

There Is a Pink Elephant at Our Patent Negotiation, and His Name Is Declaratory Judgment

GREG HALSEY*

TABLE OF CONTENTS

| | | |
|------|---|-----|
| I. | THE DECLARATORY JUDGMENT ACT | 249 |
| II. | JURISDICTIONAL THRESHOLD FOR DECLARATORY JUDGMENTS IN PATENT ACTIONS | 251 |
| III. | THREE POTENTIALLY NEGATIVE IMPLICATIONS OF <i>SANDISK</i> | 254 |
| | A. <i>SanDisk Overbroadens Declaratory Judgment Jurisdiction</i> | 255 |
| | B. <i>SanDisk Limits the Effectiveness of Covenants Not to Sue</i> | 259 |
| | C. <i>SanDisk Limits District Court Discretion</i> | 263 |
| IV. | POLICY SUPPORT FOR A CHANGE IN DECLARATORY JUDGMENT PRECEDENT | 266 |
| V. | PROPOSING A NEW DECLARATORY JUDGMENT TEST | 272 |
| | A. <i>Patent Holder's Economic Function and Stance</i> | 274 |
| | B. <i>Immediacy of the Case</i> | 277 |
| | C. <i>Patent Holder's Willingness to Negotiate Outside of Court</i> | 280 |
| VI. | CONCLUSION | 282 |

* University of San Diego School of Law, J.D. expected 2009; University of California Santa Barbara, B.A., Philosophy and Religious Studies, 2006. On my first day of law school, I called my dad to ask him what a declaratory judgment was; I guess his answer sparked my interest. I am tremendously grateful to the *San Diego Law Review* for this opportunity and the *Law Review's* staff and editors for their time and effort. Special thanks to Bruce Elder, Professor Henning, and all of my friends for their help during the writing process. Finally, none of this would have been possible without my family's love and support. Thank you, Mom, Dad, Morgen, and Nick; this Comment is dedicated to you.

Carlo Patent sat at the far end of a mahogany table and patiently waited for the licensing negotiations to begin. The thumping was weak at first, but now there was no denying its presence. Through the rattling of his water cup and the sway of the lights above, Carlo felt as if the whole foundation of his company was shaking in protest. Then, without further warning, the door to the conference room burst open and a hunched over Eli Widget hastily entered riding on top of his half-ton pink elephant. Carlo ignored the elephant, introduced himself to Eli, and began his presentation. Within seconds Carlo was cut off by Eli's demand, "Listen, do I infringe your patent or not?" "Well, sir," replied Carlo, "that's what I am here to discuss and find out." The elephant shifted uneasily and slowly advanced towards Carlo. "I don't think you answered my question. Do I or do I not infringe your patent?" By now the elephant's trunk was inches from Carlo's face and he could no longer maintain his carefree composure. "Alright, yes, I think you may infringe my patent, but I want to work out a licensing deal with you, or if it is possible, maybe you could show me how your product does not infringe my patent." But it was too late. As Eli smugly turned and began his exit, he muttered over his shoulder, "Thank you very much Carlo; we'll see you in court." Three days later, Carlo was served with a lawsuit seeking to declare his patent invalid, and to further declare that, even if the patent is valid, Eli does not infringe.

This scene dramatizes the problem feared in boardrooms today: Even a good faith attempt to negotiate a license could expose a patent holder to a declaratory judgment challenge against the validity of the parent holder's patents. A declaratory judgment is a procedural device that allows for a judicial determination of rights and legal relations between two adverse parties.¹ In the patent context, declaratory judgment jurisdiction balances the interests of the patent holder and the potential patent infringer. Too much declaratory judgment jurisdiction would allow a potential patent infringer to challenge a patent holder's patents for no legitimate reason, unfairly subjecting the patent holder to excessive litigation. However, too little jurisdiction would allow a patent holder to prey upon a potential infringer's uncertainty about whether or not the potential infringer really does infringe a valid patent, and coerce outrageous licenses. This Comment explores how the Supreme Court's decision in *MedImmune, Inc. v. Genentech, Inc.*,² and the subsequent Federal Circuit's decision in *SanDisk Corp. v. STMicroelectronics, Inc.*,³ both contribute to an overexpansion of declaratory judgment jurisdiction.

-
1. Pub. Serv. Comm'n v. Wycoff Co., Inc., 344 U.S. 237, 241 (1952).
 2. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).
 3. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007).

The Declaratory Judgment Act of 1934 provides jurisdiction to potential patent infringers who seek judicial resolution regarding the question of whether or not they infringed a patent.⁴ The *MedImmune* and *SanDisk* decisions unnecessarily expand this jurisdiction too far in favor of the potential patent infringer.⁵ This overexpansion of declaratory judgment jurisdiction threatens to chill licensing negotiations and conflicts with the policy justifications rooted in the Declaratory Judgment Act of 1934.

Part I of this Comment will analyze the background behind the creation of declaratory judgment jurisdiction, beginning with the Declaratory Judgment Act of 1934.⁶ Part II will explain the significant relation between declaratory judgments and patent infringement, focusing on the recent development of the *MedImmune* and *SanDisk* decisions. Part III will then explore three potentially negative implications of the Federal Circuit's *SanDisk* decision. Part IV argues that in light of recent cases, the expansion of declaratory judgment jurisdiction in *MedImmune* and *SanDisk* is not convincingly supported by the policy underlying patent declaratory judgment law. As a result, Part V recommends a new declaratory judgment jurisdiction test, to better balance the rights of potential infringers and patent holders, by encouraging district court judges to use discretion to decline declaratory judgment jurisdiction.

I. THE DECLARATORY JUDGMENT ACT

Prior to the Declaratory Judgment Act of 1934, parties could not secure the determination of legally enforceable rights against another party without first having a valid cause of action under which to sue that other party.⁷ This stranded potential patent infringers with no way to definitively resolve their uncertainty about the validity and scope of patents that questionably related to their business, until the patent holder

4. 28 U.S.C. § 2201(a) (2000).

5. See *SanDisk*, 480 F.3d at 1385 (Bryson, J., concurring).

6. 28 U.S.C. § 2201(a) (2000).

7. See *Legislation Recommended by the American Bar Association: Hearing on H.R. 5030, H.R. 10141, H.R. 10142, and H.R. 10143 Before the H. Comm. on the Judiciary, 67th Cong. 16 (1922)* [hereinafter *Hearings*] (statement of Rep. Sumners) (noting that the purpose of the declaratory judgment statute is “[t]o remove uncertainty” and that “the individual citizen has as much right to be reasonably certain as to what the courts would determine his rights to be as he has to be reasonably certain what the legislature has determined his rights to be”); see also 28 U.S.C. § 2201(a) (2000).

filed an infringement suit.⁸ Additionally, patentees would utilize the potential patent infringer's uncertainty to elicit unfair and advantageous licensing agreements.⁹ In *Arrowhead Industrial Water, Inc. v. Ecolochem, Inc.*, the court described the situation the Declaratory Judgment Act sought to resolve:

[A] patent owner engages in a *danse macabre*, brandishing a Damoclean threat with a sheathed sword. . . . Guerilla-like, the patent owner attempts extra-judicial patent enforcement with scare-the-customer-and-run tactics that infect the competitive environment of the business community with uncertainty and insecurity. . . . [C]ompetitors victimized by that tactic were rendered helpless and immobile so long as the patent owner refused to grasp the nettle and sue.¹⁰

However, by enacting the Declaratory Judgment Act, Congress intended for any party to have access to the courts to declare their rights and other legal relations as long as an actual controversy existed between the parties.¹¹ 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 clear the air by suing for a judgment that would settle the conflict of interests.”¹²

The phrase *actual controversy* within the Declaratory Judgment Act refers to the type of cases and controversies that are justiciable under Article III, Section 2 of the Constitution.¹³ The Supreme Court has

8. *Hearings on H.R. 5623 Before the H. Comm. on the Judiciary*, 70th Cong. 35 (1928) (statement of E.R. Sunderland, Professor). Professor Sunderland explains the alleged patent infringer's entangled situation as:

I assert that I have a right to use a certain patent. You claim that you have a patent. What am I going to do about it? There is no way I can litigate my right, which I claim, to use that device, except by going ahead and using it, and you [the patent holder] can sit back as long as you please and let me run up just as high a bill of damages as you wish to have me run up, and then you may sue me for damages, and I am ruined, having acted all the time in good faith and on my best judgment, but having no way in the world to find out whether I had a right to use that device or not.

Id.

9. *See, e.g., Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988).

10. *Id.* at 734–35.

11. “In promulgating the Declaratory Judgment Act, Congress intended to prevent avoidable damages from being incurred by a person uncertain of his rights and threatened with damage by delayed adjudication.” *Minn. Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 673 (Fed. Cir. 1991). “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.” 28 U.S.C. § 2201(a) (2000).

12. *Arrowhead*, 846 F.2d at 735.

13. U.S. CONST. art. 3, § 2, cl. 1. This Clause states:

The Judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which

interpreted an appropriate justiciable controversy as one distinguishable from a hypothetical, abstract, academic, or moot dispute.¹⁴ For a court to have jurisdiction over a controversy, “the controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests.”¹⁵

II. JURISDICTIONAL THRESHOLD FOR DECLARATORY JUDGMENTS IN PATENT ACTIONS

Courts have struggled to determine an appropriate standard for determining when a controversy is sufficiently “definite and concrete, touching the legal relations of parties.”¹⁶ The Supreme Court has determined that the Declaratory Judgment Act’s justiciability principles are the nature and controversy of the case as determined through “the relation and interests of the parties, and the relief sought in the instant case.”¹⁷ The Court analyzes justiciability in this context by examining standing and ripeness.¹⁸ The plaintiff has standing if they are threatened with imminent injury-in-fact, fairly traceable to the challenged action of the defendant.¹⁹ Ripeness requires the parties to suffer a sufficient hardship that can be redressed through the court’s consideration.²⁰ However, standing and ripeness are amorphous concepts that defy bright-line applications, so courts have struggled to define a consistent justiciability threshold for declaratory judgment jurisdiction.²¹ This is troublesome for both patent

shall be made, under their Authority;—to all Cases affecting Ambassadors, other public Ministers and Consuls;—to all Cases of admiralty and maritime Jurisdiction; to Controversies to which the United States shall be a Party;—to Controversies between two or more States; between a State and Citizens of another State; between Citizens of different States,—between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

Id.; *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126 (2007); *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239–40 (1937).

14. *Aetna*, 300 U.S. at 240.

15. *Id.* at 240–41. *See also* *Altvater v. Freeman*, 319 U.S. 359, 371 (1943) (Frankfurter, J., dissenting).

16. *Aetna*, 300 U.S. at 240.

17. *Id.* at 241.

18. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 128 n.8 (2007).

19. *Id.* (quoting *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992)).

20. *Abbott Labs. v. Gardner*, 387 U.S. 136, 148–49 (1967).

21. “Previously, the Court held that ‘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

holders and potential patent infringers, because there is no easy definition of *safe* licensing communication, free of the threat of declaratory judgment jurisdiction.

Prior to 2007, the Federal Circuit articulated a two-part “reasonable apprehension of suit” test to determine when declaratory judgment jurisdiction was proper in patent cases.²² First, the court considered whether the patentee’s conduct created reasonable apprehension on the part of the declaratory judgment plaintiff.²³ Second, the court examined whether the declaratory judgment plaintiff’s current or future conduct would amount to infringing activity.²⁴ Although the Federal Circuit’s reasonable apprehension of suit test was used to guide parties as to the Constitution’s Article III justiciability limit, the test was actually more restrictive of declaratory judgment jurisdiction than the full extent potentially allowable under the Constitution.²⁵ By limiting declaratory judgment jurisdiction to something less than the constitutional maximum, the Federal Circuit was trying to protect “quiescent patent owners against unwarranted litigation.”²⁶ The policy behind this promoted negotiation over litigation, and set a standard that patent holders could follow to prevent litigation.²⁷

determining in every case whether there is such a controversy.” *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1337 (Fed. Cir. 2007) (quoting *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)). *See also* *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1283 (Fed. Cir. 2007) (stating that the Supreme Court has not articulated a bright-line rule for distinguishing those cases that satisfy the actual controversy requirement from those that do not).

22. *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988).

23. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1379 (Fed. Cir. 2007).

24. *Id.* (citing *Arrowhead*, 846 F.2d at 736). The court did not decide the merits of whether the declaratory judgment plaintiff’s conduct infringes on the patent holder’s patent. But if the declaratory judgment plaintiff’s activity does infringe the declaratory judgment defendant’s patent, then the court will be more inclined to grant a declaratory judgment. Conversely, if the declaratory judgment plaintiff’s action does not infringe the defendant’s patent, then no controversy exists and the court will decline declaratory judgment jurisdiction. *SanDisk*, 480 F.3d at 1379.

25. In *Teva Pharmaceuticals*, Judge Gajarsa argued in his dissent:

[The court] claims that a reasonable apprehension of suit is required to meet Article III’s case or controversy requirement. *But this is not the only way to establish the existence of a case for purposes of Article III. The reasonable apprehension of suit doctrine exists to cabin declaratory judgment actions where the only controversy surrounds a potential, future lawsuit.*

Teva, 405 F.3d at 997 (Gajarsa, J., dissenting).

26. *Arrowhead*, 846 F.2d at 736.

27. “This court held that where all that is present is negotiation unaccompanied by threats of legal action, the setting is not sufficiently adverse to create a justiciable controversy.” *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 812 (Fed. Cir. 1996).

In the 2007 Supreme Court case, *MedImmune, Inc. v. Genentech, Inc.*, the Court reexamined Article III's case or controversy requirement in relation to the Declaratory Judgment Act.²⁸ In this opinion, the majority rejected the first prong of the Federal Circuit's reasonable apprehension of suit test on the grounds that it conflicted with several prior Supreme Court decisions.²⁹ In its place, the Court restored a broader declaratory judgment standard to make jurisdiction coextensive with the maximum case and controversy limit of the Constitution.³⁰ According to the Court, the necessary inquiry 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."³¹ The Federal Circuit coined this analysis the "all circumstances" test.³² Two months after *MedImmune*, in *SanDisk v. STMicroelectronics*, the Federal Circuit followed the Supreme Court's direction to abolish the reasonable apprehension of suit test and replaced it with the all circumstances test.³³

28. *SanDisk*, 480 F.3d at 1378.

29. *CAT Tech L.L.C. v. Tubemaster, Inc.*, 528 F.3d 871, 879 (Fed. Cir. 2008). The Court in *MedImmune* found that the first prong of the reasonable apprehension of suit test conflicted with *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941), and *Aetna Life Insurance Co. v. Haworth*, 300 U.S. 227, 239 (1937). *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007). Additionally, the Court found the test to be in tension with *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 98 (1993). *MedImmune*, 549 U.S. at 132 n.11.

30. *MedImmune*, 549 U.S. at 127. According to the Supreme Court, a case or controversy requires:

[T]hat the dispute be "definite and concrete, touching the legal relations of the parties having adverse legal interests"; and that it be "real and substantial" and "admi[t] 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."

Id. (quoting *Aetna*, 300 U.S. at 240–41).

31. *MedImmune*, 549 U.S. at 127.

32. See *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1345–46 (Fed. Cir. 2007).

33. See *SanDisk*, 480 F.3d at 1379, 1381, 1383. Recently, the Federal Circuit has explored the role that the still existing second prong of the reasonable apprehension of suit test can play in determining the totality of the circumstances. *CAT Tech*, 528 F.3d at 880. The second prong of the reasonable apprehension of suit test focuses upon the declaratory judgment plaintiff's conduct and examines whether there has been meaningful preparation for potentially infringing activity. *Id.* The Federal Circuit flexed the power of this analysis by boldly stating that "[i]f a declaratory judgment plaintiff has not taken significant, concrete steps to conduct infringing activity, the dispute is neither 'immediate' nor 'real' and the requirements for justiciability have not been met." *Id.*

In *SanDisk*, the Federal Circuit held that Article III jurisdiction for a patent declaratory judgment action may exist where patent holders believe that they have patent rights which may prohibit another party's ongoing or planned activities, and where that other party contends that it has the right to engage in the activities without a license.³⁴ The patent holder in *SanDisk* approached a potential licensee requesting a cross-licensing agreement.³⁵ The patent holder, STMicroelectronics, offered a detailed presentation that identified the manner in which SanDisk infringed specific patent claims.³⁶ However, the patent holder further told the potential licensee that it had "absolutely no plan whatsoever to sue SanDisk."³⁷ Following this incident, SanDisk sought, as plaintiff, a declaratory judgment of noninfringement and invalidity of the fourteen STMicroelectronics patents that had been discussed during the cross-licensing negotiations.³⁸ Overturning the district court's grant of STMicroelectronics' motion to dismiss for lack of subject matter jurisdiction, the Federal Circuit held that SanDisk met Article III's jurisdictional requirements because STMicroelectronics put SanDisk in a position of either pursuing arguably illegal behavior, or abandoning what it asserted were rightful activities.³⁹ The Federal Circuit's *SanDisk* interpretation of the Supreme Court's *MedImmune* standard represents a significant departure from prior Federal Circuit decisions on patent declaratory judgment jurisdiction, and raises new questions related to interpreting Article III jurisdiction under the Declaratory Judgment Act discussed in the following sections of this Comment.

III. THREE POTENTIALLY NEGATIVE IMPLICATIONS OF *SANDISK*

Three repercussions of the *SanDisk* decision are examined below: First, *SanDisk* significantly broadens declaratory judgment jurisdiction; second, *SanDisk* narrows effective use of covenants not to sue; and third, *SanDisk* limits the district court's discretion to deny an otherwise allowable declaratory judgment suit. As a result, this Comment will show that the Federal Circuit's broad declaratory judgment jurisdiction interpretation in *SanDisk* threatens to chill licensing negotiations by unfairly increasing the leverage of potential patent infringers during licensing negotiation, limiting the ability of the parties to negotiate around declaratory

34. *SanDisk*, 480 F.3d at 1381.

35. *Id.* at 1374.

36. *Id.* at 1375.

37. *Id.* at 1376.

38. *Id.*

39. *Id.* at 1381.

judgment suits, and preventing district judges from using their discretion to level the playing field during negotiations.

A. SanDisk Overbroadens Declaratory Judgment Jurisdiction

The *SanDisk* decision fortified the interpretation replacing the reasonable apprehension of suit test with the more expansive all circumstances test proposed in *MedImmune* and adopted from *Maryland Casualty Co. v. Pacific Coal & Oil Co.*⁴⁰ Under the all circumstances test, 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.”⁴¹ Whereas the old test limited jurisdiction to reasonable apprehension, the all circumstances test broadens the scope of declaratory judgment jurisdiction to include circumstances such as a patent holder’s “position” or “willingness” to litigate.⁴²

There are some positive benefits resulting from the broadened declaratory judgment jurisdiction, including significantly weakening the power of “patent trolls.”⁴³ Patent trolls are loosely defined as patent holding entities that do not manufacture, compete, or incorporate their patents into any product.⁴⁴ Patent trolls take advantage of the patent

40. *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941); *SanDisk*, 480 F.3d at 1378; *see also* *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1339 (Fed. Cir. 2007).

41. *SanDisk*, 480 F.3d at 1378.

42. *Id.* at 1381. *See* *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 902 (Fed. Cir. 2008) (“Whether intended or not, the now more lenient legal standard facilitates or enhances the availability of declaratory judgment jurisdiction in patent cases.”).

43. The term *patent troll* became popular during Intel’s litigation with a little known intellectual property licensing company, TechSearch. Intel’s then assistant general counsel, Peter Detkin, described a patent troll as “somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.” Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy Against Patent Threats*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 163 (2006) (quoting Elizabeth D. Ferrill, *Patent Investment Trusts: Let’s Build a PIT to Catch the Patent Trolls*, 6 N.C. J.L. & TECH. 367, 367 (2005)). *See also* Irfan A. Lateef & Joshua Stowell, *A Supreme End to Patent Trolls?*, ORANGE COUNTY LAW., Aug. 2007, at 18–19. Patent trolls have a “tendency to lie in wait for infringers—like the fabled troll that lurks under the bridge to prevent others from using the bridge that he is not even using for himself . . .” *Id.*

44. This definition of a patent troll fails to distinguish between trolls and an inventor or even a savvy investor who acquires patent rights and seeks to license them in

system by buying patents solely to assert their rights against others.⁴⁵ Opponents of patent trolls criticize their business practices as disincentivizing research and development by increasing the litigation costs associated with bringing new products to the market.⁴⁶ Some analysts believe that a more encompassing declaratory judgment jurisdiction standard will weaken the power of patent trolls by allowing for a declaratory judgment action whenever patent trolls aggressively pursue licensing agreements.⁴⁷

However, even though the broadened declaratory judgment jurisdiction potentially exposes patent trolls to more litigation, high litigation costs inevitably arising out of declaratory judgment suits deter many accused infringers from ever utilizing declaratory judgments. For example, in the year 2000, mid-range patent infringement litigation cost an average of \$797,000 through discovery and \$1,499,000 through trial.⁴⁸ Therefore, many accused infringers will find this method of resisting trolls to be unavailable due to the high cost burden; while the real impact of a broadened declaratory judgment standard is suffered by smaller patent holders who, due to insufficient funds, cannot take advantage of their patent's positive benefits because they cannot afford to litigate a declaratory judgment lawsuit.⁴⁹

good faith instead of manufacturing or using the patents in commerce directly themselves. A troll is perhaps more properly a party that seeks to license in bad faith, for example, by investing in patent rights solely to assert them against deep-pocketed successful manufacturers, or even sandbagging a company that unknowingly incorporates a patented component into a larger assembly or inadvertently uses a patent while establishing market success. By waiting to negotiate a license until after the alleged infringer has sunk significant costs into a market success, with little regard as to the validity or strength of the patent's being asserted, a troll is said to be acting in bad faith. Here is a proposed new definition:

First, a patent troll would be a company that receives no benefit from excluding others because it does not have a competitive product nor does it plan to develop one. . . . Second, a patent troll's tactic would be to use threat of litigation and its associated costs to force others into licensing agreements without closely scrutinizing the validity and strength of the patent

Benjamin H. Diessel, *Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay*, 106 MICH. L. REV. 305, 307 n.2 (2007) (quoting Terrence P. McMahon et al., *Who is a Troll? Not a Simple Answer*, 7 SEDONA CONF. J. 159, 166 (2006)).

45. See Lateef & Stowell, *supra* note 43, at 21.

46. *Id.*

47. *Id.* at 22.

48. Richard P. Beem, *Winning Patent Fights Without Spending a Bundle*, CHI. DAILY L. BULL., Aug. 26, 2003, at 6.

49. Rantanen, *supra* note 43, at 180 (advocating that a potential licensee litigate as opposed to license because it will put the licensee in a dominant negotiating position over the patentee). "If the infringer litigates, rather than taking a license, the patentee will only gain a small amount, since the litigation costs for the patentee include both the possibility of losing the patent entirely and the actual costs of the litigation, while the return is likely to be relatively small." *Id.* at 181.

Further, the potential troll-deterrent effect of a broader declaratory judgment standard may be outweighed by significant negative effects. Federal Circuit Judge Bryson concurred with the *SanDisk* decision, but warned that “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.”⁵⁰ One district court has

50. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1384 (Fed. Cir. 2007) (Bryson, J., concurring).

In the aftermath of *MedImmune*, *SanDisk*, and subsequent district court decisions, a patent holder’s offer to license a patent to a potential patent infringer constitutes an assertion of patent rights and significantly increases the patent holders exposure to a declaratory judgment action to attempt to invalidate the patent. Therefore, the only way to avoid declaratory judgment jurisdiction when seeking a license is to preemptively file a claim for patent infringement against the potential licensee.

Although filing an infringement suit exposes the patent holder’s patents to the counter claims of unenforceability and invalidity, there is one positive aspect that can result from filing first: Any negotiation following a lawsuit is understood as a settlement; in a patent infringement lawsuit, if such a settlement is reached, it acts as a collateral bar against any future claims of invalidity or unenforceability. *See Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362 (Fed. Cir. 2001). In *Flex-Foot*, CRP brought a declaratory judgment action against Flex-Foot, seeking a declaration that one of Flex-Foot’s patents was invalid. *Id.* at 1363–64. While a summary judgment motion was pending, however, the parties settled and agreed to a corresponding licensing agreement. *Id.* at 1363. In the settlement agreement, CRP waived its right to challenge the validity and enforceability of the patent within the license agreement. *Id.* Absent a settlement agreement, a provision such as this is not enforced by the courts. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969). However, the Federal Circuit held:

Once an accused infringer has challenged patent validity, has had an opportunity to conduct discovery on validity issues, and has elected to voluntarily dismiss the litigation with prejudice under a settlement agreement containing a clear and unambiguous undertaking not to challenge validity and/or enforceability of the patent in suit, the accused infringer is contractually estopped from raising any such challenge in any subsequent proceeding.

Flex-Foot, 238 F.3d at 1370.

The Federal Circuit allows a settlement to contractually estop further validity or enforceability challenges because the technical requirements of contract doctrine are significantly outweighed by the policy of upholding settlement litigation. *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988). However, there are obvious problems that follow from filing an infringement suit before negotiating. First, the negotiation is instantly soured. The parties are now directly aligned against each other and the chance for a friendly licensing deal is significantly diminished. Second, filing an infringement suit is going to open the door to compulsive counterclaims, such as patent invalidity and unenforceability. Thus, the two claims the patent holder was seeking to avoid in a declaratory judgment suit will most assuredly be filed against the patent holder in a compulsory counterclaim. However, the one advantage of filing first is that the patent holder can choose the forum. *See Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 904 (Fed. Cir. 2008) (“The general rule favors the forum of the first-filed action,

already expanded declaratory judgment jurisdiction to this extreme. In *Crutchfield New Media, L.L.C. v. Charles E. Hill & Associates*,⁵¹ the patent holder offered to negotiate a license, but, before negotiations could begin, the potential licensee brought a declaratory judgment suit for invalidity and noninfringement of the patents being offered in the license.⁵² The district court sustained the declaratory judgment and held that there was a valid case or controversy because “it is clear that Hill was of the opinion that Crutchfield was engaging in allegedly infringing activity or it would not have offered a license”⁵³ Under this standard, patent holders who offer to negotiate a license can inadvertently open up the door to potential declaratory judgment actions. In this way, the expanded *MedImmune* and *SanDisk* declaratory judgment standard threatens to chill patent licensing discussions and negotiations.

A prospective licensee can effectively end a licensing negotiation by demanding that the patent holder “put up or shut up.”⁵⁴ In such a situation, the prospective licensee can trap the patent holder by inquiring as to whether or not the patent holder thinks the prospective licensee is infringing on any patents—a *yes* answer could yield a declaratory judgment and a *no* answer will render negotiations pointless.⁵⁵ Since the *SanDisk* standard renders licensing negotiations more uncertain, patent holders will have to seek ways to avoid being forced to defend their patents in a possibly unfavorable court merely because they offered to discuss a license.⁵⁶ In addition to the prospect of being dragged into an unfavorable court, declaratory judgments are expensive to litigate. Thus, small inventors, universities, and research institutions, generally, will be

whether or not it is a declaratory judgment action.”). This is a big fear in declaratory judgment suits because different forums have different rules and some are more favorable to patent holders than others. *See also* Alisha Kay Taylor, *What Does Forum Shopping in the Eastern District of Texas Mean for Patent Reform?*, 6 J. MARSHALL REV. INTEL. PROP. L. 570, 571 (2007).

51. *Crutchfield New Media, L.L.C. v. Charles E. Hill & Assoc.*, No. 1:06-cv-0837-LJM-JMS, 2007 WL 1320750 (S.D. Ind. May 4, 2007).

52. *Id.* at *2–3.

53. *Id.* at *2. *Cf.* *Monsanto Co. v. Syngenta Crop Prot., Inc.*, No. 4:07-CV-543 (CEJ), 2008 WL 294291, at *2 (E.D. Mo. Jan. 31, 2008) (finding that a patent holder’s letter asking a prospective licensee to “consider” a license did not amount to a course of conduct that shows a preparedness and willingness to enforce patent rights), *appeal dismissed*, No. 2008-1232, 2008 U.S. App. LEXIS 13877 (Fed. Cir. May 30, 2008).

54. *SanDisk*, 480 F.3d at 1385 (Bryson, J., concurring).

55. *Id.* *See also* Philip Nelson & Paul Conover, *Patent Notice Letters After the Supreme Court’s MedImmune Decision: Prelude to a Deal, or a License to Sue?*, ORANGE COUNTY LAW., Aug. 2007, at 38, 40.

56. *See* Steve Seidenberg, *Judgment Day: SanDisk Decision Opens the Door to Increased Patent Litigation*, INSIDECOUNSEL, Aug. 2007, at 20, 22 (“Right now there is a standstill in licensing activity Corporations large and small are trying to figure out what they can do to protect themselves.” (quoting David Fox, a patent attorney in the Houston office of Fulbright & Jaworski)).

the most vulnerable under the *SanDisk* precedent because they are less likely to have the multibillion dollar resources that large corporations have to defend their patents.⁵⁷

The majority opinion in *SanDisk* seemed to recognize this threat to licensing negotiation and responded in a footnote that a confidentiality agreement would have avoided the risk of a declaratory judgment action.⁵⁸ However, confidentiality agreements create three additional problems.⁵⁹ First, federal courts interpret confidentiality agreements in accordance with state contract law.⁶⁰ Notwithstanding choice of law conflicts, state contract law has a propensity to be ambiguous, amorphous, and unpredictable.⁶¹ Second, as acknowledged in his concurrence, Judge Bryson noted the absurdity surrounding confidential agreements because any party that contemplates bringing a declaratory judgment action would have no incentive to enter into such an agreement.⁶² Third, such a request for a confidentiality agreement could itself, ironically, backfire and spark a declaratory judgment lawsuit under the *SanDisk* precedent.⁶³

B. *SanDisk Limits the Effectiveness of Covenants Not to Sue*

Following the all circumstances test, the majority in *SanDisk* found STMicroelectronics' direct and unequivocal statement that it had no plan whatsoever to sue did not eliminate any actual controversy and so did

57. David Morrill, *High Court Ruling Leaves Companies in Pickle*, OAKLAND TRIB., Mar. 19, 2007, at D5. Yali Friedman, author of *Building Biotechnology*, said that “[t]ypically, universities are less savvy in developing and negotiating patents, so they could be more vulnerable . . .” *Id.*

58. *SanDisk*, 480 F.3d at 1375 n.1.

59. *Osteotech, Inc. v. Regeneration Techs., Inc.*, No. 3:06-cv-04249-FLW, 2008 WL 4449564 (D.N.J. Sept. 25, 2008).

60. *Id.* at *3.

61. *See id.* In *Osteotech*, the court excluded relevant communications between two parties regarding alleged patent infringement. *Id.* at *5. However, the court did not limit its analysis to the text of the agreement; rather, the court considered amorphous elements, such as the presence of counsel and each party's familiarity with confidentiality agreements. *Id.* Additionally, the confidentiality agreement, although intended to protect the plaintiff, backfired because it precluded the plaintiff from using communication covered under the agreement as evidence asserting the defendant's actual knowledge of patent infringement. *Id.*

62. *SanDisk*, 480 F.3d at 1385 n.1 (Bryson, J., concurring).

63. Nelson & Conover, *supra* note 55, at 40. “However, for the vigilant patent holder attempting to police the marketplace, such an agreement may be difficult to obtain and the very act of requesting it might be enough to trigger a declaratory judgment lawsuit.” *Id.*

not render SanDisk's declaratory judgment claim moot.⁶⁴ Thus, *SanDisk* precedent threatens to significantly narrow the ability of a covenant not to sue to avoid declaratory judgment actions.

Perhaps in recognition of the negative implications associated with not recognizing covenants not to sue, the Federal Circuit has twice refined the *SanDisk* holding.⁶⁵ First, in *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*, a generic drug applicant, Teva, challenged Novartis by asserting in an "Abbreviated New Drug Application" that five of Novartis's brand drug patents were invalid.⁶⁶ Despite Novartis's inaction in challenging Teva's assertion, the Federal Circuit upheld a justiciable case or controversy for Teva and acknowledged that the only way a controversy might not exist would be in the rare "circumstance in which . . . the patent owner and brand drug company have given the generic [drug] applicant a covenant not to sue, or otherwise formally acknowledge that the generic applicant's drug does not infringe."⁶⁷ Second, in *Benitec Australia, Ltd. v. Nucleonics, Inc.*, patent holder Benitec brought an infringement claim against Nucleonics who counterclaimed seeking a declaratory judgment of invalidity and unenforceability against Benitec's patents.⁶⁸ Benitec subsequently dropped its original lawsuit and filed for a dismissal of Nucleonics's counterclaim for lack of subject matter jurisdiction.⁶⁹ In its appellate brief, Benitec covenanted and promised not to sue Nucleonics for any activities or products occurring on or before the date of dismissal.⁷⁰ In light of the covenant not to sue, the court granted Benitec's motion to dismiss after finding no showing of sufficient immediacy and reality to support declaratory judgment jurisdiction.⁷¹

The *Nucleonics* court directly compared the covenant not to sue with the covenant offered in *SanDisk*, and found the following distinction: STMicroelectronics only stated that it did not *intend* to sue SanDisk, while Benitec clarified that it *would not* sue Nucleonics.⁷² Also,

64. *SanDisk*, 480 F.3d at 1382–83.

65. See *Benitec Austl., Ltd., v. Nucleonics, Inc.*, 495 F.3d 1340, 1347–49 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2055 (2008); *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1334–35 (Fed. Cir. 2007).

66. *Teva Pharm.*, 482 F.3d at 1334–35.

67. *Id.* at 1343. See also *Caraco Pharm. Labs., Ltd. v. Forest Labs., Inc.*, 527 F.3d 1278, 1296–97 (Fed. Cir. 2008) (holding that even when a covenant not to sue extinguishes all patent lawsuits, a justiciable controversy exists if a brand drug patent holder can still act in a way that would prevent the FDA from approving a generic drug application).

68. *Nucleonics*, 495 F.3d at 1342.

69. *Id.* at 1343.

70. *Id.*

71. *Id.* at 1349.

72. *Id.* at 1347–48.

STMicroelectronics had engaged in a course of conduct that showed a willingness and preparedness to sue, while Benitec made its covenant and sought dismissal after it concluded that a recent case legally precluded its original infringement claim.⁷³ At first glance, *Nucleonics* seems to limit *SanDisk*'s expansive precedent, but upon closer scrutiny, the court actually made its decision based upon Benitec's legal inability to file suit against Nucleonics, not upon Benitec's covenant not to sue.⁷⁴ Further, as subsequent cases show, district courts are ignoring a possible limiting effect of *Nucleonics* and are not recognizing any material change to the *SanDisk* precedent regarding the inability of covenants not to sue to avoid declaratory judgment jurisdiction.⁷⁵

For example, in *FieldTurf USA, Inc. v. Sports Construction Group*,⁷⁶ the situation was similar to *Nucleonics*. FieldTurf voluntarily dismissed its original infringement lawsuit against Sports Construction Group and subsequently filed for a motion to dismiss Sports Construction Group's declaratory judgment counterclaims against FieldTurf relating to its patents.⁷⁷ To eliminate any further case or controversy, FieldTurf submitted a covenant not to sue along with its voluntary dismissal.⁷⁸ However, the court held that the covenant not to sue was too narrow and did not preclude FieldTurf from re-filing a different infringement suit.⁷⁹ The court distinguished FieldTurf's covenant not to sue from the one in *Nucleonics* on the grounds that FieldTurf still had a legal right to institute an infringement claim against Sports Construction Group at a later date.⁸⁰

The court's decision in *FieldTurf* was focused mainly upon one particular element of the *Nucleonics* opinion: whether the declaratory

73. *Id.*

74. *Id.* at 1346. The court emphasized Benitec's recognition of the recent Supreme Court decision in *Merck* that prevented Benitec from filing an infringement action until after Nucleonics filed a new drug application, which Nucleonics acknowledged it would not do until at least 2010 or 2012. *Id.*

75. See *FieldTurf USA, Inc. v. Sports Constr. Group, LLC*, 507 F. Supp. 2d 801, 807 (N.D. Ohio 2007); *WS Packaging Group, Inc. v. Global Commerce Group, L.L.C.*, 505 F. Supp. 561, 565 (E.D. Wis. 2007).

76. *FieldTurf USA*, 507 F. Supp. 2d at 801.

77. *Id.* at 803.

78. *Id.*

79. *Id.* at 807–08.

80. *Id.* at 808 (“FieldTurf has maintained its right to institute an infringement cause of action against SCG for its offers to sell, sales, or installations at locations other than at Concord University.”).

judgment defendant has any cause of action against the declaratory judgment plaintiff.⁸¹ Under such precedent, a covenant not to sue that eliminates the current, or instant, case or controversy is not effective unless it eliminates *all other* potential infringement causes of action that that party has against the declaratory judgment plaintiff.⁸² This is an incongruous proposition for two reasons. First, *MedImmune* limits declaratory judgment jurisdiction to “the facts alleged.”⁸³ A covenant not to sue should not have to cover all possible relationships between the parties, but only those that deal with the current facts alleged. It is unjust to hold a covenant not to sue to a standard that incorporates facts beyond those alleged in the lawsuit. Second, such a precedent renders licensing agreements pointless. Similar to the “put up or shut up” scenario articulated in Judge Bryson’s concurrence in *SanDisk*,⁸⁴ the only effective way to eliminate the risk of a declaratory judgment action during licensing negotiations under this precedent is for the patent holder to forfeit any possible future enforcement of rights in the invention, which makes the current licensing negotiation pointless. A patent holder’s entire bargaining power hinges on the threat of enforcement against the other party.⁸⁵ Therefore, since covenants not to sue that completely eliminate any potential liability gut a patent holder’s bargaining position, the courts have effectively eliminated the desirability of using a covenant not to sue to eliminate declaratory judgment jurisdiction. This, in turn, may also render licensing negotiations pointless because the patent holder would have to deny any future infringement claims in order to

81. This is of such importance that the court mentions it twice verbatim. *See id.*

82. Two recent district court decisions have turned away from the notion that effective covenants not to sue have to extinguish all possible causes of action between two parties. In *Furminator, Inc. v. Ontel Products Corp.*, 246 F.R.D. 579 (E.D. Mo. 2007), a patent holder’s covenant not to sue sufficiently eliminated any case of actual controversy and divested the court of jurisdiction even though the covenant did not cover a supplemental patent that was not at issue in the original claim. *Id.* at 590. The court reasoned that the patent excluded from the covenant not to sue was distinctly different from the patents currently at issue and because no demands or threats of litigation were made through this patent, there was no remaining controversy of sufficient immediacy and reality to warrant declaratory judgment jurisdiction. *Id.* at 590–91. Similarly, in *Crossbow Technology, Inc. v. YH Technology*, 531 F. Supp. 2d 1117 (N.D. Cal. 2007), the court concluded that despite the existence of related patents, the covenant not to sue sufficiently removed all patents at issue in the case and thus extinguished declaratory judgment jurisdiction. *Id.* at 1122.

83. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007). “[T]he 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.” *Id.* (quoting *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

84. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1385–86 n.2 (Fed. Cir. 2007) (Bryson, J., concurring).

85. *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996).

negotiate a license without threat of a declaratory judgment suit, but this denial of claims obliterates a patent holder's bargaining position.

C. SanDisk Limits District Court Discretion

The third implication of *SanDisk* is that it limits the district court's discretion to deny jurisdiction over an otherwise allowable declaratory judgment action. The Declaratory Judgment Act provides:

In a case of actual controversy within its jurisdiction, except with respect to Federal taxes . . . , 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 declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.⁸⁶

In the absence of a *must*, the Federal Circuit has, before *SanDisk*, interpreted the Act's use of *may* to mean both "that the court is authorized to declare legal rights and relations, and that in appropriate circumstances the court may decline to do so."⁸⁷ Therefore, even if an actual case or controversy exists, courts have the discretion to decline jurisdiction.⁸⁸ The Supreme Court has held that the district court is in the most appropriate position to understand how the facts of the case relate in regards to both the fitness and usefulness of a declaratory judgment resolution.⁸⁹ A district court's discretion is constrained by the Declaratory Judgment Act, which has been interpreted by the Federal Circuit to limit the district court's discretion to the bounds of practicality and wise judicial administration.⁹⁰

86. 28 U.S.C. § 2201 (2000) (emphasis added).

87. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936 (Fed. Cir. 1993). The Federal Circuit's interpretation has also been accepted by the Supreme Court. *See MedImmune*, 549 U.S. at 136.

88. *Pub. Serv. Comm'n v. Wycoff Co.*, 344 U.S. 237, 241 (1952).

89. *Wilton v. Seven Falls Co.*, 515 U.S. 277, 289 (1995).

90. *EMC Corp.*, 89 F.3d at 814. *See also Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1288 (Fed. Cir. 2007) (presenting four ways a district court can abuse its discretion: "(1) [T]he court's decision [is] clearly unreasonable, arbitrary, or fanciful; (2) the decision [is] based on an erroneous conclusion of law; (3) the court's findings [are] clearly erroneous; or (4) the record contains no evidence upon which the court rationally could have based its decision" (quoting *Minn. Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 673 (Fed. Cir. 1991))).

In *SanDisk*, however, the Federal Circuit further limited the district court's discretion.⁹¹ The district court in *SanDisk* noted, in a footnote, that "even if it had subject matter jurisdiction over the instant claims, it would exercise its discretion and decline to decide them."⁹² However, the Federal Circuit held that the district court's decision was made in the context of the reasonable apprehension of suit test, thus they "expect that in the absence of additional facts, the case will be entertained on the merits on remand."⁹³ In light of this unusual holding that removed the district court's customary discretion, Judge Bryson's concurrence took issue with the majority, and would limit the *SanDisk* holding to allow the district court to exercise its discretion on remand to address issues such as a possible parallel infringement action in another district.⁹⁴

The reasoning of Judge Bryson's argument becomes apparent in a later Federal Circuit case, *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*⁹⁵ In this case, the district court underlined two reasons to decline jurisdiction: The justiciability of the case was too close to call and the overall facts created the "appearance that Plaintiffs filed these lawsuits as an intimidation tactic to gain leverage in the licensing negotiations."⁹⁶ The Federal Circuit held that it was an abuse of discretion for the district judge to decline to exercise his discretion to hear the suit, noting that it was inappropriate to infer that the suit was filed as an intimidation tactic in the absence of affirmative evidence.⁹⁷ The majority opinion stated, "Even if these suits have had the effect of placing appellants in a more favorable negotiating position, that effect is

91. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1383 (Fed. Cir. 2007).

92. *Id.* (quoting *SanDisk Corp. v. STMicroelectronics, Inc.*, No. 04-04379, 2005 WL 5801276, at *8 n.30 (N.D. Cal. Jan. 20, 2005)).

93. *Id.*

94. "I would allow the district court to reconsider that issue based on all the circumstances, not just 'additional facts' not previously before the district court, as the terms of this court's remand would seem to require." *Id.* at 1385–86 n.2 (Bryson, J., concurring).

95. *Sony Elecs.*, 497 F.3d at 1271.

96. *Id.* at 1289.

97. *Id.* The court also narrowed a former opinion, *EMC Corp. v. Norand Corp.*, 89 F.3d 807 (Fed. Cir. 1996), that allowed the district judge to exercise the judge's discretion not to hear the case under similar circumstances. The court distinguished *Sony Electronics* from *EMC* by stating that the declaratory judgment plaintiff in the latter "called the defendant the day after the suit was filed 'and explained that the declaratory judgment complaint had been filed as 'merely a defensive step' . . .'" *Sony Elecs.*, 497 F.3d at 1289 (quoting *EMC Corp.*, 89 F.3d at 815). Thus, the Federal Circuit determined that the district court in *EMC* had proper evidence to deny jurisdiction based on the belief that the declaratory judgment was a "tactical measure filed in order to improve [the plaintiff's] posture in the ongoing negotiations." *Sony Elecs.*, 497 F.3d at 1289 (quoting *EMC Corp.*, 89 F.3d at 815).

not a sufficient reason to decline to hear the suit.”⁹⁸ The Federal Circuit has limited the district court judge’s discretion to refuse to hear a patent declaratory judgment case to only matters of time and resources.⁹⁹ This precedent undercuts a judge’s ability to prevent forum shopping or other “nefarious”¹⁰⁰ litigation moves on the part of declaratory judgment plaintiffs. Limiting the district court judge’s discretion to decline to hear a suit allows the potential licensee to unfairly take advantage of the judicial system during licensing negotiations.

Ultimately *SanDisk*’s three negative repercussions are likely to significantly chill patent licensing negotiations out of court because all three open the door to greater availability of a declaratory judgment. A broad declaratory judgment jurisdiction puts the patent holder in a no-win situation between offering a license and risking the expense and possible unfair bargaining position following a declaratory judgment suit, or never offering a license and never taking advantage of the rights to exclusively make, use, or sell their invention as granted to patent holders.¹⁰¹ The limited applicability of a covenant not to sue to prevent a declaratory judgment suit takes away one avenue that could possibly level the playing field between a patent holder and a potential licensee in negotiations.¹⁰² Finally, limiting a district court judge’s ability to deny adjudicating a declaratory judgment suit when out-of-court negotiations

98. *Sony Elecs.*, 497 F.3d at 1289.

99. Post-*SanDisk*, the Federal Circuit allowed district judges to exercise their discretion to not hear a declaratory judgment only in cases involving parallel infringement suits or patent reevaluations. *See Cellco P’ship v. Broadcom Corp.*, 227 F. App’x 889, 890 (Fed. Cir. 2007).

100. *Sony Elecs.*, 497 F.3d at 1289.

101. Section 271 of Title 35 of the United States Code gives the patent holder an infringement cause of action against anyone who makes, uses, sells, offers for sale, or imports the invention described in the claims of the patent. 35 U.S.C. § 271 (2000).

102. Michael A. Ladra and Lillian Ewing argue:

There is no longer a safe haven for a patentee to offer a license and expressly state that there is no intent to sue for infringement. . . . The potential licensee, who has more leverage after *SanDisk*, can respond with “put up or shut up,” and virtually any response by the patentee to the potential licensee, other than a disavowal of patent coverage, will expose the patentee to a potential declaratory judgment action. The dissent in *SanDisk* correctly asserted that there is potentially no “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 and then to sue the patentee.”

Michael A. Ladra & Lillian Ewing, *Declaratory Judgment Practices After SanDisk v. STMicroelectronics*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 185, 198 (2007) (quoting *SanDisk*, 480 F.3d at 1385 (Bryson, J., concurring)).

are proceeding chills the motivation of a potential licensee to negotiate without first attempting a declaratory judgment suit.

IV. POLICY SUPPORT FOR A CHANGE IN DECLARATORY JUDGMENT PRECEDENT

Declaratory judgment jurisdiction seeks to balance two competing policy considerations: conserving limited judicial resources by declining jurisdiction and allowing a party threatened with legal action to obtain an early judgment regarding its rights and liabilities.¹⁰³ Congressional intent behind the Declaratory Judgment Act was particularly focused on preventing “avoidable damages from being incurred by a person uncertain of his rights and threatened with damage by delayed adjudication.”¹⁰⁴ The 1934 Congress sought to balance the economic leverage once dominated by patent holders through the availability of an early judicial resolution of rights.¹⁰⁵ Congress’s willingness to have judicial resolution available for alleged infringers was a response to the business realities these alleged infringers faced—to level the negotiating table that had previously been tipped heavily toward patent holders.¹⁰⁶ This Comment argues that the *MedImmune* and *SanDisk* expanded declaratory judgment jurisdiction standard has tipped the negotiating table too far in favor of alleged infringers, and so the policy rationale behind the Declaratory Judgment Act supports a change in declaratory judgment jurisdiction to re-level the field and conserve limited judicial resources.

Three recent Federal Circuit and Supreme Court decisions bridle the patent holder’s power enough to render the need for an expansive declaratory judgment jurisdiction unnecessary: *In re Seagate Technology*, *EBay v. Mercexchange*, and *KSR International Co. v. Teleflex, Inc.*¹⁰⁷ As discussed below, the aggregate of these decisions is to ease the burden faced by an

103. *Minn. Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 673 (Fed. Cir. 1991).

104. *Id.* (citing EDWIN BORCHARD, *DECLARATORY JUDGMENTS* 803–04 (2d. ed. 1941)).

105. *See* 78 CONG. REC. 10,564–65, 10,919 (1934); 78 CONG. REC. 8224 (1934).

106. 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, 905 (1997).

In 1934, Congress sought to balance the tremendous economic leverage enjoyed by patentees by providing accused infringers with the opportunity to seek judicial resolution of claims of non-infringement and/or invalidity. . . . The courts’ willingness to entertain declaratory judgment actions brought by alleged infringers in such circumstances was based on their recognition of the ‘business realities’ the alleged infringers faced.

Id. at 905–06.

107. *See* *KSR Int’l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007); *EBay, Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388 (2006); *In re Seagate Tech., L.L.C.*, 497 F.3d 1360 (Fed. Cir. 2007).

alleged infringer, and so the *MedImmune* and *SanDisk* decisions, expanding declaratory judgment jurisdiction go too far, extending beyond the optimum policy balance sought between patent holders and alleged patent infringers, and instead creating “uncertainty and inefficiency in the area of patent notification”¹⁰⁸

In re Seagate eases the burden on patent infringers resisting allegations of willful infringement and the resulting treble damages, by eliminating the duty of due care and emphasizing that there is no affirmative obligation to obtain an opinion of counsel.¹⁰⁹ As a result, a patent holder’s boilerplate charge of “willful infringement” is no longer a simple burden to satisfy.¹¹⁰ The Federal Circuit replaced the negligence standard of willful infringement with an objective recklessness standard—this requires a showing by clear and convincing evidence that the accused infringer acted despite an objectively high likelihood of infringement, and the infringer knew or, because of its obviousness, should have known about the high likelihood of infringement.¹¹¹

In re Seagate impacts declaratory judgment jurisdiction in two ways. First, because patent owners will need to give potential infringers detailed notice of how they are allegedly infringing to set the stage for showing reckless disregard of their patents, these notices will likely be sufficient to invoke declaratory judgment jurisdiction.¹¹² In the absence of a detailed letter, potential infringers will likely not be subject to a suit for willful infringement of the patent in question. This limits the patent holder’s negotiating power by forcing a choice: either send a detailed letter and invoke declaratory judgment jurisdiction, or send a benign letter to avoid declaratory judgment lawsuits but forego claiming willful infringement.¹¹³

In re Seagate’s second impact is that it runs counter to a fundamental policy behind expanded declaratory judgment jurisdiction. As mentioned, a cornerstone policy of the Declaratory Judgment Act is to reduce the likelihood of possible infringers finding themselves in an unfair position, either having to risk accruing huge damages while awaiting a patent

108. Nelson & Conover, *supra* note 55, at 42.

109. *In re Seagate*, 497 F.3d at 1371.

110. Thomas Fitzpatrick et al., *In re Seagate Technology: Closing the Gate on Willful Infringement*, MONDAQ BUS. BRIEFING, Aug. 28, 2007, available at <http://www.mondaq.com/article.asp?articleid=51720>.

111. *In re Seagate*, 497 F.3d at 1371.

112. See Fitzpatrick et al., *supra* note 110.

113. *Id.*

holder's choice to file an infringement suit, or having to prematurely shut down their business.¹¹⁴ This same rationale was one of the driving reasons behind the *MedImmune* and *SanDisk* decisions to expand declaratory judgment jurisdiction, specifically that “[t]he rule that a plaintiff must destroy a large building, bet the farm, or (as here) *risk treble damages* and the loss of 80 percent of its business, before seeking a declaration of its actively contested legal rights finds no support in Article III.”¹¹⁵ Willful infringement of a patent exposes the infringing party to treble damages, and in such cases, betting the farm is an accurate metaphor.¹¹⁶ However, in the wake of *In re Seagate*, if a patent holder requests a license without giving the potential infringer a detailed report of their infringement, this request is not enough evidence to support a willful infringement claim against the potential patent infringer.¹¹⁷ Good policy would dictate that standards for notice of willful infringement should be consistent with declaratory judgment jurisdiction.¹¹⁸ Therefore, since the standard to establish willful infringement requires a detailed report of infringement, declaratory judgment jurisdiction should not be granted against patentees that merely offer notice of possible patent infringement. The unfair risk of an alleged infringer accruing huge damages is now reduced by *In re Seagate* because the uncertainty of possible treble damages

114. “[I]n promulgating the Declaratory Judgment Act, Congress intended ‘to avoid accrual of avoidable damages to one not certain of his rights and to afford him an early adjudication without waiting until his adversary should see fit to begin suit.’” *Minn. Mining & Mfg. Co. v. Norton Co.*, 929 F.2d 670, 673–74 (Fed. Cir. 1991) (quoting *E. Edlmann & Co. v. Triple-A Specialty Co.*, 88 F.2d 852, 854 (7th Cir. 1937)).

115. *MedImmune, Inc. v. Genentech, Inc.*, 548 U.S. 118, 134 (2007) (emphasis added). Also, the court in *SanDisk* paraphrased this same argument stating, “*SanDisk* need not ‘bet the farm,’ so to speak, and risk a suit for infringement by cutting off licensing discussions and continuing in the identified activity before seeking a declaration of its legal rights.” *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1382 (Fed. Cir. 2007) (footnote omitted).

116. In cases of willful infringement, “the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs.” Patent Act of 1870, ch. 230, § 59, 16 Stat. 198, 207 (1870).

117. Even if the opinion letters served as an objectively high likelihood of patent infringement, the patentee would still need to prove that this objectively defined risk “was either known or so obvious that it should have been known to the accused infringer.” *In re Seagate Tech., L.L.C.*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

118. Dolak, *supra* note 106, at 946. Dolak also states: “[T]he issues of notice of infringement and declaratory judgment jurisdiction should be treated as jurisprudentially connected because of the policies each legal principle is intended to serve and the practical realities that would-be litigants must consider in the operation of their enterprises.” *Id.* at 938 (footnote omitted). Dolak wrote this article before the *MedImmune*, *SanDisk*, and *In re Seagate* decisions, so she advocates a more liberal declaratory judgment standard. She argues that it is unconstitutional to deny declaratory judgment jurisdiction when notice of infringement letters are delivered and when these same letters can be used as evidence for willful infringement against potential infringers. *Id.* at 946.

can no longer be attached without triggering declaratory judgment jurisdiction. Thus, one key policy rationale for expanding declaratory judgment jurisdiction is mitigated, at least in part, by *In re Seagate*.

In *EBay v. Mercexchange*, the Supreme Court eliminated the Federal Circuit's previously observed strong presumption in favor of injunctive relief for patent infringement, and instead required a four factor test be used to determine if an injunction is appropriate based on the facts in any given case.¹¹⁹ This decision limits the power of the patent troll, who often relies on the threat of a possible injunction that could shut down an alleged infringer's entire business to leverage licensing negotiations. As explained earlier, declaratory judgment jurisdiction is a strong disincentive to patent trolls and significantly weakens their leverage.¹²⁰ For example, a motivating factor behind the Federal Circuit's *Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.* decision was that declaratory judgment jurisdiction limits the ability of the patent troll to engage in extrajudicial patent enforcement with "scare-the-customer-and-run tactics."¹²¹ But after *EBay*, a patent troll's leverage over an alleged infringer is already reduced, due to the reduced prospect of obtaining an injunction; thus, expanded declaratory judgment jurisdiction for the purpose of deterring patent trolls is no longer quite as justified.

Before *EBay*, there was a strong incentive for possible infringers to use a declaratory judgment to avoid costly injunctions that had the capability to completely shut down a product or business.¹²² Since the *EBay* decision, district courts implementing injunctions under the *EBay* rule have almost universally held that when the patent holder manufactures or sells a product that competes with the accused product, the patent holder can successfully prove irreparable harm. But when the patent holder does not manufacture or sell a competitive product, courts refuse

119. In the four factor test, the plaintiff must show:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

EBay, Inc. v. Mercexchange, L.L.C., 547 U.S. 388, 391 (2006).

120. See Lateef & Stowell, *supra* note 43, at 22.

121. *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1336 n.2 (Fed. Cir. 2007).

122. Lateef & Stowell, *supra* note 43, at 21. "From the perspective of a potential infringer, the Federal Circuit's old rule heavily incentivized settlement and licensing." *Id.*

to recognize any cognizable irreparable harm necessary for an injunction against the accused infringer, the irreparable harm test is not satisfied.¹²³ Thus, the primary factor in determining whether a court will grant an injunction is the plaintiff's status as a market competitor.¹²⁴ By definition, patent trolls do not manufacture products that incorporate their patents—so the *EBay* decision significantly limits the patent troll's scare-the-customer-and-run tactics, because the patent troll can no longer threaten injunctions. Therefore, the policy justification to expand declaratory judgment jurisdiction to level the negotiating table against too powerful patent-holders is again reduced.

Last, the Supreme Court has made it easier for a patent challenger to invalidate a patent by showing obviousness.¹²⁵ In *KSR International Co. v. Teleflex, Inc.*, the Supreme Court narrowly limited the Federal Circuit's "Teaching-Suggestion-Motivation" (TSM) test for when multiple prior art references could be combined to show a patent was invalid as obvious. Instead, the Court established a simpler analysis for determining obviousness, which lowers the hurdle to get a patent declared invalid by permitting a greater range of prior art to be used to prove a patent invalid for obviousness.¹²⁶

123. See Keith Slenkovich, *U.S. Supreme Court Decisions in Ebay, MedImmune, and KSR Deliver Triple Dose of Bad News to Non-Practicing Patent Holders (Aka "Patent Trolls")*, MONDAQ BUSINESS BRIEFING, Sept. 7, 2007, available at <http://www.mondaq.com/article.asp?articleid=52066>. In the short time since the *EBay* decision, courts are reflecting the trend of granting permanent injunctions only when both parties manufacture a competitive product. Several cases exemplify the courts' willingness to grant permanent injunctions when both parties manufacture and sell competitive products. See, e.g., *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 WL 1730112 (E.D. Tex. June 14, 2007); *MGM Well Servs., Inc. v. Mega Lift Sys., L.L.C.*, 505 F. Supp. 2d 359 (S.D. Tex. 2007); *Novozymes v. Genencor Int'l, Inc.*, 474 F. Supp. 2d 592, 596 (D. Del. 2007); *Ortho-McNeil Pharm., Inc. v. Mylan Labs., Inc.*, Nos. CIV A 06-757, CIV A 06-5166, CIV A 04-1689, 2007 WL 869545 (D.N.J. Mar. 20, 2007); *02 Micro Int'l, Ltd. v. Beyond Innovation Tech. Co.*, No. CIV A 2-04-CV-32, 2007 WL 869576 (E.D. Tex. Mar. 21, 2007); *Rosco, Inc. v. Mirror Lite Co.*, No. CV-96-5658, 2006 WL 2844400 (E.D.N.Y. Sept. 29, 2006); *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748, 2006 WL 2385425 (N.D.N.Y. Aug. 15, 2006); *TiVo, Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664, 669 (E.D. Tex. 2006).

124. See Benjamin H. Diessel, *supra* note 44. Diessel argues:

Denying injunctions to plaintiffs who do not compete in the market with their invention yet are willing licensors and granting injunctions to plaintiffs who compete in the market against the defendant are consistent with a rule that requires market competition to obtain a permanent injunction, and thus far courts have followed these practices.

Id. at 318.

125. See *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct., 1745–46 (2007). Non-obviousness is a condition of patentability codified in 35 U.S.C. § 103 (2000). Non-obviousness requires that the patented product be one that a person of ordinary skill in the art would not know how to create given the same materials. See 35 U.S.C. § 103 (2000); *KSR*, 127 S. Ct. at 1740.

126. Under the Federal Circuit's TSM test, "a patent claim is only proved obvious if 'some motivation or suggestion to combine the prior art teachings' can be found in the

The *KSR* decision deters patent holders from engaging in tactics that will likely bring an invalidity suit against any of their patents.¹²⁷ In particular, patent holders whose patents lack commercial success suffer the most because one of the objective indicators of non-obviousness emphasized in *KSR* is commercial success.¹²⁸ Additionally, a patent holder most often risks more during a declaratory judgment action than an alleged patent infringer.¹²⁹ If a patent holder loses an invalidity suit, the ability to assert that patent's rights against all competitors is lost.¹³⁰ Therefore, *KSR* empowers the declaratory judgment plaintiff with a powerful weapon against patent holders in negotiation.

The *KSR* decision risks upsetting the delicate negotiation balance between a patent holder and potential patent infringer. During a license negotiation, a patent holder's leverage is dependent upon the validity of the patents being offered.¹³¹ Likewise, a potential patent infringer must weigh the cost of invalidating the offered patent against the cost of a

prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art." *KSR*, 127 S. Ct. at 1734 (citing *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308, 1323–24 (Fed. Cir. 1999)). Under *KSR*, to determine obviousness the court questions "whether . . . a designer of ordinary skill, facing the wide range of needs created by developments in the field of endeavor, would have" thought of the patent as obvious. *KSR*, 127 S. Ct. at 1744.

127. Because the *KSR* decision lowers the bar for obviousness, "[p]arties charged with infringement will have a stronger legal basis for invalidating patents, particularly on summary judgment. Thus, the decision decreases the impact of threatened patent suits, especially when weak patents are at issue." Lateef & Stowell, *supra* note 43, at 22.

128. "Against this background the obviousness or nonobviousness of the subject matter is determined. Such secondary considerations as commercial success, long felt but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented." *KSR*, 127 S. Ct. at 1734 (quoting *Graham v. John Deere Co.*, 383 U.S. 1, 17–18 (1966)).

129. Jason Rantanen argues:

[T]he only positive payoff available to the patentee through litigation is if there is a finding of no invalidity and infringement. In contrast, the infringer will receive a positive payoff either if the patent is declared invalid, or if they are found not to infringe. This game also demonstrates why the patent troll may be disincentivized to enter the litigation. If the patentee wins, the payoff is only modest. If the patentee loses, however, the penalty ranges from moderately severe to extremely severe, depending on the form of the loss.

Rantanen, *supra* note 43, at 180.

130. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 329 (1971) (holding that a patent holder is estopped from asserting the validity of a patent that has been held to be invalid in a prior federal court suit where the patent holder had full and fair opportunity to litigate the validity of the patent).

131. Rantanen, *supra* note 43, at 195–96.

potential license for the patent.¹³² Therefore, when the difficulty of invalidating a patent is reduced, the potential patent infringer can take advantage of the patent holder's uncertainty over the validity of the patent. Because a declaratory judgment allows the potential patent infringer to challenge the patent being offered, the threat of declaratory judgment becomes a stronger tool that potential infringers can use to gain leverage in licensing negotiations. Therefore, by adding a looser declaratory judgment jurisdiction to an already lower burden to invalidate a patent, the delicate balance of a license negotiation shifts too far to the advantage of the potential patent infringer. As a result, the patent holder is once again put in the unfavorable scenario of pursuing a license and risking a declaration of invalidity, or not pursuing a license and being denied the benefits associated with holding a patent.

In sum, in a situation where a patent holder wants to flex a patent in order to get a license, the patent holder must consider several negative factors: the potential that a willful infringement claim will immediately subject the holder to a declaratory judgment suit, the reduced ability to get an injunction, and the likelihood of an invalidity claim based on the obviousness of the patent. All of these factors deter a patent holder from attempting to victimize competitors through extrajudicial patent enforcement, which in turn reduces the need for a more expansive declaratory judgment jurisdiction and tips the desired policy balance enough to possibly even jeopardize a patent holder's ability to fairly license a patent.¹³³

V. PROPOSING A NEW DECLARATORY JUDGMENT TEST

As apparent from the discussion above, the current all circumstances standard for declaratory judgment jurisdiction in patent cases, as applied in the Federal Circuit, is incongruent with the policy rationale of the Declaratory Judgment Act. While the standard is safely within Article III's constitutional bounds, it does not account for current business realities. The Declaratory Judgment Act was passed to maintain a balance between the potential licensee and the patent holder by giving the potential licensee a weapon to counteract a patent holder's attempted extra-judicial enforcement of the holder's patent.¹³⁴ This balance is achieved through the

132. *Id.* at 195–97.

133. *See* *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1336 n.2 (Fed. Cir. 2007) (stating “[b]efore declaratory judgment provisions, competitors were ‘victimized’ by patent owners who engaged in ‘extrajudicial patent enforcement . . .’”).

134. The Declaratory Judgment Act “serves the policies underlying the patent laws by enabling a test of the validity and infringement of patents that are possibly being used only as what Learned Hand, in *Bresnick v. United States Vitamin Corp.*, 139 F.2d 239,

action of two justiciability restraints over declaratory judgment jurisdiction: constitutional and discretionary considerations.¹³⁵ The Supreme Court's decision in *MedImmune* and the Federal Circuit's decision in *SanDisk* incorporate the constitutional bounds of declaratory judgment jurisdiction, but unduly limit the discretionary considerations inherent within the Declaratory Judgment Act.

The Declaratory Judgment Act articulates a two step jurisdictional analysis: First, the court determines whether the lawsuit satisfies an Article III case or controversy; second, the court weighs the relevant prudential considerations to determine the appropriateness of exercising jurisdiction.¹³⁶ As explained in *SanDisk*, the first step of this analysis—the constitutional requirement—is satisfied whenever the declaratory judgment plaintiff is put in position of “either pursuing arguably illegal behavior or abandoning that which he claims a right to do.”¹³⁷ However, the Federal Circuit stops the jurisdictional analysis here and has all but eliminated a discretionary element unless there is some other pending litigation.¹³⁸

Specifically, the Federal Circuit has limited a trial judge's discretionary analysis to the convenience factors associated with 28 U.S.C. § 1404(a).¹³⁹ Under a § 1404(a) analysis, a judge may use his discretion to deny jurisdiction only in the interests of justice or expediency.¹⁴⁰ Unfortunately,

242 (2d Cir. 1943), called ‘scarecrows.’” *Arrowhead Indus. Water, Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 735 n.4 (Fed. Cir. 1988).

135. “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 . . .” 28 U.S.C. § 2201 (2000). Declaratory judgment is a negative right. It does not have to be granted to the full extent as provided by the Constitution, but it *may* be granted to the full extent. The constitutional considerations of this Act make sure that jurisdiction stays within the bounds of Article III, while the discretionary considerations give the courts the ability to limit jurisdiction when it would be most prudent to do so. Lisa A. Dolak, *Power or Prudence: Toward a Better Standard for Evaluating Patent Litigants' Access to the Declaratory Judgment Remedy*, 41 U.S.F. L. REV. 407, 424–25 (2007).

136. Dolak, *supra* note 135, at 424.

137. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1381 (Fed. Cir. 2007).

138. *See Cellco P'ship v. Broadcom Corp.*, 227 F. App'x 889, 890 (Fed. Cir. 2007).

139. *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 904 (Fed. Cir. 2008). The § 1404(a) convenience factors include: a party's intention to preempt another's infringement suit, convenience and availability of the witnesses, the absence of jurisdiction over all necessary or desirable parties, and the possibility of consolidation with related litigation. *Id.*

140. *Id.*

this interpretation of the discretionary element in the Declaratory Judgment Act is too limited because it seeks only to quell forum shopping instead of narrowing declaratory judgment availability.¹⁴¹ The appropriate discretionary analysis must account for the party’s business realities and the existence of two contrary classes of patent holders—patent trolls and quiescent patent holders.¹⁴²

This Comment advocates appropriately expanding the discretionary power granted to district court judges in the Declaratory Judgment Act, to better refine and narrow declaratory judgment jurisdiction in patent cases. Using discretion, district courts should analyze the appropriateness of a declaratory judgment on a case-by-case basis, and favor granting declaratory judgment actions against patent trolls but not quiescent patent holders. In applying discretionary considerations to a declaratory judgment suit, this Comment recommends three relevant inquiries a district court should consider that relate to equity and policy: (A) the patent holder’s economic function and stance; (B) the immediacy of the case; and (C) a patent holder’s willingness to negotiate and end the controversy out of court.

A. Patent Holder’s Economic Function and Stance

The Supreme Court is already beginning to recognize the different economic functions of a quiescent patent holder and an aggressive patent owner.¹⁴³ In *EBay, Inc. v. MercExchange, L.L.C.*, Justice Kennedy’s concurrence recognized the difference between patent trolls and regular patent owners and even went as far as to say that this recognition should bear upon the outcome of a case:

141. *Id.* at 905. “Eventually, robust consideration of these factors will reduce the incentives for a race to the courthouse because both parties will realize that the case will be heard or transferred to the most convenient or suitable forum.” *Id.*

142. The term *quiescent patent holder* was coined in *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988). In this case, the Federal Circuit used the term to describe patent holding defendants that do nothing to cause reasonable apprehension. *Id.* The court seemed to hint that quiescent status was determined by the activities or inactivity of the patent holder. Did they actively litigate their patents or intend to litigate their patents? *Id.* For the purposes of this Article, a quiescent patent holder includes good faith licensors who do not act in troll-like behavior. This would include: inventors, for whom going into the market themselves is simply not economical or feasible, and thus who instead decide to license; savvy businessmen, who in good faith are in the business of buying patent properties in order to license them to others to develop at fair and reasonable prices; and, of course, typical, manufacturing, good faith licensors.

143. See *EBay, Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.¹⁴⁴

Justice Kennedy was joined by Justice Stevens, Justice Souter, and Justice Breyer. Thus, four out of five justices already believe that the nature of the patent being enforced and the patent holder's present condition should carry weight in judicial decisionmaking. However, Justice Roberts's concurrence in *EBay*, joined by Justice Scalia and Justice Ginsberg, acknowledged the precedent of equitable discretion by the courts, but would limit its reach, and did not expressly recognize a need to expand discretion to encompass patent trolls.¹⁴⁵

In declaratory judgment cases, the only way courts can distinguish between aggressive patent trolls and quiescent patent holders is through the application of prudential considerations. One district court decision, keen on the use of discretion, explained:

The controversy thus becomes ripe for adjudication as soon as the initial threat of patent litigation is made; but so long as one party reasonably relies on the forbearance of the other during subsequent negotiations, there may be equitable and public policy reasons for discretionary dismissal of a declaratory action when one party unfairly takes advantage of that forbearance to secure a more convenient forum.¹⁴⁶

Although there have as of yet been no cases that deny a declaratory judgment based solely on the patent holder's economic function,¹⁴⁷ there have been several district court decisions that evaluated the aggressiveness of the patent holder's stance when deciding to exercise declaratory judgment jurisdiction.¹⁴⁸ In *Bridgelux, Inc. v. Cree, Inc.*, Cree was a

144. *Id.*

145. “[T]here is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate. ‘Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.’” *Id.* at 395 (Roberts, J., concurring) (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 140 (2005)).

146. *Agridyne Techs., Inc. v. W.R. Grace & Co.*, 863 F. Supp. 1522, 1527 n.6 (D. Utah 1994).

147. The Author performed the following Westlaw search on July 6, 2008: (*economic function* or *economic stance* or *economic condition*) and *declaratory judgment*.

148. See, e.g., *BridgeLux, Inc. v. Cree, Inc.*, No. C 06-6495 PJH, 2007 WL 2022024 (N.D. Cal. July 9, 2007); *Cimline, Inc. v. Crafcro, Inc.*, No. 07-3997, 2007 WL 4591957 (D. Minn. Dec. 28, 2007); *Monolithic Power Sys., Inc. v. 02 Micro Int'l Ltd.*,

competitor of Bridgelux, and had made statements reflecting the company's "intention to defend its technology."¹⁴⁹ However, Cree had never accused Bridgelux of infringing any of its patents.¹⁵⁰ Noting the normalcy of Cree's actions and stating that "the same could be said of many patent holders," the district court concluded that there was not "sufficient immediacy and reality to warrant the issuance of a declaratory judgment."¹⁵¹

Similarly, in *Prasco, L.L.C. v. Medicis Pharmaceutical Corp.*, the district court looked at prior litigation between the parties to determine Medicis's litigation tendencies and whether or not they have a history of aggressively pushing licensing deals.¹⁵² Although there was prior litigation between the parties, because this litigation involved a different product and a different patent, the court could not "conclude that the [other] litigation demonstrates any possibility of future litigation."¹⁵³ Likewise, Medicis had not initiated discussions regarding licensing or made any statements of infringement; therefore, under the totality of the circumstances, declaratory judgment jurisdiction was denied.¹⁵⁴

This analysis, however, is a double-edged sword and cuts against patent holders who are recklessly aggressive in asserting their patent rights.¹⁵⁵ In *Monolithic Power Systems, Inc. v. 02 Micro International Ltd.*, the court acknowledged that 02 Micro had sued numerous parties including MPS for patent infringement.¹⁵⁶ From this evidence, the court concluded that "such suits indicate an 'assertion of rights and a willingness to pursue litigation' regarding the patent-in-suit."¹⁵⁷ Therefore, the district court concluded that under all the circumstances, including the past aggression, there was substantial controversy to satisfy the issuance of a declaratory judgment.¹⁵⁸

These three cases correctly balance the constitutional and prudential considerations for declaratory judgment jurisdiction in patent infringement

No. C 07-2363 CW, 2007 U.S. Dist. LEXIS 61961 (N.D. Cal. Aug. 13, 2007); *Prasco, L.L.C. v. Medicis Pharm. Corp.*, No. 1:06cv313, 2007 WL 1974951 (S.D. Ohio July 3, 2007).

149. *BridgeLux*, 2007 WL 2022024, at *7.

150. *Id.* at *9.

151. *Id.*

152. *Prasco*, 2007 WL 1974951, at *1.

153. *Id.* at *1.

154. *Id.* at *3.

155. *See Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1344–45 (Fed. Cir. 2007) (noting that related litigation involving the same technology and the same parties weighs heavily in favor of establishing a justiciable controversy). *See also Cimline, Inc. v. Crafcro, Inc.*, No. 07-3997, 2007 WL 4591957 (D. Minn. Dec. 28, 2007).

156. *Monolithic Power Sys., Inc. v. 02 Micro Int'l Ltd.*, No. C 07-2363 CW, 2007 U.S. Dist. LEXIS 61961 (N.D. Cal. Aug. 13, 2007).

157. *Id.* at *9–10.

158. *Id.* at *10.

cases. Because all three cases came after the Federal Circuit's decision in *SanDisk*, they all abide by *SanDisk*'s precedent with respect to the permissible constitutional limits of justiciability.¹⁵⁹ However, they interpret the *SanDisk* holding in light of the discretionary prudential concerns inherent within declaratory judgment jurisdiction. These concerns illustrate a common underlying rationale—namely, that a declaratory judgment defendant's prior aggressive action towards the declaratory judgment plaintiff or other competitors is representative of the defendant's willingness and preparedness to file an infringement suit.¹⁶⁰ This rationale is optimal for helping to “police the sometimes subtle line between cases in which the parties have adverse interests and cases in which those adverse interests have ripened into a dispute that may properly be deemed a controversy.”¹⁶¹

B. Immediacy of the Case

A second circumstantial factor that courts should evaluate to determine the appropriateness of a declaratory judgment suit is the immediacy of the case. In *MedImmune*, the Supreme Court held that the case or controversy must be of “sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”¹⁶² This Comment advocates using prudential circumstances, not limited solely to strict constitutional lines, to determine the sufficient immediacy of a case or controversy. The following cases illustrate this approach.

In *Benitec Australia, Ltd. v. Nucleonics, Inc.*, the Federal Circuit utilized its discretionary power to withhold declaratory judgment jurisdiction due to a lack of sufficient immediacy. As previously discussed, Benitec brought a patent infringement action against Nucleonics who counterclaimed seeking a declaratory judgment of invalidity and unenforceability.¹⁶³ Following a Supreme Court decision in another case, Benitec withdrew its claims, covenanted not to sue, and filed a motion to dismiss Nucleonics's

159. The Federal Circuit found a justiciable controversy in *SanDisk* because the patentee's conduct represented a willingness and preparedness to pursue litigation. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1382–83 (Fed. Cir. 2007).

160. See *Kos Pharm., Inc. v. Barr Labs., Inc.*, 242 F. Supp. 2d 311, 315 (S.D.N.Y. 2003) (holding that a history of patent litigation between the parties can provide a jurisdictional basis).

161. *Teva Pharm. USA, Inc. v. Pfizer, Inc.*, 395 F.3d 1324, 1336 (Fed. Cir. 2005).

162. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007).

163. *Benitec Austl., Ltd., v. Nucleonics, Inc.*, 495 F.3d 1340, 1342 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2055 (2008).

declaratory judgment action.¹⁶⁴ Nucleonics argued that although the current issue may have been moot because of the covenant not to sue, the company had plans to extend its research, and such an extension would potentially infringe upon Benitec's patents.¹⁶⁵ The Federal Circuit held that Nucleonics failed to show that its discussions regarding expansion into additional products met the immediacy and reality requirement of *MedImmune*.¹⁶⁶ In his dissenting opinion, Judge Dyk advocated the application of a pure constitutional standard and admonished the court's evaluation of discretionary prudential circumstances in this case.¹⁶⁷ Judge Dyk wrote:

While I agree with the majority that the future controversy would not satisfy the sufficient immediacy and reality test for the filing of a new suit today, Benitec has made no effort to demonstrate that the controversy between the parties will not recur. . . . Benitec has not satisfied its burden to eliminate any future controversy concerning infringement of the '099 patent.¹⁶⁸

The constitutional considerations in this case involved whether a controversy still existed, in the sense that Benitec proclaimed a right that conflicted with the rights Nucleonics proclaimed it had. Judge Dyk correctly stated that a future controversy of conflicting rights between the two parties might have credibly existed.

However, the majority was correct in using its discretion to withhold declaratory judgment jurisdiction over this potential future controversy. As explained by Judge Bryson, who wrote the *SanDisk* concurrence, “[I]t 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.”¹⁶⁹ Parties in negotiation and licensing disputes are always going to have potentially adverse economic and legal relations with respect to patent property rights.¹⁷⁰ The subtle line, however, between adverse legal interests and ripened adverse legal interests that have turned into a case or controversy is best determined by the discretion of the district court judge. Additionally, this use of discretion is appropriately aligned with public policy because it comports with the essential leeway judges need to withhold ruling on

164. *Id.* at 1343.

165. *Id.* at 1348.

166. *Id.*

167. *Id.* at 1350 (Dyk, J., dissenting).

168. *Id.* at 1354 (Dyk, J., dissenting).

169. *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996).

170. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1384 (Fed. Cir. 2007) (Bryson, J., concurring); *EMC Corp.*, 89 F.3d at 811.

issues that have a strong potential to be resolved out of court before they become urgent.¹⁷¹

The district court in *Rite Aid Corp. v. Purdue Pharma, L.P.* invoked similar discretion. Rite Aid received a letter from Purdue stating its concern that Rite Aid was selling infringing generic versions of Purdue's patented OxyContin.¹⁷² Rite Aid continued to sell the alleged infringing generic version of OxyContin and filed a declaratory judgment against Purdue seeking invalidity of Purdue's OxyContin patents.¹⁷³ Despite constitutional justification for declaratory judgment jurisdiction in this dispute, prudential considerations deterred the court from exercising declaratory judgment jurisdiction. No actual controversy existed between Purdue and Rite Aid because companies similarly situated to Rite Aid settled with Purdue, rendering the potential infringement too remote. The court explained that "[b]ecause the settlements in *Endo*, *Teva*, and *Impax* have removed all unauthorized generic OxyContin from the market and released third-party re-sellers from patent-infringement liability, there is no 'actual controversy'"¹⁷⁴ Rite Aid argued that these settlements did not unequivocally bar Purdue from filing a patent infringement suit because there existed certain clauses in the settlements, which, if satisfied, would expose Rite Aid to patent infringement liability.¹⁷⁵ The court concluded, however, that because these clauses were too remote in time and only a mere possibility, the dispute lacked sufficient immediacy to

171. See *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051 (Fed. Cir. 1995) (holding that the patentee's attempt to conduct license negotiations was a commercial activity that generally does not turn into a litigation controversy until negotiations have broken down). Also, district court judges are in the best position to determine if the patentee's negotiation tactics are merely a pretext designed to avoid a declaratory judgment suit or if the declaratory judgment suit was a pretext for more negotiation leverage. An example of this can be seen in the Federal Circuit's *EMC* case:

The day after the [declaratory judgment] complaint was filed, EMC's senior intellectual property counsel called Norand's outside patent counsel and explained that the declaratory judgment complaint had been filed as 'merely a defensive step' Under these circumstances, the district court could properly view the declaratory judgment complaint as a tactical measure filed in order to improve EMC's posture in the ongoing negotiations—not a purpose that the Declaratory Judgment Act was designed to serve.

EMC Corp., 89 F.3d at 815.

172. *Rite Aid Corp. v. Purdue Pharma, L.P.*, No. 06 Civ. 15304, 2007 WL 2388912, at *5 (S.D.N.Y. Aug. 21, 2007).

173. *Id.* at *2.

174. *Id.* at *4.

175. *Id.* at *4.

constitute an actual controversy.¹⁷⁶ This decision conveys an important underlying message: Even if a genuine dispute exists, as here regarding the rights to sell generic OxyContin, the court will favor negotiation and settlement over the admission of declaratory judgment jurisdiction.

C. Patent Holder's Willingness to Negotiate Outside of Court

This leads to the third factor judges should consider when evaluating declaratory judgment jurisdiction—the parties' willingness to negotiate and settle. Prior to 2007, the Federal Circuit generally deemed the patent holder's willingness to engage in negotiation as negating any reasonable apprehension of suit, even in the absence of a covenant not to sue.¹⁷⁷ Likewise, the Federal Circuit also found ongoing negotiations to lessen the need for judicial relief.¹⁷⁸ Encouraging negotiation over judicial remedies conforms with public policy because negotiations are more practical and commercially efficient.¹⁷⁹ Additionally, negotiations promote the judicial efficiency that Congress sought in the Declaratory

176. *Id.* at *5. The Federal Circuit's recent decision in *CAT Tech L.L.C. v. Tubemaster, Inc.*, 528 F.3d 871 (Fed. Cir. 2008), reinforces the soundness of this judgment. In this case, the court stressed the dispositive nature that immediacy of a case has upon declaratory judgment jurisdiction. *Id.* at 880. The court explained, "the greater the length of time before potentially infringing activity is expected to occur, 'the more likely the case lacks the requisite immediacy.'" *Id.* at 881.

177. *Shell Oil Co. v. Amoco Corp.*, 970 F.2d 885, 889 (Fed. Cir. 1992). The court explained:

Amoco took no action against Shell; it made no assertive contact concerning the patent; it issued no threats. Shell, in an exercise of prudent good business citizenship, approached Amoco, stating that it intended to embark on a course of conduct, recognizing, but disagreeing, that Amoco's patent might be considered to dominate its work. Rather than wait to be caught in a possibly infringing posture, it identified its proposed activity to Amoco and sought either confirmation of its views or a license. Such conduct is praiseworthy.

Id. Prior to *SanDisk*, federal courts have, at a minimum, considered settlement negotiations a relevant, but not dispositive, factor in determining declaratory judgment jurisdiction. *See Elec. for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1344 (Fed. Cir. 2005); *see also Genender Intern, Inc. v. Skagen Designs, Ltd.*, No. 07 C 5993, 2008 WL 2521894, at *3 (N.D. Ill. April 14, 2008) (providing a brief overview of current case law regarding the effect of settlement negotiations on declaratory judgment jurisdiction).

178. The Federal Circuit noted that:

While a court may conclude that ongoing negotiations do not negate the presence of a controversy for jurisdictional purposes, the court may nonetheless find, in deciding whether to hear the declaratory judgment action, that the need for judicial relief is not as compelling as in cases in which there is no real prospect of non-judicial resolution of the dispute.

EMC Corp. v. Norand Corp., 89 F.3d 807, 814 (Fed. Cir. 1996).

179. "[T]he practical effect of denying access to the courts is the concern of the Declaratory Judgment Act When there are proposed or ongoing license negotiations, a litigation controversy normally does not arise until the negotiations have broken down." *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053 (Fed. Cir. 1995).

Judgment Act.¹⁸⁰ Unfortunately, contrary to the goals in the Declaratory Judgment Act, in *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*, the Federal Circuit directly overruled a district court's declaratory judgment dismissal that was grounded in prudential concerns.¹⁸¹ The district court had properly considered the suit a mere intimidation tactic by the declaratory judgment plaintiff to gain leverage in licensing negotiations.¹⁸² Citing insufficient evidence, the Federal Circuit did not directly hold that this type of discretionary dismissal is never allowed.¹⁸³

Since *SanDisk*, there has been only one federal court holding denying declaratory judgment jurisdiction based upon a plaintiff's shrewd litigation tactics.¹⁸⁴ In *Innovative Therapies, Inc. v. Kinetic Concepts, Inc.*,¹⁸⁵ the district judge utilized his discretion to deny declaratory judgment jurisdiction despite an alleged affirmative act that likely created an Article III case or controversy as understood under the *MedImmune* standard.¹⁸⁶ The district judge reasoned that the declaratory judgment plaintiff's sly pre-litigation behavior and unwillingness to "make its concerns a matter of record pre-suit" spoiled the objectives behind the Declaratory Judgment Act.¹⁸⁷ The use of discretion in this case exemplifies, albeit in a narrow paradigm, the appropriate reasoning process judges should follow when deciding whether to use their discretion to deny declaratory judgment jurisdiction.

In sum, this Comment proposes a new test that encourages judges to review declaratory judgment jurisdiction in patent cases more strictly, by

180. Russell B. Hill, *Should Anticipation Kill Application of the Declaratory Judgment Act?*, 26 T. JEFFERSON L. REV. 239, 255 (2004).

If a court dismisses a declaratory action merely because an affirmative lawsuit is subsequently filed, the court negates the purpose of the Declaratory Judgment Act. . . . In addition, unbridled application of the anticipatory lawsuit exception gives unfair leverage to the putative plaintiff in negotiations, allowing the plaintiff to keep a cloud over the defendant's business and future plans.

Id.

181. *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1281 (Fed. Cir. 2007).

182. *Id.*

183. *Id.* at 1289.

184. The Author performed the following Westlaw search on July 6, 2008: *negotiate!* and *dismiss /s declaratory judgment* and *patent* and *da(aft 12/31/2006)*.

185. *Innovative Therapies, Inc. v. Kinetic Concepts, Inc.*, 07-589-SLR/LPS, 2008 WL 4809104 (D. Del. Nov 5, 2008).

186. *Id.* at *2.

187. *Id.* The declaratory judgment plaintiff's sly behavior includes "initiating telephone conversations to employees of the patentee who were not in decision-making positions and who were not informed of the real purpose behind the conversations." *Id.*

evaluating three major prudential considerations. First, judges should evaluate the declaratory judgment defendant's economic function and position. If the declaratory judgment defendant is a quiescent patent holder, then judges should be less willing to grant a declaratory judgment against such defendants. Second, judges should continue to require that a case or controversy be of sufficient immediacy and reality. Judges should not follow Judge Dyk's overly broad interpretation of a possible future controversy, but instead should analyze only the controversies set forth in the facts alleged. If a controversy is too far and distant, then judges should deny declaratory judgment jurisdiction. Third, judges should be more sympathetic to declaratory judgment defendants who are actively willing to negotiate. If negotiations are in progress and a declaratory judgment is filed in an effort to gain more negotiating leverage, then judges should use their discretionary power to deny jurisdiction.

VI. CONCLUSION

When determining declaratory judgment jurisdiction, district court judges should exercise their discretion by considering three factors: the patent holder's economic function and stance, the immediacy of the case, and the patent holder's willingness to negotiate. These three factors would best serve the public policy espoused in the Declaratory Judgment Act by restoring the balance that the *MedImmune* and *SanDisk* decisions upset between patent holders and their potential licensees. As a result, parties would be encouraged to negotiate a licensing dispute out of court, and declaratory judgment jurisdiction would be limited to the patent cases it was originally intended to resolve. In other words, the pink elephant would disappear, and opposing parties would return to the negotiation table seeing eye to eye.