the practical requirements of each situation before the court.\footnote{182}{See BORCHARD, supra note 12, at 296.}

While discretion is ultimately evaluated based on all the facts at hand, it is nonetheless instructive to explore three objective considerations defining the legal relationship between a plaintiff seeking declaratory judgment relief and a defendant opposing the remedy: the scope and content of communications between the parties, the extent of ongoing negotiations between parties, and the size of the parties. The Federal Circuit analyzed the first two considerations in its reasonable-apprehension framework, in which these factors were given jurisdictional weight.\footnote{183}{See, e.g., Indium Corp. of Am. v. Semi-Alloys, Inc., 781 F.2d 879, 883 (Fed. Cir. 1985).} While the considerations entering into the declaratory judgment calculus have undoubtedly changed since \textit{MedImmune}, it is nonetheless instructive to explore pre-\textit{MedImmune} jurisdictional factors in the discretionary context.

A. THE SCOPE AND CONTENT OF COMMUNICATIONS BETWEEN PARTIES

The Federal Circuit’s formalistic treatment of communications prior to \textit{MedImmune}—reviewing the contents for evidence of a reasonable apprehension on the part of the nonpatentee that the patentee might bring suit—received much criticism and frequently led to unpredictable results.\footnote{184}{See generally Dolak, supra note 16, at 923–37.} An express
charge of patent infringement was not required to sustain declaratory judgment jurisdiction,\textsuperscript{185} nor was the absence of communications between a patentee and alleged infringer prior to suit a per se reason for foregoing declaratory judgment jurisdiction.\textsuperscript{186} Despite this past history, the character and content of communications between a patentee and potential licensee can yield probative evidence for dismissing declaratory judgment jurisdiction on discretionary grounds.

It is initially important to note that a court should look at the substance rather than the form of communications because parties can couch their exchanges in terms designed to defeat declaratory judgment.\textsuperscript{187} Once this is done, communications should be evaluated on a sliding scale based on their contents and apparent motive.

At one end of the spectrum are communications in which a patent owner merely inquires about another party's products or activities without asserting her patent rights. These communications allow a patent owner to make good faith inquiries into potential infringement of her patent, yet should not subject her to the burden and expense of defending a lawsuit.\textsuperscript{188} Using discretion to forego exercising declaratory judgment jurisdiction in these situations enhances the patent system's goal of fostering and rewarding invention.\textsuperscript{189}


\textsuperscript{188} See Am. Needle & Novelty Co. v. Schuessler Knitting Mills, Inc., 379 F.2d 376, 379 (7th Cir. 1967) ("The owner of a patent should have the privilege of making a fair investigation as to the possible infringement of his patent without calling down on his head the undertaking of a defense of an expensive and burdensome declaratory judgment suit alleging invalidity and non-infringement."). The court found that a letter from the defendant's attorney, requesting a sample of Plaintiff's product and mentioning that it "may conflict" with his patent, did not serve as a charge of infringement. Id.

\textsuperscript{189} Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) ("[T]he law seeks to foster and reward invention . . . ."). This goal cannot be adequately accomplished unless patentees safely explore the scope and content of a potential infringer's activities.
At the other end of the spectrum are communications in which the patent owner makes express charges of infringement and threatens litigation. The insecurity these communications create vis-à-vis a potential infringer’s legal liabilities and ongoing conduct create the precise situation the declaratory judgment mechanism was designed to remedy. The need for clarifying legal relationships and affording relief from uncertainty and insecurity in this context strongly militates against using discretion to forego declaratory judgment relief.

A third type of correspondence can occur where a potential infringer/licensee approaches a patentee. If the patent owner fails to respond with charges of infringement, it is important to consider protecting the “quiescent patent owners against unwarranted litigation” by foregoing declaratory judgment jurisdiction. In these situations, “it seems best to limit declaratory relief for the infringer to cases in which an adversary claim has been made against him. ... This requirement ... [protects against] the fear that patentees might be harassed by prospective infringers and be obliged continually to defend their patents.”

Disavowal of infringement or intent to sue should likewise be considered before subjecting a patentee to the burdens of a lawsuit. A patentee’s ability to accurately evaluate the scope of a potential infringer’s conduct is limited prior to entering discussions. While the patentee can provide the opposing party

190. See, e.g., Fina Research, S.A. v. Baroid Ltd., 141 F.3d 1479, 1482 (Fed. Cir. 1998) (reversing a district court’s dismissal of a declaratory judgment action). This case is exemplary of the absurd results that were possible with strict application of the Federal Circuit’s two-part reasonable-apprehension test. The district court found that Fina lacked a reasonable apprehension of a lawsuit. Id. at 1480. This was despite that fact that Baroid sent two letters stating that it would be an act of infringement if Fina imported its product into the United States and that it intended to vigorously protect and enforce its patent rights. Id. at 1482.

191. See Arrowhead, 846 F.2d at 735 (discussing the unfortunate conditions that led up to the enactment of the DJA).

192. See, e.g., Shell Oil Co. v. Amoco Corp., 970 F.2d 885, 886 (Fed. Cir. 1992) (stating that Shell initiated the first meeting with the patentee Amoco); CAE Screenplates, Inc. v. Beloit Corp., 957 F. Supp. 784, 790 (E.D. Va. 1997) (reasoning that there was no reasonable apprehension of suit because the nonpatentee initiated the correspondence and the patentee never expressed an opinion that the nonpatentee was infringing).

193. Arrowhead, 846 F.2d at 736.

194. BORCHARD, supra note 12, at 807.

195. Cf. Bessen & Meurer, supra note 157, at 28 ("[A]bout a quarter of patent lawsuits occur between firms that are in different industries and are also
with a covenant not to sue and divest the court of jurisdiction to
hear the case, this action may bar subsequent suit over the pa-
tent against the same party.196 A patentee should be able to re-
tract misplaced charges of infringement without being forced to
engage in extensive litigation.197 A patentee's effort to disavow
her previous communications represents a form of “changed
circumstances,” which the Federal Circuit has previously rec-
ognized as dissipating the need for a lawsuit.198

B. THE EXTENT OF ONGOING NEGOTIATIONS

One purpose of the DJA is to “enable parties to adjudicate
disputes before either side suffers great damage.”199 However,
“accelerated judicial intervention creates the risk of burdening
the courts and the litigants with disputes that were otherwise
destined to disappear by themselves.”200 To forestall misappli-
cation of the declaratory judgment remedy, courts should con-
sider the pendency of negotiations or the potential to engage in
negotiations before entertaining declaratory judgment jurisdic-
tion. When there are proposed or ongoing license negotiations,
a court should avoid accepting a litigation controversy until the
negotiations have broken down.201

196. See, e.g., Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d
1054, 1059 (Fed. Cir. 1995) (holding that there is no actual controversy where
a patent holder “is forever estopped by its counsel's statement of nonliability . . .
from asserting liability against [the alleged infringer] in connection with
any products that [it] made, sold, or used”); Spectronics Corp. v. H.B. Fuller
Co., 940 F.2d 631, 636–38 (Fed. Cir. 1991) (holding that the controversy was
rendered moot when the declaratory judgment defendant filed a covenant not
to sue the declaratory judgment plaintiff for infringement of the patent in suit,
and that the patent holder was “forever estopped from asserting the . . . patent
claims against [the declaratory judgment plaintiff]”).

197. But see Fina Research, S.A. v. Baroid Ltd., 141 F.3d 1479, 1483–84
(Fed. Cir. 1998) (finding that the patentee's actions created a reasonable
apprehension of suit that supported a declaratory judgment action and that the
patentee's subsequent efforts to disavow the threatening letters were insuffi-
cient because the patentee failed to provide assurances that it would not sue).

198. See id. at 1484. While the court addressed “changed circumstances” in
the framework of its prior reasonable-apprehension test, see id., the underly-
ing policy rationale remains and keeps the concept applicable to the discretio-
nary analysis.


200. Id.

201. See Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha, 57
F.3d 1051, 1053 (Fed. Cir. 1995), abrogated by MedImmune, Inc. v. Genentech,
Where there is an initial offer to negotiate but no response prior to seeking declaratory judgment relief, judicial economy argues for discretionarily foregoing jurisdiction. In this situation, not allowing negotiations would "create a strong disincentive for patentees to communicate with potential infringers before filing suit, for fear of being sued first and thus forced to litigate in the defendant's forum of choice." Likewise, the existence of ongoing negotiations offers an opportunity for less disruptive, less costly, and more amicable resolution. Parties to a negotiation may tactically seek judicial intervention because the value of a potential license almost always declines in value with litigation. Courts should judiciously exercise discretion to forego declaratory judgment jurisdiction where serious negotiations are pending.

Despite the strong rationale for giving negotiations deference, where licensing negotiations would be futile or have proven ineffective, there is little need for giving them significant weight. In this situation, the danger of relying on continued negotiations to forego exercising declaratory judgment jurisdiction is that parties may tactically be "feigning interest in continued negotiations merely to deflect a declaratory judgment action." If such a situation exists, a court may properly accept jurisdiction.

C. THE SIZE OF THE PARTIES

As discussed in Part II, most U.S. patents are issued to large corporate entities. These large firms operate differently than small entities. For example, large firms possess a variety of means for extracting value from their large patent portfolios

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202. See, e.g., Fresenius USA, Inc. v. Transonic Sys., Inc., 207 F. Supp. 2d 1009, 1012 (N.D. Cal. 2001) (stating that the court would use its discretion to forego entertaining declaratory judgment jurisdiction where there was an outstanding offer to negotiate).

203. Id. at 1012-13.

204. See INTELLECTUAL PROPERTY VALUATION 155 (Weston Anson & Donna Suchy eds., 2005).

205. See, e.g., Ciraco, supra note 147, at 55-57, 88-89 (suggesting that if parties' interests are too misaligned or if parties are not genuinely engaged in alternative dispute resolution, formal adjudicative resolution may be most appropriate).


207. Id.
(i.e., cross-licensing), whereas small firms typically rely on exclusion and licensing as the dominant source of their patent value. Further, small firms and independent inventors file patent lawsuits about three times more often than other patent holders on a per patent basis. Given these differences, there may be some policy motivations to be more solicitous toward small entities in licensing situations.

Direct evidence already shows that “small firms avoid R&D areas where the threat of litigation from larger firms is high.” Moreover, because both trading patents and repeated interactions in the marketplace are important for patent dispute resolution, individual inventors and small firms are handicapped at enforcing their intellectual property rights through extrajudicial resolution. This evidence suggests that courts should be more solicitous toward accepting declaratory judgment jurisdiction where the party seeking jurisdiction is a small entity and the would-be defendant is a large entity. Contrawise, where a small firm is the patentee, it is important to recognize that small firms are generally unable to internalize the risks inherent in the innovation process, and instead, they rely on strong licensing relationships to shift risk to their licensees. This evidence suggests that courts should be more reserved in accepting declaratory judgment jurisdiction where the patentee has a resource disparity relative to the plaintiff seeking declaratory judgment.

CONCLUSION

MedImmune and its progeny have abrogated the Federal Circuit’s reasonable-apprehension test for declaratory judgment jurisdiction and placed the patent licensing community in an uncertain position. A patent holder seeking to license her
invention may be subject to the costs and burdens of defending her patent in litigation should a potential licensee disagree on the necessity of obtaining a license.

The recent change in patent law has the potential to drastically inhibit licensing activities. This is significant because patent licensing is an important vehicle for rewarding patentees for their inventive effort, sharing information between otherwise closed firms, and is often necessary to develop follow-on technologies that advantage the public. Courts can and should use discretion to capture the realities that are involved in patent licensing. In particular, courts should review licensor-licensee relationships by looking at the types of communications between the parties, the existence of potential or ongoing negotiations, and the size of the parties when deciding to use discretion to forego accepting certain declaratory judgment actions.