

THE PATENTEE AND INFRINGER BATTLEFRONT WORSENS AS COURTS SHARPEN THE INFRINGER'S SWORD

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I. INTRODUCTION

Ms. General Counsel of Pharma Co. (“Pharma”) arrives at work early Monday morning to find reports that a rival company, InfringaLot, Inc. (“InfringaLot”), has begun selling a very similar drug for which Pharma has a patent. Ms. General Counsel writes to InfringaLot informing it that Pharma believes InfringaLot is selling a product which falls under Pharma’s patent. She ends the letter with an open offer to license the patent to InfringaLot. She hopes the license offer will promote a cordial business relationship and avoid expensive litigation, which would heavily burden Pharma. InfringaLot rejects the letter and files a declaratory judgment action for noninfringement and patent invalidity in federal district court.

Prior to 2007, a federal district court would dismiss this action for failure of subject-matter jurisdiction.¹ However, due to landmark changes in the jurisprudence of the Supreme Court and the Federal Circuit Court of Appeals in 2007, this action can now proceed—a radical change in the relationship between patentees and alleged infringers.²

After years of inactivity, the Supreme Court recently tried its hand at reforming patent law.³ Since 2004, the Court has granted certiorari, and

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1. See, e.g., *SanDisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379 JF, 2005 WL 5801276 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007).

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

3. Robert P. Taylor, *The Supreme Court and the Federal Circuit: KSR, eBay, and MedImmune*, in 13TH ANNUAL INST. ON INTELL. PROP. L. 71, 75 (Practicing Law Institute 2007); see Robert C. Scheinfeld & Parker H. Bagley, *Patent and Trademark Law: Key Decisions from Supreme Court, Federal Circuit*, 237 N.Y. L.J. 1, 1 (2007) (noting “a sea change in patent law jurisprudence”).

overturned, six cases involving patent law issues.⁴ Like any Supreme Court holding, the lower courts must follow suit and adjust their jurisprudence accordingly.⁵ The Federal Circuit Court of Appeals, as the gatekeeper for patent law controversies,⁶ has borne the impact of the Supreme Court's rulings.⁷ In January 2007, the Supreme Court holding in *MedImmune, Inc. v. Genentech, Inc.*⁸ tipped the first domino altering the delicate balance between patentees⁹ and patent infringers.¹⁰ The balance hinges on the extent would-be infringers¹¹ may enjoy certain tactical gains by filing declaratory judgment actions. This balance is crucial because pre-emptive initiation of a declaratory judgment may place patentees in poor economic and legal positions.¹²

Congress enacted the Declaratory Judgment Act (hereinafter the "Act") to allow parties to have their rights and relations declared by a court without having to await suit by an opposing party.¹³ Specifically regarding patent law disputes, the Act "obviates scare-the-customer-and-run tactics employed by the patentee that infected the competitive environment of the business community with uncertainty and insecurity, characterized as a *danse macabre*, the patent owner brandishing a Damoclean threat with a sheathed sword."¹⁴ The Act initially served to protect infringers from threats by patentees; infringers could file a declaratory judgment action in district court asking the court to declare the plaintiff a non-infringer and

4. Taylor, *supra* note 3, at 75; Scheinfeld, *supra* note 3, at 1.

5. Charles Anthony Smith, *The Form and Function of the Supreme Court*, HIST. NOW, Apr. 2008, http://www.historynow.org/04_2008/historian.html.

6. 28 U.S.C. § 1295(a)(1) (2000) ("The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction . . . of an appeal of a final decision from a district court of the United States . . . if the jurisdiction . . . was based, in whole or in part, on section 1338 [patents, trademarks, copyrights] . . .").

7. Tony Mauro, *High Court Ruling Could Spark Surge in Patent Challenges*, LEGAL TIMES, Jan. 10, 2007, <http://www.law.com/jsp/article.jsp?id=1168336930333#>.

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

9. BLACK'S LAW DICTIONARY 1162 (8th ed. 2004) ("One who either has been granted a patent or has succeeded in title to a patent.").

10. *Id.* at 797 ("A person [or company] who interferes with one of the exclusive rights of a patent . . . owner.").

11. Throughout this Article, when an infringer is mentioned, it implies that infringers are "would-be" infringers, and part of the function of the declaratory judgment action is to determine whether they are in fact infringers or not. No intrinsic value judgment is implied by the use of the label infringer, but it serves as a convenience to this Article.

12. *See, e.g.*, *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007).

13. 28 U.S.C. § 2201 (2000) (Declaratory Judgment Act).

14. JOHN GLADSTONE MILLS III, DONALD C. REILEY III & ROBERT C. HIGHLEY, *PATENT LAW FUNDAMENTALS* § 20:8 (2nd ed. 2007) (noting that prior to the Declaratory Judgment Act, large patentee companies would frequently threaten litigation and other adverse consequences to possible infringers, particularly direct competitors).

invalidate the patentee's patents.¹⁵ Surely this device was effective against the patentee bullies of the high-tech playground.¹⁶ However, the Act has profoundly disrupted the equilibrium between patentees and infringers in favor of the infringer.¹⁷

In a footnote of *MedImmune*, the Supreme Court candidly chided the Federal Circuit for creating a legal test for declaratory judgment that was in conflict with precedent.¹⁸ Specifically, the Court disapproved of the Federal Circuit's "reasonable apprehension of suit" test, which the Federal Circuit had long since used to determine if a district court had declaratory judgment jurisdiction.¹⁹ In response to *MedImmune*, the Federal Circuit in *SanDisk Corp. v. STMicroelectronics, Inc.* eliminated its reasonable apprehension of suit test²⁰ and adopted a new test that it soon named the "all circumstances" test.²¹

The reasonable apprehension of suit test focused on whether the infringer had an objective reason to believe that a patentee would sue for patent infringement.²² Once this test was met, the declaratory judgment action presented a case or controversy and could therefore be heard.²³ Under the Federal Circuit's new test for declaratory judgment actions (hereinafter the "all circumstances test"), an infringer need not reasonably apprehend suit; the patentee must merely contact and point out to the infringer that its business activities fall "within the scope of the patentee's patent rights."²⁴ The "all circumstances" test is a substantially easier standard for an infringer to meet, and thus presents a new strategic opportunity in litigation.²⁵

The "all circumstances" declaratory judgment test, as required by the Supreme Court in *MedImmune* and crafted by the Federal Circuit in *SanDisk*, has made patentees vulnerable and placed them in poor financial circumstances.²⁶ Patentees are forced to litigate or ignore their patent

15. *Id.*

16. *Id.*

17. *Id.*

18. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n. 11 (2007).

19. *Id.*

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

21. *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, 482 F.3d 1330, 1345 (Fed. Cir. 2007).

22. *SanDisk*, 480 F.3d at 1379.

23. GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14.

24. *SanDisk*, 480 F.3d at 1384 (Bryson, J., concurring).

25. *Id.*

rights because the “all circumstances” test permits infringers to file declaratory judgment actions, which could effectively destroy the patentee’s business.²⁷ The imbalance and negative effects of the “all circumstances” test should be rebalanced by a combination of legislative action and the exercise of district court discretion to dismiss certain unmeritorious declaratory judgment actions.

This Article will explore aspects of declaratory judgment and its application to current patent law issues. Part II of this Article will delve into a brief background of the issues from the perspectives of patentees and infringers. Furthermore, it will discuss declaratory judgment and its direct application to patent law disputes. Part II will also discuss the policy behind declaratory judgment actions, their legal effect, and a clarified rule of law after *SanDisk*. Part III will discuss the paradigm shift from concern over patentee abuse to concern over infringer abuse. A survey and analysis of cases decided before and after *SanDisk* offers useful insight into the changing dynamic within the patent industry. Part IV will assert novel solutions to the problems that *SanDisk* creates for patentees. This section will propose that district courts should exercise discretion and dismiss declaratory judgment actions in the interest of public policy when overzealous infringers abuse the *SanDisk* test. Part IV will also discuss the failure of covenants not to sue as solutions. Finally, Part IV will then propose a legislative remedy, which will ensure the re-establishment of equilibrium between patentees and infringers.

II. DECLARATORY JUDGMENT

A. A Brief Background: Implications of *SanDisk*

In his concurring opinion in *SanDisk Corp. v. STMicroelectronics, Inc.*, Circuit Judge Bryson illuminated the broad and far-reaching impact of the Federal Circuit’s “all circumstances” test.²⁸ This new test permits an infringer to bring declaratory judgment actions against a patentee merely after the patentee informs the infringer that the patentee believes the infringer’s actions constitute infringement.²⁹ Under the common business practice of licensing, any offer of a license to an infringer is an implied

26. *See Id.*

27. *See* Matthew Herper, *Lilly, Other Drugmakers Rely on Patents*, FORBES, Aug. 16, 2000, <http://www.forbes.com/2000/08/16/mu4.html> (discussing how Eli Lilly, as an example of other pharmaceutical companies, lost 28% of its stock value after one patent was invalidated).

28. *SanDisk*, 480 F.3d at 1384 (Bryson, J., concurring).

29. *Id.*

assertion by the patentee that the proposed licensee is infringing.³⁰

A brief look at industry practice offers a useful context to the patentee-infringer relationship. A widespread business practice among companies with valuable patent portfolios is to identify possible infringers and offer them licensing agreements to preclude expensive litigation.³¹ The patentee offers these infringers or licensees the use of its patents in exchange for money or some other consideration.³² Unsurprisingly, it is important for patentee companies, as an overall business strategy, to avoid litigation and maintain amicable business relations within the relevant industry.³³

Consider the predicament of the patentee. A subsequent assurance that the patentee does not intend to sue is no longer enough to prevent declaratory judgment jurisdiction.³⁴ If the patentee affirms that the licensee's conduct is, in its view, infringement, declaratory judgment jurisdiction has been established.³⁵ Yet, if the patentee claims that the licensee is not infringing, the patentee has likely irreparably damaged any future patent infringement case.³⁶

Having established the basic framework of the current patentee-infringer relationship and the implications of the new test, it is relevant to trace the history and policy of declaratory judgment actions.

B. Patent Law and Declaratory Judgment: Why Are Patentees Afraid of It?

The Declaratory Judgment Act, first enacted in 1934, became the sword with which infringers could ward off patentees' intimidation tactics.³⁷ Unfortunately, no legislative records, such as committee or floor reports, from which to derive the policy goals of Congress, exist regarding the Act during its original enactment in 1934. Courts and commentators

30. *Id.*

31. *See, e.g., Id.* at 1374 (describing the process of contacting an infringer company for a licensing agreement). *See* H. Roy Berkenstock, *The Licensing of Intellectual Property Rights*, THE FED. LAWYER, Nov./Dec. 2007, at 17 (discussing strategies for dealing with licensing infringers and the common use of patent licenses in patent dispute settlements).

32. Berkenstock, *supra* note 31, at 17.

33. *Id.*

34. *SanDisk*, 480 F.3d at 1384.

35. *Id.*

36. *Id.*

37. 28 U.S.C. § 2201 (2000). Originally enacted in 1934, the Declaratory Judgment Act is currently codified in Section 2201.

inferred much of the policy behind the Act regarding patent disputes.³⁸ The Act permits a court, within its discretion, to declare the rights of all parties involved and to act as a final adjudication of the matter.³⁹

The Act represents the infringer's sword or pre-emptive strike because the infringer no longer needs to await the service of the complaint from the patentee, but discovers quickly its rights in regards to the disputed patents.⁴⁰ In such cases, the infringer brings a declaratory judgment action for non-infringement and/or patent invalidity.⁴¹ In such a suit, the infringer could be judicially declared a non-infringer and the patentee's patents could be invalidated, thereby allowing the now declared non-infringer to continue to legally use such technologies and even patent the technology.⁴²

"After the Act, those competitors [infringers] 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."⁴³ This new device for infringers is effective not only because infringers can quickly determine their rights in regards to patents, but also because the court may declare the patent invalid.⁴⁴ To declare a patent invalid and remove the competitive protection of the patent system can be devastating for companies, especially those which thrive on novel technologies.⁴⁵

C. Tracing the Roots of Declaratory Judgment: Before MedImmune and SanDisk

Aetna Life Ins. Co. of Hartford, Conn. v. Haworth is one of the earliest and most seminal Supreme Court opinions that explicates and applies the Declaratory Judgment Act.⁴⁶ The opinion shaped a constitutional framework for determining when a district court has the authority to hear a declaratory judgment action.⁴⁷ Although the case concerned insurance policy coverage disputes, the legal analysis is

38. See *SanDisk*, 480 F.3d at 1384 (discussing the policy behind the Declaratory Judgment Act).

39. 28 U.S.C. § 2201(a) (2000).

40. *Id.*

41. GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14.

42. *Id.*

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

44. GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14.

45. See e.g., Herper, *supra* note 27.

46. *Aetna Life Ins. Co. of Hartford, Conn. v. Haworth*, 300 U.S. 227 (1937).

47. *Id.* at 240-41.

pertinent in explaining the Federal Circuit tests.⁴⁸ Drawing from the “actual controversy” language of the Act and the Constitution, the Court recognized that the prevailing principle of declaratory judgment is constitutionally-based.⁴⁹

Under Article III, section 2 of the Constitution, the power of the judiciary is limited to adjudicating all “cases” and “controversies.”⁵⁰ Based upon this constitutional principle, the Court concluded that the Act cannot be used beyond the “cases” and “controversies” limits.⁵¹ The Court declared, “A justiciable controversy is thus distinguished from a difference or dispute of a hypothetical or abstract character; from one that is academic or moot.”⁵² The Court held that declaratory judgment is only appropriate if: (1) there is a case or controversy, as those terms of art are defined and, (2) there is a real and non-hypothetical situation between the parties with opposing concrete legal interests.⁵³

Expanding upon the foundation of *Aetna* and a gamut of half-century of common law, the Federal Circuit began to establish a more refined declaratory judgment test.⁵⁴ *Arrowhead Industrial Water, Inc. v. Ecolochem, Inc.* set out the next Federal Circuit test for declaratory judgment actions, which was based on the constitutional framework established in *Aetna*.⁵⁵ For many decades after *Arrowhead Industrial Water*, the Federal Circuit required a showing that the patentee’s behavior must have created “a reasonable apprehension” in the infringer in order to have declaratory judgment jurisdiction.⁵⁶ This standard required apprehension that the patentee would sue based on the patent dispute and that the infringer engaged in acts that might subject it to an infringement suit (hereinafter the “reasonable apprehension test”).⁵⁷

The first prong of the Federal Circuit’s reasonable apprehension test

48. *Id.* at 237.

49. *Id.* at 239–40.

50. U.S. CONST. art. III, § 2.

51. *Aetna*, 300 U.S. at 240 (“The Declaratory Judgment Act must be deemed to fall within this ambit of congressional power, so far as it authorizes relief which is consonant with the exercise of the judicial function in the determination of controversies to which under the Constitution the judicial power extends.”).

52. *Id.* at 240.

53. *Id.* at 240–41.

54. *See, e.g.*, *Goodyear Tire & Rubber Co. v. Releasomers, Inc.*, 824 F.2d 953 (Fed. Cir. 1987); *see also Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 737 (Fed. Cir. 1988).

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

56. *See, Sandisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379 JF, 2005 WL 5801276 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007).

57. *Arrowhead*, 846 F.2d at 737.

focused on the conduct of the patentee and whether it would reasonably indicate intent to initiate a lawsuit.⁵⁸ The second prong asked whether the infringer's activity was infringement upon the patent in question.⁵⁹ By inquiring into the reasonable apprehension of the infringer and behavior of the patentee, the Federal Circuit conformed to *Aetna* and the case and controversy requirement.⁶⁰ Thus, the test took into account a reasonable apprehension on the part of the infringer.⁶¹ The reasonable apprehension test required the patentee to behave in a way that was sufficient to put a reasonable person on notice that a lawsuit was forthcoming.⁶²

D. The Aftermath of MedImmune and SanDisk: Clarifying the Current Rule of Law in Patent Disputes

Until early 2007, the reasonable apprehension test was the law relied upon by both patentees and infringers.⁶³ However on January 9, 2007, when *MedImmune, Inc. v. Genentech, Inc.* was decided, the Supreme Court rejected the reasonable apprehension test.⁶⁴

In a footnote, the Court noted that reasonable apprehension is not necessary to satisfy the constitutional and statutory requirement, as explicated in *Aetna*, of a justiciable controversy.⁶⁵ In fact, the Court indicated that the reasonable apprehension test was in conflict with Supreme Court case law.⁶⁶ Subsequent to *MedImmune*, the Federal Circuit heard *SanDisk*, which created a forum to adjust its long-standing declaratory judgment jurisprudence in accordance with the Supreme Court's decision in *MedImmune*.⁶⁷

SanDisk and STMicroelectronics ("ST") were both in the business of flash memory products.⁶⁸ In the first contact between the parties, ST's vice president of intellectual property wrote to *SanDisk* requesting a cross-license agreement.⁶⁹ ST believed that *SanDisk* was infringing upon ST's

58. *Id.* at 736.

59. *Id.* at 738.

60. *Id.* at 736.

61. *Sandisk*, 2005 WL 5801276 at *5.

62. *Id.*

63. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 133 n.11 (2007).

64. *Id.* at 118.

65. *Id.* at 133 n.11.

66. *Id.*

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

68. *Id.* at 1374.

69. *Id.*

flash memory patents and requested a meeting.⁷⁰ ST hoped to gain patent licenses and/or other consideration from SanDisk in exchange for the continued use of ST's patents.⁷¹

After several meetings and exchanges, communications broke down and SanDisk filed a lawsuit against ST for declaratory judgment.⁷² The District Court subsequently dismissed the action for lack of controversy as required by declaratory judgment actions.⁷³ The court focused on the reasonable apprehension of the test, stating that SanDisk did not have reasonable apprehension that ST would file suit against it for patent infringement.⁷⁴

Drawing upon *MedImmune*, the *SanDisk* court discarded the "reasonable apprehension" prong of the declaratory judgment test,⁷⁵ and attempted to create a new test, which was oblique at best:

We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party [infringer], and where that party contends that it has the right to engage in the accused activity without license, an Article III cause or controversy will arise⁷⁶

Months later, the Federal Circuit referred to the test as the "all circumstances" test.⁷⁷

This current test no longer focuses on any reasonable apprehension by the infringer, but rather takes into account all activity between the patentee and the infringer.⁷⁸ Based upon the new test, the *SanDisk* court upheld the declaratory judgment action "because ST has engaged in a course of conduct that shows a preparedness and willingness to enforce its patent rights."⁷⁹

At first blush, the "all circumstances" test may seem to improve on the reasonable apprehension test. However, Circuit Judge Bryson's

70. *Id.* at 1375.

71. *Id.* at 1374–76 (describing how SanDisk and ST had a series of meetings and communications which discussed patent infringement analyses and exchange of patent licenses).

72. *Id.* at 1376.

73. *SanDisk*, 480 F.3d. at 1376.

74. *Id.*

75. *Id.* at 1380.

76. *Id.* at 1381.

77. *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, 482 F.3d 1330, 1339 (Fed. Cir. 2007).

78. *SanDisk*, 480 F.3d at 1384.

79. *Id.* at 1383.

concurring opinion revealed the test's hidden implications.⁸⁰ To understand Judge Bryson's concerns, one must first recognize the typical scenario of a patentee offering a license to an infringer to avoid litigation, settle disputes, and promote business relationships.⁸¹ A patentee's offer of a license to an infringer impliedly suggests that the infringer's business activities are within the scope of the patentee's rights.⁸² In reality, the only reason to offer an unsolicited patent license is to suggest that the patentee is prepared to enforce its patent rights.⁸³ Thus, under the "all circumstances" test, any offer of a patent license to an infringer will permit the infringer to sue for declaratory judgment.⁸⁴ The majority conveniently avoided any discussion of these broad implications and decided the case on its facts.⁸⁵

The *SanDisk* court further held that ST's express declaration that it had no plans to sue SanDisk did not dispel a controversy.⁸⁶ The court emphasized that behavior is more reliable evidence of intent than words.⁸⁷ When such minimal behavior by the patentee triggers the ability of the infringer to bring a declaratory judgment action, the patentee may be deterred from risking the validity of its patent. Consequently, the patentee is put between "a rock and a hard place," unable to offer a patent license without exposing itself to possible patent invalidation by declaratory judgment.⁸⁸

In the recent case of *Benitec Australia, Ltd. v. Nucleonics, Inc.*, the Federal Circuit further refined the analytical framework of the "all circumstances" test.⁸⁹ The *Benitec* court first reaffirmed the holding in *SanDisk* and suggested a "useful question" in determining whether a controversy exists for declaratory judgment.⁹⁰ The court posed the question: "[W]hat, if any, cause of action the declaratory judgment defendant may have against the declaratory judgment plaintiff?"⁹¹

80. *Id.* at 1384.

81. Berkenstock, *supra* note 31, at 16–17.

82. *SanDisk*, 480 F.3d at 1384.

83. *See Teva Pharms.*, 482 F.3d at 1330; *see also infra* text accompanying notes 86–91.

84. *SanDisk*, 480 F.3d at 1384.

85. *Id.* at 1384.

86. *Id.* at 1383.

87. *Id.* at 1382–83.

88. If the patentee is to offer a license, it is most likely demonstrating intent to enforce its patent rights, as required by the "all circumstances" test. However, if the patentee wishes to use the license as a means to avoid litigation, it has to bare the possibility of being brought into court under declaratory judgment. *See Berkenstock*, *supra* note 31, at 16–17.

89. *Benitec Australia, Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1343–44 (Fed. Cir. 2007).

90. *Id.* at 1344.

91. *Id.*

This analytical framework seems to affirm the slippery slope of the “all circumstances” test asserted in *SanDisk*.⁹² It is difficult to imagine a scenario in which the answer to the *Benitec* court’s question would be “no cause of action.”⁹³ The question is concerned with what causes of action the patentee *may* have against the infringer?⁹⁴ Certainly, in every possible situation in which a patentee is offering a license to an infringer, the patentee *may* have a cause of action against the infringer for patent infringement. In reality, it is unfathomable that a patentee would offer an unsolicited license to an infringer without the implicit suggestion that they *may* have a cause of action against the infringer.⁹⁵ Thus, it appears that *Benitec* serves to sharpen the infringer’s declaratory judgment sword by emphasizing that a patentee must essentially abandon pre-litigation, and even mid-litigation, license agreement negotiations.⁹⁶

III. PATENTEES AFTER SANDISK: THE NEW LEGAL REPERTOIRE AND IMBALANCE

A. *The Paradigm Shift: The Patentee Transitions from Scare-and-Run to Run-and-Run*

Congress enacted the Declaratory Judgment Act⁹⁷ to shield accused infringers from the characteristically behemoth, and often litigious, patentees.⁹⁸ Given that patents are frequently the life-blood of many corporations, it is in the best interest of a patentee corporation to assert its ability to enforce and protect its patent at the earliest point possible.⁹⁹ Thus, the Act serves to stabilize the relationship between patentees and alleged infringers by giving infringers the device of declaratory judgment.¹⁰⁰

However, *SanDisk* and the subsequent opinions affirming it, turn the

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

93. *Benitec*, 495 F.3d at 1344.

94. Certainly, one can only hope that the *Benitec* court is not asking a district court judge to pre-determine the merits of a case before even analyzing if the court has jurisdiction under the Declaratory Judgment Act.

95. *See SanDisk*, 480 F.3d at 1384.

96. *Benitec*, 495 F.3d 1340.

97. 28 U.S.C. § 2201 (2000).

98. *GLADSTONE MILLS III, REILEY III & HIGHLEY*, *supra* note 14; *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988).

99. *See Herper*, *supra* note 27.

100. *See Aetna Life Ins. Co. of Hartford, Conn. v. Haworth*, 300 U.S. 227 (1937); 28 U.S.C. § 2201 (2000).

important public policy goal of protecting alleged infringers and stabilizing the patent-centered economic marketplace on its head.¹⁰¹ In the continued attempt to calm the patentee beast, more than the patentee's scare tactics are gone. The formerly viable and less expensive¹⁰² option of patent licensing in the infringement context has been removed from the patentee's repertoire of legal measures as an alternative to litigation. If a patentee is subject to patent invalidation by declaratory judgment at the mere suggestion of a license, the natural result is that the patentee must ignore the patent infringement, commence expensive litigation,¹⁰³ or risk declaratory judgment and possible subsequent patent invalidation.¹⁰⁴

The removal of the licensing or negotiation measure causes an imbalance.¹⁰⁵ The "all circumstances" test creates an imbalance in the patentee-infringer relationship which can be seen through a careful examination of subsequent district court cases which have attempted to apply the *SanDisk* rule.¹⁰⁶ Many of these cases, if not directly comparing the old result before *SanDisk*, serve as convenient comparative tools to reveal the negative implications for patentees.¹⁰⁷

B. Establishing the Paradigm Shift: A Case Study Through United States District Courts and the Federal Circuit

The suit begins when an infringer files a complaint against the patentee for a declaratory judgment that the patents be declared non-infringed, invalid, or both.¹⁰⁸ The patentee or defendant in this action will typically file a Federal Rules of Civil Procedure 12(b)(1) motion to dismiss for lack of subject matter jurisdiction.¹⁰⁹ This Article will focus on the point at which the court rules on the motion to dismiss—the crucial phase in demonstrating the paradigm shift.

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

102. The costs associated with patent licensing from sharing patents with the infringer is technically negated by the valuable consideration required by the licensing contract.

103. *Cost of Litigation Haunts U.S. Corporations More than Winning Cases*, INS. J., Nov. 7, 2005, <http://www.insurancejournal.com/magazines/east/2005/11/07/features/62312.htm>; NAT'L RESEARCH COUNCIL OF THE NAT'L ACADS., A PATENT SYSTEM FOR THE 21ST CENTURY 38 (2004).

104. GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14.

105. See *infra* Part III.B. (cases surveying and analyzing the imbalance created by the new test).

106. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1381 (Fed. Cir. 2007); See *infra* Part III.B.1–4.

107. See *SanDisk*, 480 F.3d 1372.

108. See, e.g., *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007).

109. FED. R. CIV. P. 12(b)(1).

1. *EchoStar Satellite LLC v. Finisar Corp.*

The relevant facts of *EchoStar* are exceedingly similar to *SanDisk*.¹¹⁰ The defendant patentee, Finisar, contacted the plaintiff-infringer, EchoStar, to discuss a licensing agreement because Finisar believed that EchoStar had been infringing a satellite technology patent.¹¹¹ In the meantime, Finisar filed a patent infringement suit against DirecTV.¹¹² Finisar issued a press release to reiterate its intention to continue negotiations with EchoStar and other competitors.¹¹³ After mutually failing to agree on the time and place of a meeting, EchoStar filed a declaratory judgment suit against Finisar.¹¹⁴

Applying the “all circumstances” test, the court found an actual controversy for declaratory judgment.¹¹⁵ Despite repeated attempts by Finisar to resolve the matter without resorting to litigation, the court concluded that the combination of the outside suit against DirecTV and the licensing discussions constituted a controversy between Finisar and EchoStar.¹¹⁶ The court even implied that the suit against DirecTV was not needed and that the mere fact that EchoStar was confronted with an infringement allegation during the licensing negotiations was sufficient to constitute a controversy.¹¹⁷

This case demonstrates that a patentee may not be able to conduct its legal affairs in the way it pleases in one case without materially affecting another case.¹¹⁸ The secondary litigation against DirecTV may have been more cost-effective or more tenable than any such suit against EchoStar. However, by allowing the actions of Finisar against a third party (DirecTV) to impute onto EchoStar, the court demonstrated the new position of patentees under *SanDisk*: stuck between a rock—an offer of license leading to litigation—and a hard place—not enforcing their patent rights leading to litigation.¹¹⁹ The circumstances presented in this case would surely not satisfy the previous reasonable apprehension test; EchoStar had

110. See *EchoStar*, 515 F. Supp. 2d at 449; *SanDisk*, 480 F.3d at 1374–77.

111. *EchoStar*, 515 F. Supp. 2d at 449.

112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.* at 451.

116. *Id.* at 452.

117. *EchoStar*, 515 F. Supp. 2d at 452 (“[A]n actual controversy exists in the instant case regardless of whether the licensing negotiations are ongoing.” “By their communications with respect to attempted licensing negotiations, Defendant accused Plaintiffs of infringing the . . . patent . . .”).

118. *Id.* (describing how the DirecTV infringement affected Echostar’s negotiations).

119. *Id.*

no “reasonable apprehension of suit.”¹²⁰ Thus, the “all circumstances” test essentially precludes patentees from offering licensing agreements.¹²¹ Instead, the patentee is subject to the negative economic effects of increased litigation and possible invalidation of patents.¹²²

2. *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*

In *Sony*, the district court and the Federal Circuit analyzed a declaratory judgment through a patent dispute regarding V-chip technologies.¹²³ Patentee Guardian contacted Sony with its analysis of a potential infringement by Sony.¹²⁴ Over several years, Guardian attempted to meet with Sony to discuss licensing proposals.¹²⁵ Sony eventually responded by filing for declaratory judgment.¹²⁶

Interestingly, the case was argued and decided before the district court under the traditional reasonable apprehension of suit test.¹²⁷ Under this test, the district court did not find reasonable apprehension of a suit and dismissed Sony’s declaratory judgment action for lack of jurisdiction.¹²⁸

Applying the new *SanDisk* test,¹²⁹ the circuit court reversed and held that the lower court had jurisdiction to grant declaratory judgment relief.¹³⁰ The court held that Guardian’s acts of contacting Sony and identifying the possibly infringed patents in the licensing discussions created a justiciable controversy.¹³¹ In fact, the circuit court highlighted this point by stating, “[i]n *SanDisk* we recognized that a patentee’s apparent continued willingness to engage in licensing negotiations does not prevent a plaintiff

120. *SanDisk Corp. v. STMicroelectronics, Inc.*, 2005 WL 5801276, at *5 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007) (holding that under the reasonable apprehension of suit test, the facts of *SanDisk* did not present a case or controversy). Analogizing to the cases discussed, the facts in each are very similar to *SanDisk*. Thus, it is quite likely that each of these highly similar cases would have been decided in the same way as the district court decided in *SanDisk*.

121. *SanDisk*, 2005 WL 5801276 at *5.

122. *See generally* GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14 (discussing the implications of declaratory judgment, including the outcome of patent invalidation).

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

124. *Id.* at 1274.

125. *Id.* at 1275.

126. *Id.* at 1276.

127. *Id.* at 1282.

128. *Id.* at 1281.

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

130. *Sony*, 497 F.3d at 1285.

131. *Id.* at 1285–86.

from maintaining a declaratory judgment suit.”¹³² The circuit court implied that the district court should have also held that a patentee’s engagement in such negotiations constitutes jurisdiction for declaratory judgment—especially since Guardian merely contacted Sony and offered patent licenses, thereby expressly indicating that Guardian believed Sony was infringing on its patents.¹³³

Consequently, the new test forces the patentee, Guardian, out of a frequently used business strategy (threatening infringement and offering licenses) and subjects them to litigation in the form of a declaratory judgment action.¹³⁴ *Sony* demonstrates and reinforces that patent licensing is no longer a viable option for patentees like Guardian and that, in the future, patentees will be forced into litigation.¹³⁵ Consequently, the high costs of litigation will result in a more tenuous economic position for patentees.¹³⁶

However, litigation may be the best forum for these companies to resolve their differences. Why not permit these powerful companies to demonstrate their mettle in a public forum? A neutral arbiter may fashion a better remedy than any private license. Unfortunately, the staggering cost of litigation in the United States heavily discounts this argument.¹³⁷ Requiring patentees and infringers to resolve their disputes before the courts makes little sense, legally or as a business decision, when the cost of litigation is so high and the freedom of contract reigns supreme.¹³⁸ Because of these drawbacks, arbitration may provide a better forum for resolution. Surely, if parties may go before an arguably less expensive and efficient arbiter, patentees should be permitted to offer licenses without the accompanying consequences of litigation.¹³⁹

Furthermore, *Sony* implies that the new rule is subject to infringer abuse and overuse, because the infringer can gain a stronger foothold in the

132. *Id.* at 1286.

133. *Id.* at 1286.

134. See generally Berkenstock, *supra* note 31 (discussing strategies for dealing with licensing infringers and the common use of patent licenses in patent dispute settlements).

135. See *Sony*, 497 F.3d at 1271.

136. See *Cost of Litigation Haunts U.S. Corporations More than Winning Cases*, *supra* note 103 (by pushing out patent licensing, patentees are forced into expensive litigation and out of often profitable licenses).

137. *Id.*

138. See, e.g., *Board of Regents of State Colleges v. Roth*, 408 U.S. 564, 572 (1972) (explaining the public policy and constitutional requirement of freedom of contract).

139. See Theodore Eisenberg et al., *Arbitration’s Summer Soldiers: An Empirical Study of Arbitration Clauses in Consumer and Nonconsumer Contracts*, 41 U. MICH. J.L. REFORM 871, 871–76 (2008) (discussing the ready availability of arbitration and arguments as to its efficiency and cost-effectiveness).

patent-driven economic sector, particularly with the aid of a low-threshold judicial standard of declaratory judgment jurisdiction.¹⁴⁰ Under this legal threshold, what is to stop an infringer from abusing the “all circumstances” test to invalidate a competitor’s patents? The answer appears to be that there is nothing to restrain such an infringer.

3. *Crutchfield New Media, LLC v. Charles E. Hill & Associates, Inc.*

The facts of *Crutchfield* are exceedingly similar to *SanDisk*.¹⁴¹ Patentee Hill contacted Crutchfield believing that Crutchfield was infringing on Hill’s patents.¹⁴² Hill sent materials to Crutchfield including an offer to Crutchfield to license Hill’s patents.¹⁴³ Crutchfield refused the licensing agreement and filed suit for declaratory judgment.¹⁴⁴ Shortly thereafter, Hill responded with a patent infringement suit.¹⁴⁵ Hill subsequently moved to dismiss Crutchfield’s suit due to lack of subject-matter jurisdiction.¹⁴⁶

The *Crutchfield* court held that the case was indistinguishable from *SanDisk* because Hill “put Crutchfield in the same category as other Internet retailers against whom Hill had filed a patent infringement suit.”¹⁴⁷ Similar to *SanDisk*, *EchoStar*, and *Sony*, the offer of a licensing agreement established grounds for a damaging declaratory judgment action by the infringer.¹⁴⁸ Despite Hill’s past history of filing suit against other companies, Hill wished to resolve the patent dispute through contractual means.¹⁴⁹ Under the reasonable apprehension test, it is likely that Crutchfield lacked a reasonable apprehension of a lawsuit based on the materials sent by Hill.¹⁵⁰

140. See *Sony*, 497 F.3d at 1271.

141. *Crutchfield New Media, LLC v. Charles E. Hill & Assocs., Inc.*, No. 1:06-cv-0837-LJM-JMS, 2007 WL 1320750, at *1, (S.D. Ind. May 4, 2007).

142. *Id.*

143. *Id.*

144. *Id.*

145. *Id.*

146. *Id.*

147. *Crutchfield*, 2007 WL 1320750, at *2.

148. *Id.* at *1; see *SanDisk Corp. v. STMicroelectronics NV Inc.*, 480 F.3d 1372 (Fed. Cir. 2007); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007); *Sony Electcs., Inc. v. Guardian Media Tech., Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007) (holding a licensing agreement was grounds for a damaging declaratory judgment action).

149. *Crutchfield*, 2007 WL 1320750 at *1.

150. *SanDisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379 JF, 2005 WL 5801276, at *7 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007). The district court held that under the reasonable apprehension of suit test, the facts of *SanDisk* did not present a case or controversy. Analogizing to the cases discussed, the facts in each are very similar to *SanDisk*.

In fact, the materials not only indicated that Hill believed Crutchfield was infringing and that Hill would enforce its patents, but that under the circumstances, Hill wished to settle the matter out of court with a licensing agreement.¹⁵¹ Under the reasonable apprehension test, it would be unreasonable for Crutchfield to believe Hill's desire to negotiate a licensing agreement would cause Crutchfield to apprehend suit.¹⁵² Time and time again, the new "all circumstances" test encourages increased patent litigation, increased business costs, and destabilizes the patent-economic marketplace.¹⁵³

4. *Sabert Corp. v. Waddington North America, Inc.*

The paradigm *SanDisk* scenario was again closely replicated in *Sabert*.¹⁵⁴ Defendant-patentee Waddington was the assignee of a patent relating to the production of food-service furniture and other articles.¹⁵⁵ However, unlike the majority of other declaratory judgment cases,¹⁵⁶ the alleged infringer and plaintiff, Sabert, initiated contact with Waddington.¹⁵⁷ Sabert claimed that Waddington's patent was invalid and that Sabert would seek a hearing before the U.S. Patent and Trademark Office depending on Waddington's response.¹⁵⁸ Sabert desired a patent because it had been using a related or similar technology to Waddington's.¹⁵⁹

Waddington responded to Sabert's letter by indicating its disagreement regarding the invalidity of the patent.¹⁶⁰ Furthermore, Waddington ended the letter with an offer to license the patent to Sabert.¹⁶¹

Thus, it is quite likely that each of these highly similar cases would have been decided in the same way that the district court decided the *SanDisk* case.

151. *Crutchfield*, 2007 WL 1320750, at *1.

152. *SanDisk*, 2005 WL 5801276, at *5 (discussing the reasonable apprehension test and clearly delineating that discussion of a license does not constitute reasonable apprehension of suit).

153. See *Crutchfield*, 2007 WL 1320750, at *2.

154. *Sabert Corp. v. Waddington N. Am., Inc.*, No. 06-5423, 2007 WL 2705157, at *1 (D.N.J. Sept. 14, 2007).

155. *Id.* at *1.

156. See, e.g., *SanDisk Corp. v. STMicroelectronics NV Inc.*, 480 F.3d 1372 (Fed. Cir. 2007); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007); *Sony Elects., Inc. v. Guardian Media Tech., Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007); *Crutchfield*, 2007 WL 1320750 (four major declaratory judgment decisions).

157. *Sabert*, 2007 WL 2705157, at *1.

158. *Id.*

159. *Id.* at *2.

160. *Id.* at *1.

161. *Id.*

Sabert replied with information regarding its fabrication process and a sample of their product.¹⁶² Waddington's last letter expressed a continued interest in resolving the matter amicably.¹⁶³ In response, Sabert terminated communications and filed a declaratory judgment action.¹⁶⁴

The district court denied Waddington's motion to dismiss for lack of subject-matter jurisdiction.¹⁶⁵ The district court pointed to the communications Waddington sent to Sabert, which placed Sabert in a position that forced it to either litigate or illegally use a patent.¹⁶⁶ The court believed that the facts closely mirrored those of *SanDisk* because based on Waddington's communications, "it is clear that Waddington will assert its rights under the '542 patent."¹⁶⁷

Sabert clearly delineates the lack of equilibrium between patentees and alleged infringers. Patentee Waddington did little more than respond to the accusations of Sabert regarding the validity of its patent.¹⁶⁸ However, Waddington's disagreement with Sabert's assessment and the offer of a license unsurprisingly worked against Waddington to create declaratory judgment jurisdiction.¹⁶⁹ Also, though the court failed to discuss how different the holding would have been prior to *SanDisk*, it is highly likely that the action would have been dismissed.¹⁷⁰ The *Sabert* court further explicated that *Sabert* very closely matched the scenario of *SanDisk*.¹⁷¹

The *Sabert* court also interestingly failed to underscore the fact that the alleged infringer first initiated contact with the patentee.¹⁷² At first glance, this fact seems legally inoperative. However, the entire reason the dispute between Waddington and Sabert came about is because of Sabert's initial letter.¹⁷³ It seems unjust and improper for the court to ignore this fact in considering whether the circumstances presented a case or controversy for declaratory judgment jurisdiction.

162. *Id.* at *2.

163. *Sabert*, 2007 WL 2705157, at *2.

164. *Id.*

165. *Id.* at *7.

166. *Id.* at *4.

167. *Id.*

168. *Id.* at *1.

169. *Sabert*, 2007 WL 2705157, at *4.

170. *SanDisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379JF, 2005 WL 5801276, at *7 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007). The district court used the reasonable apprehension test and found a lack of declaratory judgment jurisdiction.

171. *Sabert*, 2007 WL 2705157, at *4; *SanDisk Corp. v. STMicroelectronics NV Inc.*, 480 F.3d 1372, 1372 (Fed. Cir. 2007).

172. *Sabert*, 2007 WL 2705157, at *1.

173. *Id.*

If an infringer need no longer await contact by a patentee with a license, the result is disturbing to say the least. If such reasoning is followed to its logical result, infringers may initiate declaratory judgment actions quite easily by contacting patentees and accusing them of patent invalidity.¹⁷⁴ The patentee will then disagree with the assessment and perhaps offer a license.¹⁷⁵ This scenario highlights the dysfunction of the “all circumstances” test to create any sort of genuine equilibrium between patentees and infringer.

The *Sabert* court might argue that consideration of who contacted whom first is irrelevant in assessing the “all circumstances” test. It could be argued that the patentee contacts the infringer when establishing intent to enforce patentee’s patent rights. Yet, how can the court ignore the fact that the infringing company initiated contact with an accusatory letter?¹⁷⁶ Such contact puts the patentee on the defensive and thereby corners it into a position to assert and defend its patent rights.¹⁷⁷ To not consider such a circumstance clearly ignores the very policy and purpose behind the Declaratory Judgment Act.¹⁷⁸ As previously discussed, the Act was enacted to prevent the *danse macabre* created by overbearing and threatening patentees.¹⁷⁹ Yet, in contacting a patentee with an accusatory letter, the infringer uses the declaratory judgment tool as an unbalancing force to re-create the *in terrorem* choice in patentees.¹⁸⁰

C. A Disturbing Trend

The case studies discussed in this section evince a substantial pattern of disequilibrium between patentees and infringers.¹⁸¹ In almost every scenario, a patentee initiated contact with an alleged infringer and offered to license its patent portfolio.¹⁸² Based upon the minimal communications,

174. *Id.*

175. *Id.*

176. *Id.*

177. *Id.*

178. *See infra* part IV.A.2. (discussing and analyzing the policy behind the Declaratory Judgment Act to preclude *in terrorem* choices).

179. *See infra* part IV.A.2.

180. *See infra* part IV.A.2.

181. *See infra* Part IV.B. (presenting and analyzing cases which typify the disequilibrium between patentees and infringers).

182. *See, e.g.,* SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372, 1374 (Fed. Cir. 2007); EchoStar Satellite LLC v. Finisar Corp., 515 F. Supp. 2d 447, 449 (D. Del. 2007); Sony Elecs., Inc. v. Guardian Media Techs., Ltd., 497 F.3d 1271, 1275 (Fed. Cir. 2007); Crutchfield New Media, LLC v. Charles E. Hill & Assocs., Inc., No. 1:06-cv-0837-LJM-JMS, 2007 WL 1320750, at *1 (S.D. Ind. May 4, 2007).

the court in each case found declaratory judgment jurisdiction.¹⁸³

In *Sabert*, the court glossed over the fact that the alleged infringer first initiated contact with the patentee.¹⁸⁴ Furthermore, it is likely that each of these cases would have resulted in a dismissal due to lack of subject-matter jurisdiction under the reasonable apprehension test.¹⁸⁵ Now that the extensive problems with the new test have been analyzed and brought to the surface, proposed solutions must be discussed.

IV. RESTORING BALANCE: SEARCHING FOR AN EQUILIBRIUM

A. *District Court Discretion: The Choice to Hear Declaratory Judgment Suits*

1. Questioning the Solution

One possible resolution to the imbalance created by the *SanDisk* “all circumstances” test is rooted in the text of the Declaratory Judgment Act.¹⁸⁶ In relevant part, the Act states that “any court of the United States . . . may declare the rights . . . of any interested party.”¹⁸⁷ Based upon the word “may,” courts have interpreted this section of the statute to mean that district courts may refuse to hear a declaratory judgment action.¹⁸⁸ This interpretation of the Act¹⁸⁹ invokes the question: does a district court judge have the capacity to dismiss a declaratory judgment to remedy the imbalance created by the “all circumstances” test?

Before proceeding to analyze the scope of a district court’s discretion, one should think about how such a remedy could solve the disparity between patentees and infringers. The exercise of a district court’s discretion will likely provide only a partial solution. One can presuppose that a district court may dismiss declaratory judgment suits initiated by

183. See, e.g., *SanDisk*, 480 F.3d at 1382; *EchoStar*, 515 F. Supp. 2d at 452; *Sony*, 497 F.3d at 1285; *Crutchfield*, 2007 WL 1320750, at *3.

184. *Sabert Corp. v. Waddington N. Am., Inc.*, No. 06-5423, 2007 WL 2705157, at *1 (D.N.J. Sept. 14, 2007).

185. *SanDisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379 JF, 2005 WL 5801276 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007); see *supra* note 120 for explanation of the holding of the lower *SanDisk* court and its implications.

186. 28 U.S.C. § 2201 (2000).

187. *Id.* (emphasis added).

188. See e.g., *Genentech, Inc. v. Eli Lilly and Co.*, 998 F.2d 931, 936 (Fed. Cir. 1993); *Brillhart v. Excess Ins. Co. of Am.*, 316 U.S. 491, 494 (1942).

189. 28 U.S.C. § 2201 (2000).

infringers whom appear to have abused the “all circumstances” test.¹⁹⁰ However, by removing the element of abuse, a district court is likely bound by the mandatory authority of *SanDisk*.¹⁹¹

Nonetheless, where there is clear evidence of abuse, the court should be able to use public policy goals to prevent the fraudulent use of the judicial system to circumvent the *SanDisk* test. When an infringer meets all the requirements of the “all circumstances” test, it appears that a district court may do little to dismiss the suit without committing reversible error.¹⁹² The district court must cite strong public policy reasons to void jurisdiction.¹⁹³ If judges can dismiss declaratory judgment actions in situations involving at least some demonstrable abuse, then it is likely that courts can remedy some of the imbalance between patentees and infringers at the extremes of the spectrum.¹⁹⁴

2. The Dismissal by Discretion Standard

The Supreme Court has stated that a court has “unique and substantial discretion” to dismiss a declaratory judgment suit for lack of jurisdiction.¹⁹⁵ Some courts have indicated that the discretion power is not plenary,¹⁹⁶ and “[t]here must be well-founded reasons for declining to entertain a declaratory judgment action.”¹⁹⁷ Appellate courts use an abuse of discretion standard when reviewing a district court’s denial to hear a declaratory judgment.¹⁹⁸ A district court abuses its discretion when: “(1) the court’s decision was clearly unreasonable, arbitrary, or fanciful; (2) the decision was based on an erroneous conclusion of law; (3) the court’s findings were clearly erroneous; or (4) the record contains no evidence upon which the court rationally could have based its decision.”¹⁹⁹

In *Electronics for Imaging, Inc. v. Coyle*, the Federal Circuit recognized that district courts may assert discretion if the suit does not

190. See *infra* Part IV.A.2. (explaining the district courts’ dismissal by discretion authority).

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

192. See Judiciary Act of 1789, ch. 20, § 3, 1 Stat. 73–74 (establishing the inferior federal courts and thereby makes them subordinate to each higher level of court).

193. See *supra* Part II (analyzing the ability of district courts to dismiss declaratory judgment actions on the basis of public policy).

194. See *supra* Part II.

195. *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286 (1995).

196. *Elecs. for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1345 (Fed. Cir. 2005).

197. *Id.*, citing *Capo, Inc. v. Dioptics Med. Prods.*, 387 F.3d 1352, 1355 (Fed. Cir. 2004).

198. *Elecs. for Imaging*, 394 F.3d at 1345.

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

meet the public policy goals of the Act.²⁰⁰ These goals include avoiding uncertainty and obviating scare-and-run tactics.²⁰¹ Such public policy goals would most likely not be met and, in fact, would be negated by an infringer abusing the Act. In *Electronics for Imaging*, the court also indicated that lower courts have the discretion to consider injustice as a controlling factor.²⁰² However, district courts should continue to consider issues of equity, fairness, and the purpose of the declaratory judgment suit, as held in *Green v. Mansour*.²⁰³

3. A Partial Solution

Under the scenario where an infringer abuses the “all circumstances” test, a district court may dismiss a declaratory judgment action if certain factors are present.²⁰⁴ To alleviate some of the top-level imbalance abusers have created under the *SanDisk* test, a district court judge can utilize public policy goals articulated by the federal courts to dismiss such suits.²⁰⁵ Based on the policy goals of the Declaratory Judgment Act, it appears that an infringer who abuses the “all circumstances” test should have its claim dismissed by a district court for lack of subject-matter jurisdiction.

The following hypothetical scenario best illustrates this proposed solution. Imagine that Company Pharma Z is a patentee that believes that Company Biotech X is infringing several of its patents for cell lines. Pharma Z contacts Biotech X to begin negotiations for a licensing agreement. Biotech X, having attorneys well versed in recent patent case law, decides to take advantage of the *SanDisk* test. Pharma Z has never sued for patent infringement and in the past has settled such disputes by licensing. Biotech X is aware that it is infringing yet believes that it has a good chance to defeat Pharma Z in court. Biotech X also believes that if it files suit now, it can forum shop, conferring further advantages. Biotech X sues Pharma Z in a declaratory judgment action, demanding relief in the form of patent invalidity, noninfringement, or both.

Although extreme, this example illustrates an abuse scenario. In a similar case, or even in cases with less polarizing facts, a district court

200. 28 U.S.C. § 2201 (2000).

201. *Elecs. for Imaging*, 394 F.3d at 1346.

202. *Id.* at 1348.

203. 474 U.S. 64, 72 (1985); *see also*, *Principal Life Ins. Co. v. Robinson*, 394 F.3d 665, 672 (9th Cir. 2004); *Am. States Ins. Co. v. Kearns*, 15 F.3d 142, 144 (9th Cir. 1994); *Am. Econ. Ins. Co. v. Williams*, 805 F. Supp. 859, 863 (D. Idaho 1992).

204. *See supra* Part II (explaining the dismissal by discretion standard).

205. *See Wilton v. Seven Falls Co.*, 515 U.S. 277, 286 (1995) (holding that district courts have substantial discretion to dismiss declaratory judgment suits).

should dismiss the action for reasons of justice, fairness, and furthering the policy goals of the Declaratory Judgment Act.²⁰⁶ Nevertheless, to avoid error the district court must adhere to the standard as expressed in *Minn. Mining & Mfg. Co.*²⁰⁷

As discussed above, this solution is only partial because it can only remedy the extreme cases, otherwise, under the requirements of *Minn. Mining & Mfg. Co.*, it is unlikely that a district court would have sufficient evidence to dismiss the action.²⁰⁸ Dismissal by discretion is a viable option to aid patentees in severe situations of infringer abuse. However, the proposed solution will fail to act as a catch-all remedy because it is merely a bandage for the gaping wound created by the new test in *SanDisk*.

B. Covenants Not to Sue Are Insufficient

In Judge Bryson's concurring opinion in *SanDisk*, he emphasized that a promise not to sue does not void declaratory judgment jurisdiction under the reasonable apprehension test.²⁰⁹ However, the court in *SanDisk* did not discuss the implications of a covenant not to sue.²¹⁰ The difference between a promise not to sue and a covenant not to sue is that a promise is not enforceable.²¹¹ A covenant not to sue is drafted into a patent licensing agreement or other business contract in which both the patentee and the alleged infringer have bargained for, and offered, consideration.²¹² There is nothing to indicate that such a covenant would be invalid under contract law because under common law giving up the right to sue is valid consideration.²¹³

Nonetheless, a covenant not to sue is certainly not the magic bullet for the imbalance in patent licensing because its enforcement depends on the time in which the parties enter into the agreement. A covenant not to sue would appear, if at all, in a licensing agreement between the patentee and

206. *See* Elecs. for Imaging, 394 F.3d 1341, 1344 (Fed. Cir. 2005) (permitting dismissal by discretion based upon public policy goals including justice, fairness).

207. 929 F.2d 670, 673 (Fed. Cir. 1991) (requiring district courts to have actual and convincing evidence of abuse).

208. *Id.*

209. *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1374, 1384 (Fed. Cir. 2007) (Bryson, J., concurring).

210. *Id.*

211. *See* *Baehr v. Penn-O-Tex Oil Corp.*, 104 N.W.2d 661, 666 (Minn. 1960) (noting that a promise not to sue presumably lacks consideration).

212. *Mathis v. St. Alexis Hosp.*, 650 N.E.2d 141, 143 (Ohio Ct. App. 1994) (holding that a covenant not to sue is to be treated as a contract).

213. *See, e.g. Baehr*, 104 N.W.2d 661 (upholding the validity of forbearance to sue as consideration).

licensee.²¹⁴ The crucial period of imbalance falls before such a patent licensing agreement is finalized.²¹⁵ Notably, in every case discussed above, the parties did not reach an agreement.²¹⁶ Under the new test, it appears infringers can bring suit immediately after a patentee offers a license, thereby rendering the covenant not to sue useless to protect patentees.²¹⁷

One suggestion for patentees is that they should contract to negotiate in the future.²¹⁸ The first agreement could contain the covenant no to sue. Unfortunately, this solution would likely fail because an infringer has little reason to burden its litigation rights in a pre-agreement.²¹⁹ In fact, the patentees that take advantage of the new test would never need to agree to a covenant not to sue. Therefore, patentees need to find an alternative remedy to their disadvantaged status.

C. A Legislative Solution

A legislative solution to the lack of equilibrium between patentees and infringers is the most parsimonious yet seemingly difficult solution to achieve.²²⁰ As discussed above, district and appellate courts only have limited power to dismiss actions by discretion.²²¹ Considering the

214. The only contract that would be at issue between a patentee and an infringer is a patent license.

215. *See supra* Part III.B (discussing and analyzing cases in which the infringer filed for declaratory judgment before any license agreement was agreed upon).

216. *See* *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007); *EchoStar Satellite LLC v. Finisar Corp.*, 515 F. Supp. 2d 447 (D. Del. 2007); *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*, 497 F.3d 1271 (Fed. Cir. 2007); *Crutchfield New Media, LLC v. Charles E. Hill & Associates, Inc.*, No. 1:06-cv-0837-LJM-JMS, 2007 WL 1320750 (S.D. Ind. May 4, 2007); *Sabert Corp. v. Waddington North America, Inc.*, No. 06-5423CJA, 2007 WL 2705157 (D.N.J. Sept. 14, 2007).

217. *See supra* Part III (analyzing cases which demonstrate that upon the offer of a license, the patentee is subject to declaratory judgment).

218. *See, e.g., Quake Constr., Inc. v. Am. Airlines, Inc.* 565 N.E.2d 990 (Ill. 1990) (discussing the availability of a “formal contract” contemplated as a form of an agreement to negotiate).

219. The infringer has no incentive to make an agreement to agree. Thus, if they contract, they are only preventing themselves from litigating and essentially bending themselves to the will of the patentee.

220. Congressional action is arguably a very slow and protracted process which is often seen as out of touch from the desires and hopes of the individual. Thus, such a proposed solution is likely to require extensive lobbying by patentees and their supporters, whom undoubtedly have the resources to tap into the modern legislative process; *see* Scott M. Sullivan, *Rethinking Treaty Interpretation*, 86 TEX. L. REV. 777, 795 (2008) (“[T]he Legislature is multitudinous, slow, and comprised of various interests and backgrounds.”).

221. *See supra* Part IV.A.3 (discussing dismissal by discretion as a partial solution to the imbalance).

Supreme Court's recent decision in *MedImmune* and its general trend towards limiting the rights of patentees, it is unlikely that the Court will change any of its decisions at this time.²²²

Congress must ultimately amend the Act, the central statute at issue.²²³ State legislatures are powerless to enact their own patent legislation because any statutes that could solve the imbalance between patentees and infringers would burden and conflict with the Act.²²⁴ Therefore, federal law would preempt any state patent legislation.²²⁵ Consequently, the solution must originate from Congress.

The Act has been amended multiple times since its first enactment, with the latest amendment in 1993.²²⁶ However, all changes to the Act have been superficial – changing of dates and adding references to other sections of the U.S. Code.²²⁷ Thus, it seems that Congress has paid little attention to the Act regarding patent law disputes.

1. The Proposed Amendment

The proposed amendment to the Declaratory Judgment Act contains only two short sections and would not render the Act more difficult to understand.²²⁸ In fact, the proposed amendment would clarify the law. Congress should add section (c) to the Act which would state in relevant part:

- (1) A district court has full discretion to dismiss a declaratory judgment action brought before it. The court will consider issues of fairness, equity, and justice in determining if the action should be dismissed.
- (2) For the purposes of this Act, the mere offer of a license by a patentee to an alleged infringer or any other party will not confer declaratory judgment jurisdiction.
- (3) In declaratory judgment actions for patent invalidity and/or

222. *See generally*, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007); P. Jean Baker, *Patent Litigation: A Radically Changed Environment for Licensors and Licensees*, 2 INTELL. PROP. & TECH. L.J. 12 (2008) (highlighting the recent Supreme Court decisions on patent law issues and concluding that patent litigation is now filled with uncertainty and patents are more difficult to obtain).

223. 28 U.S.C. § 2201 (2000); *see* U.S. CONST. art. I, § 8, cl. 8.

224. U.S. CONST. art. I, § 8, cl. 8; *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228–29 (1964) (although some states have enacted their own declaratory judgment provisions, patent law is within the sole domain of the federal government).

225. *See* U.S. CONST. art. VI.

226. 28 U.S.C. § 2201 (2000).

227. *See id.*, amended by Bankruptcy Act of 1978, Pub. L. No. 95-598, 92 Stat. 2549 (codified as amended at 11 U.S.C. § 505 (2006)).

228. *Id.*

noninfringement, a district court will have subject-matter jurisdiction *only* if the declaratory judgment plaintiff reasonably apprehends suit.²²⁹

2. Analysis of the Amendment

Subsection one of the proposed amendment will clarify and reinforce the power of a district court to dismiss declaratory judgments. Subsection two, referring only to patent law disputes, will substantially undermine the “all circumstances” test. It will permit patentees to once again offer licenses without the fear of a declaratory judgment action. This will greatly assist in recreating an equilibrium between the patentee and the infringer. Thus, this proposed amendment will promote the policy goals of building amicable business relations and a stable patent-centered economy.

By restoring the “reasonable apprehension” test, infringers will no longer be able to improperly take advantage of filing declaratory judgments.²³⁰ Further, patentees will again be able to offer licenses to infringers and avoid expensive litigation.²³¹ In accomplishing these tasks, the equilibrium will be substantially re-established. Lastly, subsection three essentially overrules *MedImmune* and *SanDisk* and rightly reinstates the reasonable apprehension test.

This amendment will put patentees on equal footing with infringers. It should be noted that the final subsection refers only to patent law disputes. This limitation exists to narrowly tailor the amendment to avoid affecting other applications of the declaratory judgment in non-patent law cases. If anything, these proposed amendments will cause a case or controversy to be evaluated under the reasonable apprehension test, which is a more difficult standard to meet than the “all circumstances” test.²³²

V. CONCLUSION

The imbalance between patentees and infringers after *MedImmune* and *SanDisk* is dangerous for the modern marketplace, particularly for biotechnological, pharmaceutical, and electronics businesses. The destruction of a single patent through declaratory judgment can result in

229. See *Elecs. for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1345–46 (Fed. Cir. 2005) (discussing some of these proposals).

230. See *SanDisk Corp. v. STMicroelectronics, Inc.*, No. C 04-04379JF, 2005 WL 5801276, at *5 (N.D. Cal. Jan. 20, 2005), *vacated*, 480 F.3d 1372 (Fed. Cir. 2007) (applying the “reasonable apprehension” standard, the district court dismissed the declaratory judgment action).

231. *Id.* (permitting the offer of a license and dismissing the suit for declaratory judgment).

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

dramatic changes to the stock value and profitability of a company.²³³

Infringers will take advantage of the poor position of patentees in an attempt to force themselves into the market. Some argue that economic conditions will still be balanced despite companies (patentees) losing their patent rights and positions in the market to infringers.²³⁴ Although this Article does not discuss the detailed economic implications of the *SanDisk* opinion, the above argument is misguided. The invalidation of a patent does not automatically transfer the economic success or goodwill from the patentee corporation to the infringer. Instead, the economic impact will be felt because patentees will suffer from the damage to businesses relationships, the cost of more frequent litigation, and the elimination of licensing proposals.²³⁵

Economics aside, the rule of law created in *SanDisk* creates a discrepancy in the legal positions of patentees and infringers.²³⁶ It should be the goal of the legal system to establish rules which further equity and justice—a goal damaged by the current state of the Act. If the proposed measures of dismissal by discretion and legislative amendment are examined and put into effect, a positive re-equilibrium will be reached, thus restoring equity and encouraging the exchange of technology.

233. *See id.*; *see also* Herper, *supra* note 27 (discussing the dramatic drop in the stock value of a pharmaceutical company after patent invalidation).

234. *See* GLADSTONE MILLS III, REILEY III & HIGHLEY, *supra* note 14 (explaining that before the Declaratory Judgment Act, competitors were often victimized by patentees, but following the Act the infringer has recourse, resulting in more economic balance).

235. *See* Herper, *supra* note 27 (explaining that patentees already suffer enough).

236. *See generally SanDisk*, 480 F.3d 1372.