No. 05-608

IN THE
# Supreme Court of the United States

MEDIMMUNE, INC.,

*Petitioner,*

v.

GENENTECH, INC., *et al.,*

*Respondents.*

**On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit**

# BRIEF FOR *AMICI CURIAE* QUALCOMM INCORPORATED AND INTERDIGITAL COMMUNICATIONS CORPORATION IN SUPPORT OF RESPONDENTS

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## INTERESTS OF *AMICI CURIAE*[1]

*Amici curiae* QUALCOMM Incorporated and InterDigital Communications Corporation are global leaders in telecommunications technology. They each develop, own, and frequently license patented technology. Between them, they have negotiated thousands of licenses to patented technology, typically based upon the reasonable assumption that a patent licensee cannot at the same time hold them to the terms of a contractual license and challenge the contract's premise. They are concerned that a contrary rule will undermine settled expectations, stifle innovation, and inhibit further licensing.

## SUMMARY OF ARGUMENT

There is little *amici* could add to the thorough defense of the dismissal as a matter of Article III jurisdiction provided by both Genentech and City of Hope. But, as both Genentech and City of Hope make clear, that is not the only ground on which this Court can affirm the judgment. The dismissal can be affirmed also on the alternative ground that MedImmune, as a licensee in good standing, is equitably estopped from challenging the validity of the patent it is licensing.

A business that wishes to use a patented invention without a license faces hard choices and substantial burdens if it believes that the patent is invalid. So, too, does a business that has licensed the invention and is contemplating whether to repudiate the license and challenge the patent. Both face the potential of an injunction and treble damages if

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[1] Pursuant to Supreme Court Rule 37.6, *amici* confirm that no counsel for a party authored this brief in whole or in part and no person or entity other than *amici* or its counsel made a monetary contribution to the preparation or submission of this brief. Letters from the parties consenting to the filing of this brief have been lodged with the Clerk of the Court.

they infringe the patent. Neither has the benefit of a fixed royalty rate guaranteed regardless of the success of their challenge. In contrast, a licensee who sues, but retains the protection of the license, escapes all the burdens and hard choices. Such a licensee enjoys a fixed royalty and immunity from injunctive relief, while still pursuing its challenge to the very premise of the license—that the licensor has a valid patent.

That is not fair, especially to licensors who negotiated licenses in the past based upon the premise—which has been clear law in the Federal Circuit for some time—that the licensee cannot retain the benefits of a license and sue at the same time.

That is why, for hundreds of years, equitable principles have prohibited exactly this sort of duplicity. The rule has long been that a party to a contract in MedImmune's position cannot challenge the validity of any underlying property interest without relinquishing the benefits conveyed. For well over a century, this Court has applied this rule to all sorts of property rights, including intellectual property.

This Court's opinion in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), did nothing to alter that fundamental equitable rule. *Lear* involved a licensee who *had* repudiated the license, and had given up all the benefits under the contract. In that case, this Court rejected only the view—which earlier cases had accepted—that once a licensee takes a license, it may *never* sue to challenge the validity of the patent. The principles articulated in *Lear* compel the opposite conclusion when applied to a licensee who challenges the premise of the license but insists on retaining the benefits. Whereas *Lear* was concerned about permanently muzzling parties with the greatest interest in challenging invalid patents, that concern is not implicated here. Under the traditional equitable rule, a licensee is not permanently barred from challenging the validity of the patent; it can always make the decision to forego the benefits of the license in order to sue. To be sure, there are often consequences to such a decision—a potential injunction and damages, for example. But the Patent Act, itself, imposes those consequences, and it imposes them evenhandedly on infringers who once secured licenses and those who never did.

To allow suits like this one to proceed would be against the public interest. If patent owners cannot be assured of patent peace when licensing their inventions, they will be less inclined to license, and at a minimum will insist on higher royalty rates. Moreover, allowing suits of this sort to proceed will only encourage more litigation, and particularly more meritless litigation, for licensees will have every incentive to sue, on any patent theory, so long as the expected benefits exceed the cost of litigation.

Because the Court of Appeals' decision is infused with equitable considerations, and because there is no question, under preexisting law, that the Court of Appeals would reach the same conclusion on this alternative ground, this Court should reach this argument if it disagrees with the jurisdictional basis of the opinion below. Licensors and licensees, alike, need to know sooner rather than later whether this kind of suit is permissible.

## ARGUMENT

### I. IT IS UNFAIR TO ALLOW A PATENT LICENSEE TO ENJOY THE BENEFITS OF A LICENSE WHILE CHALLENGING THE VERY PREMISE OF THE LICENSE.

Though couched in the drab language of jurisdiction, the principle at stake in this case is a matter of simple fairness. The equitable principle is so well settled, so pervasive, that it comes petrified in proverb. Its provenance dates back nearly five centuries, when it was rendered, "Wolde ye bothe eate your cake, and haue your cake?" John Heywood, *A Dialogue Conteynyng Prouerbes & Epigrammes* 96 (John S. Farmer, ed., Barnes & Noble 1966)

(1562). Writers from Cervantes and Keats to Bob Dylan and Paula Abdul have immortalized it, as it mutated from the once pervasive, "You cannot eat your cake and have it too," John Keats, *On Fame* (1819), *in The Poetical Works of Keats* 142 (Paul D. Sheats, ed., Houghton Mifflin 1975) (1899); Miguel de Cervantes Saavedra, *Don Quixote*, vol. II at 312 (P.A. Motteux trans., Everyman's Library 1991) (1615), to the modern (if oblique), "you can't have your cake and eat it too," Paula Abdul, *One or the Other, on Forever Your Girl* (Virgin Records 1988); Elvis Costello, *Town Where Time Stood Still, on Punch the Clock* (Rykodisc 1995) (1983). *Contra* Bob Dylan, *Lay, Lady, Lay, on Nashville Skyline* (Columbia Records 1969) ("You can have your cake and eat it, too.").

However rendered, the precept is as true as it is trite: You cannot simultaneously take two diametrical positions and exploit the benefits of both stances. It's not fair. From boardrooms, to courtrooms, to school yards, social interactions of all forms demand that we make choices, often difficult choices—and live with their consequences.

That principle lies at the heart of this case. On the one hand, no one questions the freedom of a patent licensee to repudiate the contract and, in derogation of its terms, challenge the validity of the very patent on which the license is premised. This Court guaranteed licensees that freedom in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). Conversely, no one questions the right of a licensee to adhere to the contract, and seek the protection of its terms. This case, however, is about whether a licensee can take both positions simultaneously: whether it can act in derogation of the contract while clinging to the contract's benefits. This case is about whether you can have your contract and defeat it, too.

### A. A Licensee Who Sues Without Repudiating the License Avoids All Risks and Burdens Faced By More Scrupulous Businesses.

To appreciate MedImmune's posture, imagine three companies—Nolicense Inc., Renounce Co., and Licensue Co.—all eager to use a patented invention owned by an innovator, say, Genentech. Nolicense Inc. does not secure a license, intending instead to challenge the patent's validity. Renounce Co. secures a license, but repudiates it to challenge the patent. Licensue Co.—like MedImmune—secures a license, but then challenges the patent without repudiating the contract. The first two, whose current stances are internally consistent, face tough choices and serious risks. The latter, alone, takes contradictory positions, and, if permitted to do so, gets a free pass with no burdens, no risks, and no dilemmas.

***The non-licensee's quandary.*** If Nolicense Inc. uses the patented invention without securing a license, Genentech can demand that it cease using the invention. Nolicense Inc. then confronts a quandary: resist or desist. If Nolicense Inc. resists, Genentech can file an infringement action and seek injunctive relief. The district court will likely issue an injunction, unless Nolicense Inc. succeeds in demonstrating that the patent is invalid or unenforceable or the use is non-infringing.[2] *See eBay, Inc. v. MercExchange L.L.C.*, 126 S. Ct. 1837, 1839 (2006); 35 U.S.C. § 283 (2000). And preliminary injunctive relief is available against Nolicense Inc., if Genentech can demonstrate it is likely to succeed on the merits. Beyond that, Nolicense Inc. faces the prospect of damages for infringement, which (especially given the threat

[2] For simplicity, this brief will refer throughout to challenges based on invalidity, and presume the principles developed here apply with equal force whether the legal argument against the patent owner is premised on validity, enforceability, or scope of the patent (i.e., non-infringement).

of treble damages) will almost certainly exceed what it would have paid had it negotiated a royalty with Genentech in the first place. 35 U.S.C. § 284 (damages must be "adequate to compensate for the infringement, but in no event less than a reasonable royalty . . . together with interest and costs as fixed by the court").

Nolicense Inc.'s second option is to desist from using the patented invention and file a declaratory judgment action challenging the patent's validity. Here, Nolicense Inc. does not face the threat of an injunction or treble damages, but only because it has chosen to forego the business advantage of using the invention while the litigation sorts out the parties' respective rights.

At the end of the day, under either scenario, if Nolicense Inc. is found to be wrong on the merits, it will have a price to pay for fruitlessly attacking Genentech's patent. Genentech may choose not to grant a license to Nolicense Inc., or if it does, it may set the price to include a litigation premium. No patent owner in Genentech's position would offer Nolicense Inc. the same royalty it would have offered had Nolicense Inc. embarked on a non-adversarial license negotiation from the start, instead of suing or inviting a litigation by infringing.

***The repudiating licensee's dilemma.*** Renounce Co. takes a different route but ultimately faces the same hard choices as Nolicense Inc. It secures a license from Genentech after negotiating a suitable royalty. It then has second thoughts, and challenges the premise of the contract—that Genentech has a valid and enforceable patent and that Renounce Co.'s use would infringe that patent. To do so, it renounces the contract, and stops paying royalties. Genentech, obviously, will expect and demand that Renounce Co. stop using the patented invention.

At this point, Renounce Co. faces the same resist-or-desist dilemma as Nolicense Inc., with the same ramifications. If Renounce Co. continues to use the invention as it did while the license was operative, Genentech can seek preliminary and permanent injunctive relief and assert claims for treble damages as well. *See Cordis Corp. v. Medtronic, Inc.*, 780 F.2d 991, 995 (Fed. Cir. 1985) ("At present, plaintiffs already have the option of withholding royalties and thereby breaching the licensing agreement; of course, they would then run the risk of an injunction if they should lose on the merits." (quoting *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 188 (2d Cir. 1977)). Renounce Co. can avoid these unpleasant consequences only by desisting from any further use of the invention, though its business might suffer from such a voluntary choice.

Either way, Renounce Co., like Nolicense Inc., is taking a calculated risk. If it does not prevail on its bid to invalidate the underlying patent, Genentech might respond by refusing to grant another license to a party that has already renounced one contract. If Genentech does grant a license, it will undoubtedly decline to offer Renounce Co. the same price it negotiated before Renounce Co. reneged and sued. Genentech will demand a litigation premium.

***Free pass for the licensee in good standing.*** Licensue Co. is shrewder than both Nolicense Inc. and Renounce Co. Discomfited with the difficult choices, burdens, and risks the other two companies face, Licensue takes a different tack. Like Renounce Co., Licensue approaches Genentech and negotiates a license to use the patented product and then turns around and files a lawsuit alleging that the patent is invalid. But unlike Renounce Co., Licensue does not repudiate the contract. It opts instead to challenge the premise of the contract—that Genentech has a valid patent to license—while clinging to its benefits under the contract.

In order to enter into a licensing contract, the two companies had negotiated a royalty (just like Renounce Co. did). Maybe Licensue Co. challenged the patent's validity in the course of negotiations, in which case Genentech may well have discounted the royalty to ensure patent peace. *See MedImmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376, 1378

(Fed. Cir. 2005), *pet. for cert. filed* (in a parallel case, MedImmune signed a license agreement after arguing that the patent was invalid and its activities were noninfringing, and sued the next year). Maybe Licensue Co. stood mute about such claims, intending to ambush Genentech with them, or to raise them only if the product was a sensation and royalty payments mounted. Either way, the royalty is set at a rate that both parties at the outset agree is fair. Genentech does not tack on a litigation premium, of course, because it does not anticipate betrayal.

With an executed license agreement in its pocket, Licensue Co. has secured a contractual right to use the invention for the royalty negotiated. The right is secure even if Genentech's patent increases in value, even if Licensue's product is a sensation beyond everyone's wildest imagination, and even if Genentech has second thoughts about whether Licensue deserves the license. When Licensue Co. sues Genentech, without repudiating the contract, it insists on enforcing its contractual right to continue exploiting the invention. If Genentech tries to revoke the license, Licensue cries, "Breach of contract." If Genentech tries to adjust the royalty, in light of changed circumstances, Licensue responds, "We have a deal." If Genentech tries to sue for infringement, Licensue wins a dismissal with the simple defense, "We have a license." *See Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987) ("[A] patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee.").

Through its treachery, Licensue averts all the dilemmas and burdens that Nolicense Inc. and Renounce Co. face. All three companies are challenging the patent's validity. But Licensue, unlike the others, retains an unassailable right to continue using the invention while the litigation unfolds. Only Licensue can use the patented invention with no fear of paying more in damages than the royalty would require, and, of course, Licensue is immune from any possibility of treble damages. Licensue, alone, has locked in a license and a royalty that is guaranteed, even if its claims of invalidity are rejected. Licensue is the only one that has managed to insulate itself from a litigation premium if its litigation fails. In short, if Licensue is permitted to pursue this path, it has essentially cloaked itself in an immunity that Genentech never intended to sell, and can challenge the patent unburdened by any negative consequences or hard choices. Pet. 3 (MedImmune admits that it pursued this strategy because it was "unwilling to risk crippling infringement judgments, with possible consequences of injunction, treble damages and attorneys' fees").

### B. It Is Unfair to Allow a Licensee to Sue While Retaining the Benefits of the License.

That is unfair.

It would be unfair, and (for policy reasons described later, *see infra* Point II.C) unwise, to give licensees such latitude for licenses they enter into in the future. But it is doubly unfair to allow a company like Licensue to get away with such duplicity in connection with existing contracts. Existing contracts were negotiated with the expectation, on both sides of the table, that such a maneuver would be impermissible.

Well before the Federal Circuit concluded that this sort of suit could not proceed for lack of subject matter jurisdiction, *see Gen-Probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376, (Fed. Cir.), *cert. dismissed*, 543 U.S. 941 (2004), it had held that, as a matter of equities, a licensee must choose between enjoying the benefits of the license and challenging the patent. More than two decades ago—before the issuance of any patent that remains in force today—the Federal Circuit observed that "a licensee [may] cease payments due under a contract while challenging the validity of a patent," but it may "*not* . . . avoid facing the consequences that such an action would bring." *Cordis,* 780 F.2d at 995 (emphasis in original). Just three years later, the Federal Circuit held, again as a matter of equity, that "despite the public policy encouraging people to challenge potentially invalid patents, there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party . . . of the right to bring that challenge." *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1225 (Fed. Cir.), *cert. dismissed*, 487 U.S. 1265 (1988). In that particular case, the court held that an assignor could not assign a patent, collect full payment for the property, and then infringe on the ground that the patent it sold was worthless.[3] Equitable principles prohibit the perfidy.

Any conceivable doubt about how these principles apply to a Licensue (or a MedImmune) the Federal Circuit put to rest nearly a decade ago, when it held that "a licensee . . . cannot," consistent with equitable principles, challenge the validity of a patent "until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid." *Studiengesellschaft Kohle m.b.H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir.), *cert. denied*, 522 U.S. 996 (1997).

At least since then, both licensors (like Genentech) and licensees (like MedImmune or Licensue) entered into these contractual agreements knowing that the licensee could not cling to the contractual benefits while challenging the patent. Licensors in Genentech's position had no reason to insinuate

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[3] The court distinguished this assignor situation from a situation of a "licensee, who . . . [is] *forced to continue to pay* for a potentially invalid patent" while being denied the right to challenge the patent's validity. *Diamond,* 848 F.2d at 1224 (emphasis added). That is the situation addressed in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), which, as is demonstrated below, is distinguishable from the Licensue situation (and the situation here) where the licensee wants to retain the license *and* challenge the patent's validity.

additional protections into their contracts and no need to adjust royalty rates or payment terms for the possibility that an insidious licensee might seek to challenge the very premise of the contract without relinquishing the contract's benefits.

If a company like Licensue (or MedImmune) is permitted to challenge the patent while retaining the benefits of the contract, then every one of the thousands, even millions, of licensees across the spectrum of industries can do the same. Contracts collectively totaling hundreds of millions of dollars in value will be unsettled. With no disincentive to sue, licensees would have every reason to seek better deals than the ones they struck, whether the deal was struck 15 days ago or 15 years ago. They would begin with licenses that have yielded the greatest commercial success, reallocating, with the unfair benefit of 20/20 hindsight, the valuation and risk assessments the parties themselves agreed upon.

In fact, any alternative rule would affirmatively encourage unscrupulous behavior. If Licensue's behavior were permissible, a company like Nolicense Inc. or Renounce Co. would have every reason to mimic it. Businesses would face irresistible financial incentives to negotiate a quick deal authorizing the use of the patented invention while harboring the secret intention of filing a lawsuit without risk the moment the deal is inked, or once the royalty payments escalate.

## II. A LICENSEE WHO RETAINS THE BENEFITS OF A CONTRACT IS EQUITABLY ESTOPPED FROM SUING IN DEROGATION OF THE CONTRACT.

Granted, not every unscrupulous business practice is impermissible, and cries of unfairness rarely suffice to derail a lawsuit. But in the context of a declaratory judgment suit like this one, equitable and public interest principles control, and, for all the reasons described in Genentech's and the City of Hope's briefs, these principles can and do preclude courts from taking jurisdiction at the outset of litigation. For centuries, courts here and in England have enforced the rule that a party to a contract in MedImmune's position cannot challenge the validity of any underlying property interest without relinquishing the benefits conveyed. *See infra* Point II.A. Far from abolishing that rule in *Lear*, this Court's analysis reinforces it, both as a matter of equity, *see infra* Point II.B, and as a matter of the public interest, *see infra* Point II.C.

### A. Under Traditional Equitable Principles, a Licensee Cannot Simultaneously Retain the Benefits of a Contract and Act in Derogation of the Contract.

"You can't have your cake and eat it too" is more than just a tired saw. It is an axiom of equity with a common law pedigree almost as ancient as the aphorism itself. Under traditional principles of equity, MedImmune would not be able to claim the benefits of its contract and at the same time challenge the validity of the patent on which the contract is premised.

This common law principle of equity predates the Republic.[4] Two centuries ago, an English court encountered

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[4] *See, e.g., Lewis v. Willis,* (1752) 1 Wils. K.B. 314, 314, 95 Eng. Rep. 637, 637 (a tenant's challenge to a landlord's title to the leased property is a bad plea to an implied promise to pay on the use and occupation of land); *Cooke v. Loxley*, (1792) 5 T.R. 4, 4, 101 Eng. Rep. 2, 3 (K.B.) ("Generally speaking, a man ought not to be suffered to object to the illegality of a contract into which he has solemnly entered[.]"); *Phipps v. Schulthorpe*, (1817) 1 Barne. & Ald. 50, 53, 106 Eng. Rep. 19, 20 (K.B.) ("[B]eing once a tenant, it is not competent to [the defendant] to dispute his landlord's title."); *Fleming v. Gooding*, (1834) 10 Bing. 549, 550-51, 131 Eng. Rep. 1008, 1008 (C.P.) ("[I]t is not open to the tenant to dispute the title of the . . . landlord. . . . The rule of estoppel prevails."); *Agar v.*

a contracting party who attempted the same ploy MedImmune tried here. *See Balls v. Westwood*, (1809) 2 Camp. 11, 170 Eng. Rep. 1064 (K.B.), *overruled on other grounds by Mountnoy v. Collier*, (1853) 1 E. & B. 630, 639-40, 118 Eng. Rep. 573, 577 (*Mountnoy* declared only that a tenant could assert as a defense that his landlord's title had expired since the lease began, not that it was invalid when leased). The contract in *Balls* was a lease, and the tenant was trying to challenge the landlord's title to the property while simultaneously enjoying the benefits of the contract by occupying the premises. Lord Ellenborough asked the tenant: "Did you by any formal act renounce the [landlord's] title? Did you divest yourself of the possession you obtained under the [landlord], and commence a fresh holding under another person?" *Id.* at 12. When the tenant answered no, the court, incredulous at the duplicity, thundered: "You may as well attempt to remove a mountain. You cannot controvert the continuance of the title under whose demise you continue to hold." *Id.*

For almost as long as there have been American courts, our jurisprudence has been equally hostile to similar efforts, at times echoing Lord Ellenborough's admonishment about removing mountains. *See Tilyou v. Reynolds*, 15 N.E. 534, 537 (N.Y. 1888) (recounting the exchange). Our courts have uniformly hewn to the view that a party who enjoys a contract to use or occupy property cannot simultaneously retain the property *and* challenge the property owner's rights. *See, e.g., Vernam v. Smith*, 15 N.Y. 327 (1857). From the days of Chief Justice John Marshall, this Court has followed the rule, observing that estoppel applies where

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*Young*, (1841) Car. & M. 78, 80, 174 Eng. Rep. 417, 418 (Nisi Prius) ("[T]he principle of law is, that a tenant having taken of his landlord shall not deny his landlord's title, because, if he has taken land from a person who had no right to give it, his first duty is to surrender it back, not to deny the title of the donor or lessor.").

there is a landlord-tenant relationship *and* the tenant continues to retain possession of the property. *See Willison v. Watkins*, 28 U.S. (3 Pet.) 43, 47-48 (1830) (declining to apply estoppel in that case because the tenant had long since "terminated the tenancy" by renouncing the lease, which put the landlord on notice that the tenant "meant to hold from that time by his own title and on adverse possession"); *Rector v. Gibbon*, 111 U.S. 276, 284 (1884) (holding that tenants, "while retaining possession, are estopped to deny [the landlord's] rights"); *cf. Blight's Lessee v. Rochester*, 20 U.S. (7 Wheat) 535, 547 (1822) (discussing the scope of the estoppel doctrine). Lower courts in this country faithfully applied the rule as well. As one court long ago put it, "[t]he foundation of the estoppel is the fact of the one obtaining possession and enjoying possession by the permission of the other." *Tilyou*, 15 N.E. at 536. "[S]o long as one has this enjoyment he is prevented by this rule of law from turning round and saying his landlord has no right or title to keep him in possession." *Id.*

While the doctrine sprouted from the landlord-tenant context, the courts considered the principle universally applicable to all manner of property rights and contractual relationships. As then-Judge Cardozo observed almost a century ago, the principle "applies with equal force to a licensee in possession of land as against his licensor, and to other relations." *Farnsworth v. Boro Oil & Gas Co.*, 109 N.E. 860, 862 (N.Y. 1915) (Cardozo, J.); *see also City of Jamestown v. Pa. Gas Co.*, 1 F.2d 871, 880-81 (2d Cir. 1924). Judge Cardozo was addressing a contract that arose from a natural gas supplier's request for permission to lay gas lines across a highway to supply gas to the town's inhabitants. The town board agreed to grant this privilege in exchange for the gas company's promise to cap the price of gas sold to the town's inhabitants. Fourteen years later, the gas company increased its rate beyond the agreed-upon cap. When challenged, the gas company claimed that the original deal was a nullity because it never needed the town's permission to lay pipes in the first place. Drawing upon the earlier landlord-tenant cases, the court held that the gas company was "estopped to deny the binding force of its agreement." *Farnsworth*, 109 N.E. at 861. Judge Cardozo noted that the defendant was not permanently barred from asserting its legal position about the town's property rights: "When the defendant takes up its mains and vacates the highway, a court will listen with some tolerance to its plea that it has been there without right." *Id.* at 863. But as long as the company was retaining the benefits of the contract, judicial tolerance was in short supply.

It was not long before the courts encountered similar scenarios in the context of intellectual property rights, and continued to apply the time-tested equitable rule there, too. *See Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 350 (1924) (analogizing estoppel rules in a situation where "one lawfully conveys to another a patented right to exclude the public from the making, using and vending of an invention" to the estoppel rules that would apply to "a grantor of a deed of land" who "impeach[es] the effect of his solemn act as against his grantee"); *Taylor v. Hare*, 1 Bos. & Pu. (N.R.), (1805) 259, 262, 127 Eng. Rep. 461, 462 (C.P.) (applying equitable principles to deny recovery in patent case, where the licensee "has had the enjoyment of what he stipulated for"); *Wilder v. Adams*, 29 F. Cas. 1216, 1217 (D. Mass. 1846) (rejecting patent invalidity as a defense to a claim of nonpayment of royalty). Thus, the rule was that a "licensee under a patent cannot assail it as void while manufacturing under its protection . . . until his license has been surrendered or withdrawn, and his act can be treated as an infringement." *Saltus v. Belford Co.*, 31 N.E. 518, 519 (N.Y. 1892); *see Edison Gen. Elec. Co. v. Thackara Mfg. Co.*, 31 A. 856, 857 (Pa. 1895) ("[W]hile . . . the licensee is enjoying the benefit of [the patent's] supposed validity, he is bound to pay the stipulated royalty, and cannot set up as a defense the actual invalidity of the patent[.]"). There, as in the other areas, some courts made clear that a licensee was not forever barred from challenging the validity of the licensor's property right, just because it once took a license. Those courts recognized that the challenge could not proceed unless the licensee repudiated the contract (putting itself in the Renounce Co. rubric). *See, e.g., Marston v. Swett*, 82 N.Y. 526, 534 (1880) (licensees cannot contest validity of the patent "'until they can show that the patent has been rescinded or revoked, or that notice has been given to the [licensor] that the [licensees] will not pay any more under the contract'"). The licensee would not have to take a step as extreme as exhuming gas mains from under a highway, but it would have to do the intellectual property equivalent of vacating the premises: provide unequivocal notice of its intention to renounce the license's protection and thus proceed as a potential infringer—a trespasser on the challenged intellectual property rights. *Compare Skinner v. Walter A. Wood Mowing & Reaping Mach. Co.*, 35 N.E. 491, 492-93 (N.Y. 1893), *L. Heller & Son v. Lessner Co.*, 212 N.Y.S. 175, 178-79 (N.Y. App. Div. 1925), *and Bucky v. Sebo*, 95 N.Y.S.2d 769, 771 (N.Y. App. Div. 1950), *with Willison*, 28 U.S. (3 Pet.) at 48.

This Court eventually took the estoppel position quite a bit further—further than the original common law cases would have gone. In what the Court in *Lear* called the *Hazeltine* rule, this Court held that once a licensee entered into a license premised upon the existence of a valid patent, the licensee was estopped from challenging the validity of the patent forever. *See Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950). In *Hazeltine*, the Court estopped the licensee from challenging the patent, even though it was unclear whether the licensee actually repudiated the license, or needed to repudiate when it did not practice the licensed patents. Thus, after *Hazeltine,* even if the licensee repudiated the contract, and foreswore the benefits, it still could not challenge the patent. Under the *Hazeltine* rule this Court embraced, even Renounce Co. would be barred from challenging a patent's validity. The only sort of business that could ever challenge a patent was one (like Nolicense Inc.) that had never entered into a license tacitly acknowledging the patent's validity.

In the ensuing years, this Court began retreating from this musclebound version of estoppel, carving out various exceptions to its own more expansive rule that a company like Renounce Co. was forever estopped from suing. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 663-67 (1969) (recounting the progression of cases).[5] Never once, however, did this Court suggest that it was prepared to retrench on the core common law principle—that a licensee who wanted to challenge a patent would still have to renounce.

### B. This Court's Analysis in *Lear v. Adkins* Confirms that Equitable Principles Preclude this Suit.

This Court did nothing to change the baseline rule in *Lear v. Adkins*, 395 U.S. 653 (1969), either. Rather, *Lear* held that the Court would no longer adhere to the more expansive position. *Lear* held that licensee estoppel would no longer apply in one category of cases involving licensees—cases where a licensee (like Renounce Co.) *repudiates* the license. Thus, *Lear* overruled the *Hazeltine* rule, under which a licensee was estopped from repudiating a license to challenge a patent's validity. But *Lear* did not "remove [the] mountain" Lord Ellenborough imagined; it

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[5] Notably, none of the cases in either mode—the more expansive rubric or the retrenchment mode—involved a declaratory judgment action. They all presented circumstances where a licensor sued to enforce the license agreement. *See, e.g., United States v. Harvey Steel Co.*, 196 U.S. 310, 313 (1905) ("This is a claim for royalties upon a contract made between the parties to the suit[.]"); *Kinsman v. Parkhurst*, 59 U.S. (18 How.) 289, 291 (1856) (suit to enforce promise not to manufacture patented machines after a certain period of time).

said nothing to undermine the continued vitality of the longstanding estoppel doctrine as it relates to a case, like this one, where the licensee (like MedImmune or our hypothetical Licensue Co.) refuses to repudiate and tries to challenge the basis of the license while retaining all the license's protections. In fact, *Lear*'s analysis only confirms that the equitable principles survive in this context.

**1. *Lear* focused on the equities relating to a repudiating licensee.**

*Lear* presented the classic Renounce Co. fact pattern. An inventor (Adkins) licensed an invention to a licensee (Lear), while his patent application was pending. *Id.* at 657-58. They negotiated a royalty. *Id.* at 657. Before the patent was even issued, the licensee concluded that the invention was not patentable. *Id.* at 659-60. The licensee *renounced the license*, and stopped paying royalties. *Id.* at 659. The inventor did, indeed, secure a patent and once the patent issued, the inventor sued to collect the royalties owed under the contract. *Id.* at 660. The licensee defended on the ground that the patent was invalid, and the trial court agreed, ruling that the "invention had been completely anticipated by prior art." *Id.* The inventor invoked this Court's expansive version of licensee estoppel to preclude the licensee from acting in derogation of the contract. *Id.* at 661-62. The licensee responded "that a licensee may escape the impact of estoppel *simply by announcing that it has repudiated the licensing agreement*." *Id.* at 662 n.10 (emphasis added).

The California Supreme Court agreed with the inventor, invoking "'one of the oldest doctrines in the field of patent law.'" *Id.* at 656 (quoting 67 Cal. 2d 882, 891 (1967)). Notably, the state court articulated the narrower version of that estoppel doctrine: "'[S]o long as a licensee is *operating under a license agreement* he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement.'" *Id.* (quoting 67 Cal. 2d at 891) (emphasis added).

Far from addressing every conceivable application of this rule, this Court addressed the narrower question, whether "the doctrine of estoppel . . . bar[s] Lear from proving that Adkins' ideas were dedicated to the common welfare by federal law" under the category of circumstances presented there—where the licensee was no longer seeking the benefits of the license. *Id.* at 662. This Court made clear that it was not reaching a categorical conclusion as to every application of estoppel against a licensee in all the circumstances where estoppel had historically been sustained. Rather, the Court identified two separate categories of situations, each involving a licensee who "*repudiate[s] his promises*," *id.* at 668 (emphasis added)—i.e., a *former* licensee, like Renounce Co.—with several variations of each category:

***Category I:*** "The most typical situation in which patent licenses are negotiated," where the licensor obtains the patent first and then licenses it to the licensee, who proceeds to repudiate the contract—

- ***(A)*** . . . and the licensor originally obtained the patent through fraud. *Id.* at 669-70.
- ***(B)*** . . . and the patent was not fraudulently obtained, but is challenged on some other ground. *Id.* at 670.

***Category II:*** The "far more complicated" scenario where the licensor licenses the invention before obtaining the patent—

- ***(A)*** . . . and the licensor claims that estoppel compels the licensee to pay a royalty for the duration of the contract, even after the patent is found invalid. *Id.* at 671-72.
- ***(B)*** . . . and the licensor claims that estoppel compels the licensee to continue paying the contractual royalty during the pendency of the litigation. *Id.* at 673.

*(C)* . . . and the licensor asserts that estoppel compels the licensee to pay royalties at least for the period before the patent was issued. *Id.* at 674.

The Court worked through each scenario, one by one, assessing the equities separately as to each. For each, the goal was to "accommodate the competing demands of the common law of contracts and the federal law of patents." *Id.* at 668. "On the one hand," the Court observed, "the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made." *Id.* Against this interest, the Court balanced "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." *Id.* at 670. As to each scenario, the Court "reconsider[ed] on their own merits the arguments which may be properly advanced on both sides of the estoppel question." *Id.* at 668.

The Court found some of the balances fairly straightforward. For example, it was "difficult to perceive why good faith requires" much solicitude of the contract rights "of the licensor who has obtained his patent through a fraud on the Patent Office" (Subcategory I(A)). *Id.* at 669-70. The balancing act for Category II, however, presented "a far more complicated estoppel problem." *Id.* at 671. One variation on this category—Subcategory II(C)—presented a problem that was so "much more difficult" that the Court declined to resolve it, or even to "attempt to define in even a limited way" the parameters of a solution. *Id.* at 674-75.

Ultimately, as to each subcategory that the Court did grapple with, it ended up concluding that the equities tilted in favor of protecting the federal interest in permitting the challenge to continue. Accordingly, the Court, overruled the expansive *Hazeltine* rule in each of those contexts. *Id.* at 656, 671. For each, the Court sought "to balance the claims of promisor and promisee in accord with the requirements of good faith." *Id.* at 670. The key to the balance in each case was the observation that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery," and the concern about the loss to the public "*[i]f they are muzzled.*" *Id.* (emphasis added). The point in each context was that the licensee should be *freed* from the contractual obligations—that it should be permitted, in other words, to *repudiate* and sue—because if the licensee is "muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." *Id.* What most concerned the Court was the prospect of "disabling *entirely* all those who have the strongest incentive to show that a patent is worthless." *Id.* at 672 (emphasis added). The Court expressed a secondary concern over the prospect of a rule that "would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning" on the validity of the patent. *Id.* at 673.

To say, as MedImmune does, that *Lear* "abolished . . . licensee estoppel," Pet. 8, is like saying that *Roper v. Simmons*, 543 U.S. 551 (2005), abolished the death penalty. *Lear* abolished the defense for licensees that repudiate the license (or at least most of them); it largely abolished what might be called "*former* licensee estoppel," *Hazeltine's* extension of the traditional common law rule. But it said nothing at all about "current licensee estoppel" or estoppel as it relates to licensees in good standing who are not willing to renounce their licenses. Nor did it say anything about the traditional common law rule that required patent licensees to repudiate before challenging validity. *See* William C. Rooklidge, *Licensee Validity Challenges and the Obligation to Pay Accrued Royalties: Lear v. Adkins Revisited* (pts. 1, 2 & 3), 68 J. Pat. & Trademark Off. Soc'y 506 (1986), 69 J. Pat. & Trademark Off. Soc'y 5, 63 (1987), pt. 1 at 515-16 ("The early patent cases recognized that a licensee could avoid application of the bar against validity challenged by repudiating the license agreement."). In fact, in *Lear*, the licensee "'concede[d] that it would be estopped to contest the validity of any patent issued to [the licensor] so long as it continued to operate under that agreement.'" 395 U.S. at 679 n.1 (White, J., concurring). That is this case.

**2. Under *Lear's* analysis, the equities prohibit a suit by a licensee in good standing.**

As to a licensee who does "continue[] to operate under" the license, and declines to repudiate the license—the scenario represented by this case and by our hypothetical Licensue Co.—the balance of interests comes out the other way, just as the licensee conceded. On the one hand, as demonstrated above, the equities weigh more heavily in favor of the licensor in this context. *See supra* Point I. On the other hand, faithful application of traditional equitable rules against a licensee who has not repudiated the contract does not in any way "muzzle" the licensee, 395 U.S. at 670, or "disabl[e]" the licensee "entirely," *id.* at 672. The licensee is as free as anyone else to challenge the patent. All the licensee has to do is repudiate the contract. Imposing this requirement on the licensee does not create any perverse incentives for the licensor to prolong the litigation through "dilatory tactic[s]." *Id.* at 673. From the patent owner's perspective, the former licensee is now like any other challenger to a patent, whether the former licensee infringes, inviting the patent owner to sue, or files a declaratory judgment action.

This is the point MedImmune misses when it argues that faithful application of equitable estoppel rules to this case would put it, and other licensees, to an untenable "Hobson's choice"—a choice between retaining the contractual benefits it enjoys and rolling the dice on unpredictable patent litigation, with all the attendant risks, including the possibility of treble damages and an injunction. Pet. Br. 45. The traditional equitable estoppel rule does not put MedImmune to that choice; the Patent Act does. *See* 35 U.S.C. § 284 (2000). As the Federal Circuit observed, in response to this very argument, "[e]very potential infringer who is threatened with suit, or who is sued, for patent infringement must decide whether to settle or fight." *MedImmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376, 1382 (Fed. Cir. 2005), *pet. for cert. filed.* Our hypothetical Nolicense Inc. and Renounce Co. both face that choice—and can hardly complain that the choice is against federal policy. The same goes for MedImmune's concern that it simply must continue using the patented invention, and worries about being enjoined. Again, every company that wishes to (or has a business need to) use a patented invention could say that same thing. Nothing in the Patent Act, or federal patent policy, requires a court to shield an infringer from an injunction, from damages, or from the threat of treble damages. To the contrary, such a shield would only detract from the structure of the Patent Act.

Put another way, federal policy does not override the statutory rule that a nonlicensee (Nolicense Inc.) or a repudiating licensee (Renounce Co.) must make the hard choice between foreswearing use of the invention or infringing. Nor does federal policy override the statutory rule that any company that opts to infringe during the litigation faces the risk of an injunction and treble damages—whether or not the infringer once entered into a license. It would be a perverse form of federal policy that would override those same statutory policies for an infringer who negotiates a deal and reneges on it, but insists on retaining the benefits.

### C. A Rule Incentivizing Parties to Secure Licenses and Then Sue Is Against the Public Interest.

*Lear*'s analysis turned not just on equities but on broader questions of public policy—questions about what legal rule would most fulfill the goals of the Patent Act. Thus, the appropriate legal rule in this context cannot be determined without an assessment of the public policy implications.

The Patent Act represents an intricate balance. On one side of the balance is the interest *Lear* emphasized—the interest in ensuring "that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." 395 U.S. at 668. That interest is advanced by ensuring that those who have the greatest incentive to challenge invalid patents are not "muzzled." *Id.* at 670. On the other side of the balance, of course, is the most common justification for awarding patents, to encourage innovation by allowing those who innovate to reap the profits of the innovation. *See Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63-64 (1998). While it is important to ensure that invalid or questionable patents are not unduly and artificially insulated from challenge, the public interest is not served by a regime that encourages meritless or dubious challenges to valid patents. Such challenges erode the rewards that genuine innovators reap and do not materially advance the interest in releasing technology to the common good.

Further, society has an especially strong interest in encouraging patent holders to license patents that are valid, for a license advances both sides of the balance. On the one hand, licensing fees are among the most important rewards that a patent owner garners from a valid patent. On the other hand, only if a patent owner is inclined to license the patent will society reap the greatest utility from a patented invention. We must be wary of rules that will have the unintended effect of discouraging patent owners from licensing their inventions, or increasing the costs of licenses—whether in terms of increased royalties or increased transaction costs.

That is exactly what will happen in a regime in which licensees are free to challenge patents while retaining all the benefits of the license. The ramifications will be profound both for existing licenses and for future licensing practices.

We have already touched upon the effects of such a regime on licenses already granted. *See supra* Point I.B. Those licenses were negotiated with the assumption that they would have to terminate if the licensee later opted to challenge the patent. Licensors did not have to specify that condition in the license any more than they had to specify that a breach by the licensee would entitle the licensor to revoke the license. Whether the negotiation was explicit or not, the royalty reflects the value of that condition for both sides. It reflects the royalty discount a licensor was willing to offer in return for the licensee's willingness to relinquish (albeit perhaps temporarily) any challenges to validity, enforceability, or scope.

Reversing the unstated condition retroactively—like reversing the rule that a breach entitles the licensor to revoke the license—amends the deal that was struck. The result would be a systematic transfer of value from the licensor side of the ledger to the licensee. The transfer reforms the bargain struck in millions of contracts, many of which extend a decade or two into the future. (Consider, for example, a deal struck this past year that sets a royalty on an invention for which the patent is now pending.)

The impact of this rule change on future behavior will depend, in part, on whether a licensor and licensee could contract around the new rule. One would think that it would be permissible for a license to specify the understanding of the parties that, notwithstanding the suspension of licensee estoppel as a defense, the license will terminate if the licensee challenges the validity of the patent. That conclusion, however, is not at all clear. *Lear*, itself, invoked federal public policy to override explicit contractual terms. *See* 395 U.S. at 670-71; *see also Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 235 (1891) (federal policy overrides contractual provision because the right to challenge a patent "is not only a private right to the individual, but founded on public policy"); *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 57 (1973). And various circuits adhere to the rule that licensors cannot negotiate around the judicial estoppel rule that *Lear* adopted. *Kraly v. Nat'l Distillers & Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974) (no-challenge clause in a license agreement was unenforceable); *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444

F.2d 425, 427 (9th Cir. 1971) (no-challenge provision in settlement agreement entered before litigation was filed was unenforceable). One court of appeals decision even goes as far as to hold that even an explicit understanding memorialized in a judicially approved settlement, is unenforceable. *Business Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 73-75 (7th Cir. 1971) ("[A] consent decree does not create an estoppel on the issue of validity.").[6] So licensors are unlikely to place much confidence in contractual fixes and will hedge their bets by behaving as if there can be no contractual protection.

How will patent owners do that? For starters, they will be less inclined to grant licenses. Under the current arrangement, a patent owner has an incentive to grant a license in the interest of protecting the patent from challenge. The more serious the challenge, or the greater the stakes for the patent owner, the sweeter the deal the patent owner would be willing to offer. *See Eureka Co. v. Bailey Co.*, 78 U.S. (11 Wall.) 488, 491 (1871) (a license is "an agreement manifestly intended to adjust conflicting rights"); Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 Rand J. Econ. 391, 392 (2003) ("Virtually every patent license can be viewed as a settlement of a patent dispute: the royalty rate presumably reflects the two parties' strengths or weaknesses in patent litigation in conjunction with the licensee's ability to invent around the patent."). The owner knows that the sweet deal does not legally insulate the patent from challenge entirely. But as long as the licensee must

[6] On the other hand, the Federal Circuit has held that consent decrees and settlements are entitled to greater solicitude than negotiated contract terms. *See Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 477 (Fed. Cir. 1991); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1368 (Fed. Cir. 2001). If that rule prevails, patent holders will feel obliged to engage in wasteful litigation as a prerequisite to obtaining an enforceable condition that could not be secured through direct negotiation.

relinquish the deal in order to challenge the patent, the patent owner can derive some comfort from offering the license. Should this Court declare that the patent owner can find no sanctuary whatsoever in a license—no matter how sweet the deal—patent owners will be less likely to offer deals, more likely to demand the full royalty up front (a term that could be prohibitively expensive for most licensees), and highly unlikely to offer discounts.

In fact, license prices will almost surely increase across the board. Under the current regime, a licensee who wages an unsuccessful challenge to a patent must return to the bargaining table if it wants to resume use of the invention. At that point, as is discussed above, the royalty will bear a litigation premium. *See supra* Point I.A. In essence, the licensee is forced to internalize some of the costs of its own frivolous or meritless challenge. Under the alternative regime, the licensor has no such outlet, for it is stuck perpetually with whatever price was negotiated up front. So if the licensor is ever going to cover the costs of litigation, those costs have to be reflected in the original royalty. The licensor has no choice but to treat every licensee as a potential patent challenger and to spread the litigation costs across all of them.

The difference is that the aggregate costs will be substantially higher than under the current regime. That is because there will inevitably be much more litigation under the alternative regime, and therefore much more litigation expense to distribute. Under the current rule, a licensee toying with the notion of suing has to repudiate the license which means the licensee now files a lawsuit challenging the patent only if the potential benefit of the lawsuit exceeds the value of the current license. Under the alternative regime, the licensee's cost-benefit analysis is simpler. Since the license will never be in jeopardy, the value of the license to the licensee will not be part of the cost-benefit analysis. So the lawsuit will materialize so long as the potential upside from the challenge (adjusted for the probability of success) exceeds the costs of litigation. Lower disincentives to litigate spells more litigation.

It also spells more frivolous litigation. The licensee's current cost-benefit analysis filters out the weaker challenges. A rational licensee will not squander a valuable license without a conviction that the challenge is legally sound. Without the filter, the only barrier will be the cost of paying lawyers to bring weak claims.

If the federal policy were premised on the interest in proliferating challenges to patents, however frivolous, the alternative regime might be justified. But the federal policy is premised on the interest in encouraging *meritorious* challenges to *invalid* patents. So the current regime provides a much better fit to the interests this Court identified in *Lear*.

## III. THIS COURT SHOULD REACH THE ALTERNATIVE GROUND OF EQUITABLE ESTOPPEL, EVEN THOUGH THE COURT OF APPEALS' RULING WAS COUCHED IN JURISDICTIONAL TERMS.

If this Court were to conclude that the Court of Appeals' jurisdictional rule was incorrect, it should reach the alternative ground of equitable estoppel, for several reasons.

First, a remand for the lower courts to consider the outcome under equitable principles would be pointless, because the conclusion is foregone. The Court of Appeals has already ruled on the question. As we have seen, almost a decade ago the Federal Circuit definitively held that *Lear*'s rule suspending licensee estoppel does not extend to a case, like this one, where the licensee declines to repudiate the license. *Studiengesellschaft Kohle m.b.H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir.), *cert. denied*, 522 U.S. 996 (1997); *see supra* Point I.B.

Even more recently, from the moment the Federal Circuit began treating the rule as a jurisdictional one, its analysis has been rooted as much in traditional principles of equity and public interest—the very sorts of principles that infuse the equitable estoppel analysis—as in the language of jurisdiction. In *Gen-Probe*, for example, the Federal Circuit grounded its ruling in concerns that "permitting [the licensee in good standing] to pursue a lawsuit without materially breaching its license agreement yields undesirable results." *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1382, (Fed. Cir.) *cert. dismissed*, 543 U.S. 941 (2004). One such concern was entirely equitable in nature: "[I]n this situation, the licensor would bear all the risk, while licensee would benefit from the license's effective cap on damages or royalties in the event its challenge to the patent's scope or validity fails." *Id.* A related point bespoke equally equitable concerns about good faith and fair dealing. The court observed that the licensor "voluntarily relinquished its statutory right to exclude by granting [the licensee] a . . . license. In so doing, [the licensor] chose to avoid litigation as an avenue of enforcing its rights." *Id.* The Federal Circuit evidently saw in this arrangement a reciprocal covenant on the licensee's part not to sue: "Allowing this action [by the *licensee*] to proceed would effectively defeat *those* contractual covenants . . . ." *Id.* (emphasis added). As a matter of public interest, the court noted that freeing licensees to retain the license and sue would "discourage patentees from granting licenses." *Id.*

Second, following *Gen-Probe*'s lead, the panel below, too, addressed the equities, and took note of the Declaratory Judgment Act's equitable framework. Pet. App. 7a. The Court of Appeals embellished upon the point the *Gen-Probe* court had made about "the inequity" in any alternative rule: "when the patent owner, having contracted away its right to sue, is in continuing risk of attack on the patent whenever the licensee chooses—for example, if the product achieves commercial success—while the licensee can preserve its license and royalty rate if the attack fails." *Id.* Enveloping its jurisdictional analysis in equitable garb, the Court of Appeals concluded that "[t]his imbalance distorts the *equalizing principles* that underlie the Declaratory Judgment Act." *Id.* (emphasis added).

Third, a ruling by this Court reversing the dismissal on jurisdictional grounds, but not addressing the alternative equitable grounds for reaching the same result, could wreak commercial havoc and open the litigation floodgates. Emboldened by a ruling that signals free season on patent challenges, licensees will begin filing lawsuits challenging the validity or scope of the patents they have licensed. Unsure whether equity protects them where a jurisdictional rule does not, patent owners are bound to assume the worst, and adjust their licensing behavior as if they had no protection—refusing to license, demanding up front fees, or increasing royalties for all the reasons described earlier. *See supra* Point II.C.

Commerce thrives most where rules are certain. Whatever equitable rule this Court ultimately adopts, patent owners and licensees, alike, will be better off if this Court adopts that rule now.

## CONCLUSION

The Court should affirm the dismissal of this declaratory judgment action, whether on jurisdictional grounds or on alternative equitable grounds.

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