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IN THE SUPREME COURT OF THE UNITED STATES

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MEDIMMUNE, INC., :

Petitioner, :

v. : No. 05-608

GENENTECH, INC., ET AL. :

- - - - - x

Washington, D.C.

Wednesday, October 4, 2006

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 10:03 a.m.

APPEARANCES:

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DEANNE E. MAYNARD, ESQ., Assistant to the Solicitor General, Department of Justice, Washington, D.C.; on behalf of the United States, as amicus curiae, supporting the Petitioner.

MAUREEN E. MAHONEY, ESQ., Washington, D.C.; on behalf of the Respondents.

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P R O C E E D I N G S

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CHIEF JUSTICE ROBERTS: We'll hear argument first this morning in MedImmune, Incorporated, versus Genentech.

Mr. Kester.

ORAL ARGUMENT OF JOHN G. KESTER

ON BEHALF OF PETITIONER

MR. KESTER: Mr. Chief Justice, and may it please the Court:

As of this morning, it is exactly 70 years ago to the day, minus 4 months, that this Court heard argument challenging the new Federal Declaratory Judgment Act of 1934, in an action to construe an insurance contract.

And exactly 25 years -- 25 days later, in a unanimous opinion written by Chief Justice Hughes, joined by Justices Stone, Brandeis, and others, the Act was held fully consistent with Article III of the Constitution.

This morning, you are here because an action was brought for a declaratory judgment that a biomedical manufacturer need not play -- pay large sums, under a license as patent royalties, under a patent it contends is invalid, unenforceable, and not infringed, but is paying royalties under protest in the meantime. That complaint was ordered dismissed by the Federal Circuit as outside

1 the Article III judicial power of the United States.

2 In detail, the Petitioner, MedImmune, is a
3 biotech company, formed in 1988. During the 1990s --

4 CHIEF JUSTICE ROBERTS: Mr. Kester, would it --

5 MR. KESTER: Yes?

6 CHIEF JUSTICE ROBERTS: -- would it -- would
7 your position be different if the contract contained a
8 specific -- the license -- a specific provision specifying
9 that the licensee may not sue?

10 MR. KESTER: No, it would not, Your Honor,
11 because --

12 CHIEF JUSTICE ROBERTS: You -- do you think such
13 a provision would be enforceable?

14 MR. KESTER: I doubt it would be enforceable.
15 It would be a matter -- under the Lear case, Lear against
16 Adkins, it would be an -- it would be an affirmative
17 defense if such -- if such a claim were raised. This case
18 is here at the level of subject-matter jurisdiction.

19 JUSTICE SCALIA: Excuse me, I don't -- I don't
20 understand what you just said. You mean, it would be
21 enforceable; that if such a suit were brought, the
22 licensor could raise that contractual provision as a basis
23 for dismissing the suit. Is that --

24 MR. KESTER: Under 12- -- under 12(b)(6) --

25 JUSTICE SCALIA: Okay.

1 MR. KESTER: -- perhaps.

2 JUSTICE SCALIA: So, then it is enforceable.

3 JUSTICE SOUTER: No, but --

4 MR. KESTER: No.

5 JUSTICE SOUTER: -- your point is, it's not
6 jurisdictional.

7 MR. KESTER: It's not jurisdictional, exactly,
8 Justice Souter. This is a jurisdictional ruling. And
9 that's all that this Court granted certiorari on.

10 JUSTICE KENNEDY: Well, but as a matter of
11 policy, we, at some point, either in this case or some
12 later case, may have to address the question of whether or
13 not such a provision is enforceable. If it is, we may be
14 -- not be talking about much. It's just going to be
15 boilerplate in every license agreement, and that's the end
16 of it. And it --

17 MR. KESTER: And so --

18 JUSTICE KENNEDY: -- but it -- on the other
19 hand, it may be that there are reasons not to enforce
20 this, so that we don't have courts flooded with lawsuits,
21 et cetera, et cetera.

22 MR. KESTER: And those reasons, I would suggest,
23 Justice Kennedy, were taken care of in Lear, for the most
24 part, in 1969. Provisions in license contracts that
25 prevent challenges to the contracts are not enforceable

1 under the patent laws of the United States. But then, I
2 -- as I was saying, that is a matter of patent law.

3 That's not a matter of jurisdictional law. We're here --

4 CHIEF JUSTICE ROBERTS: Well, let's look at what
5 might be a matter of jurisdictional law. I take it, from
6 your position, there's nothing preventing Genentech from
7 suing, either, is there? In other words, to establish the
8 validity of their patent.

9 MR. KESTER: It has -- it has happened, on
10 various occasions, that patentees have brought suit to
11 establish the validity of --

12 CHIEF JUSTICE ROBERTS: Against licensees?

13 MR. KESTER: Against licensees and others. And
14 the --

15 JUSTICE GINSBURG: Against licensees who are not
16 claiming that the patent is invalid? And where is the
17 controversy?

18 MR. KESTER: The controversy could arise in any
19 number of ways.

20 JUSTICE GINSBURG: I mean, I can see, if the --
21 if licensee says the patent is invalid, that the patentee
22 says paying its royalties -- how does it --

23 MR. KESTER: The patentee could be paying his
24 royalties. The patentee could also be putting ads in the
25 paper saying, "This is not a valid patent." It could --

1 it could have acquired a lot of publicity. And, in the
2 end, there could be reasons, and there have been such
3 cases -- which we cited, 47 of our brief -- where such
4 suits have been brought. But --

5 JUSTICE GINSBURG: If it -- if the -- if the --
6 if the licensee came into court and said, "I'm not
7 contesting this patent," that would be the end of it,
8 wouldn't it?

9 MR. KESTER: If the licensee said, "I am not
10 contesting that patent," that could be.

11 CHIEF JUSTICE ROBERTS: Oh, but the patentee
12 would just say, "Look, we have a license. I think the
13 patent's valid, and you owe me a dollar a unit." The
14 licensee said, "Well, I don't think they're -- it's valid,
15 so I owe you nothing." And they settle on a license for
16 50 cents. Why can't the patentee say, "You know, if I get
17 a judicial decision establishing that the patent is valid,
18 I can charge a higher license, either when this agreement
19 expires or for other licenses"?

20 MR. KESTER: That -- I agree with that, Mr.
21 Chief Justice. But the practicality is that a patentee
22 starts out with, essentially, a judgment that the patent
23 is valid. There is a presumption of validity. And to
24 challenge that patent -- that presumption of validity, is
25 a very difficult undertaking. Most of them don't bother.

1 Why would they? If they are receiving -- if they're
2 receiving --

3 CHIEF JUSTICE ROBERTS: I'm trying to see how
4 far you want -- are willing to push your argument that
5 just because there's been an agreement, or perhaps even a
6 settlement, that that somehow or another doesn't moot the
7 controversy, the underlying legal dispute. And it -- I
8 gather your answer to me is that Genentech, or a patentee,
9 can sue, even though they have an existing -- they're
10 getting royalties from the licensee, they can still sue
11 the licensee.

12 MR. KESTER: A settlement does not deprive a
13 Federal court of subject-matter jurisdiction. That's the
14 narrow point that is before this -- before this Court.

15 JUSTICE GINSBURG: Why aren't you -- you said,
16 "The only question before the Court is jurisdictional."
17 If that's so, why isn't your position that the Federal
18 Circuit put the wrong label on this, that license is
19 listed in 8(c) as an affirmative defense; so, whatever the
20 outcome should be, the wrong label should -- is -- was
21 used. It shouldn't be a subject-matter jurisdiction,
22 shouldn't be 12(b)(1); it should be an 8(c) affirmative
23 defense. And then the -- you're out of the jurisdiction
24 box, but you're left with the same underlying question.

25 MR. KESTER: But not the same underlying

1 question, Justice Ginsburg, with respect, because then you
2 are in a situation like the business forms case in the
3 Seventh Circuit, which came out shortly after Lear.

4 There was a settle -- settlement, and the -- and it was
5 argued that the settlement was not effective because of
6 the Lear decision, and parties can't settle themselves out
7 of the Lear decision. But that is all under 12(b)(6), and
8 not 12(b)(1). This case involves a 12(b)(1) motion, not a
9 12(b)(6) --

10 JUSTICE GINSBURG: But what --

11 MR. KESTER: -- motion.

12 JUSTICE GINSBURG: -- good would it do? Suppose
13 we said, "Federal Circuit, you put the wrong label on it.
14 It should be 12(b)(6), not 12(b)(1), or perhaps even 8(c),
15 affirmative defense"? Then you go back to the Federal
16 Circuit, and they'll come up with the same decision, that,
17 as long as you are licensed and are paying your royalties,
18 you have -- and they just put a different label on it --
19 you have --

20 MR. KESTER: They --

21 JUSTICE GINSBURG: -- you have no -- you have
22 not stated a claim.

23 MR. KESTER: That would be effectively
24 overruling Lear, which is what, I think, is what many of
25 the parties in this case actually seek to do.

1 Lear does not allow inhibitions of challenges to
2 patent licenses. A licensee can challenge the validity,
3 the enforceability of the patent. That's because there's
4 a public interest in this, as well. Parties cannot simply
5 contract with each other and prevent a challenge to a --
6 to a patent --

7 JUSTICE GINSBURG: But then --

8 MR. KESTER: -- license.

9 JUSTICE GINSBURG: -- the Federal Circuit
10 distinguished Lear, and said what -- in Lear, the licensee
11 had stopped paying royalties. Isn't that so?

12 MR. KESTER: That -- those were the facts of
13 Lear. But -- it happened that way in Lear, but that
14 wasn't the reasoning of Lear. Lear would not totally
15 cover that situation, but we would submit to this Court,
16 it shouldn't make any difference. The reasoning of Lear
17 is the same. The licensee cannot, by contract, be
18 estopped, licensee estoppel, from challenging a patent.

19 CHIEF JUSTICE ROBERTS: So, there's no way, I --
20 under your view, that a patent holder can protect itself
21 from suit through any license arrangement or any agreement
22 of any kind.

23 MR. KESTER: I suspect there are many ways, Mr.
24 Chief Justice, but not by throwing them out on a
25 jurisdictional basis at the very first moment of the

1 lawsuit.

2 JUSTICE GINSBURG: How about --

3 MR. KESTER: There may be ways this could be
4 arranged at the second level, through --

5 JUSTICE GINSBURG: Well, what are those ways --
6 I mean, the ones that have been mentioned as possibilities
7 in the Government brief -- one, you rejected, and the
8 other that was mentioned was: if you sue -- if the
9 licensee sues, then the royalty fees will be upped. Would
10 that be effective?

11 MR. KESTER: That is a question that would arise
12 under Lear against Adkins. And the question before this
13 Court in that situation, if it got to this Court, would
14 be, Is that kind of a provision compatible with the policy
15 that was so firmly expressed by Justice Harlan in Lear,
16 and has been reiterated in so many subsequent cases of
17 this Court?

18 JUSTICE GINSBURG: So, you have rejected both of
19 the Government's suggestions on what the patent holder
20 might do to protect itself. Do you have anything concrete
21 that you would concede the patent holder could do?

22 MR. KESTER: I don't think that I have rejected
23 both the Government's suggestions. I've said that they
24 raise problems on -- as to the scope of Lear.

25 JUSTICE SOUTER: With respect to -- whether we

1 are talking about a jurisdictional defense or whether we
2 are talking about an affirmative defense, assuming
3 jurisdiction, is there any -- is there any reason for us
4 to accept your position, other than the reason that you
5 have mentioned a number of times, and that is the adoption
6 and encouragement of a public policy that allows patent
7 challenges freely? Is that the nub of our reasoning, if
8 we were to support your position, either jurisdictionally,
9 in this case, or in recognizing -- or the -- in dealing
10 with the affirmative defense in another case?

11 MR. KESTER: Not quite, Justice Souter. I would
12 say the nub of your position is the Altvater case, the
13 Aetna case, the Maryland --

14 JUSTICE SOUTER: Well, Altvater is difficult for
15 you, isn't it? Because there was an injunction in
16 Altvater, wasn't there?

17 MR. KESTER: That -- but that -- but was --

18 JUSTICE SOUTER: Which raises an entirely
19 different policy issue?

20 MR. KESTER: Well, I would say what it -- what
21 it raises is simply an extra fact, but it wasn't a
22 necessary fact. Because this Court, in Altvater,
23 specifically pointed out that even if there weren't an
24 injunction there, there would be -- there would be the
25 danger forced on the licensee, of an infringement suit;

1 and an infringement suit means, possibly, an injunction of
2 the patent, treble damages, any number of sanctions. An
3 injunction suit can put a company out of business,
4 especially like a company like my client here. And --

5 JUSTICE SOUTER: But that is -- that is a good
6 reason. And, I take it, it's your logic that that is a
7 good reason to recognize a fairly broad right on the part
8 of the licensee to challenge.

9 MR. KESTER: Right.

10 JUSTICE SOUTER: In other words, the nub of your
11 position, as I understand it, is the public policy that
12 favors relative --

13 MR. KESTER: It --

14 JUSTICE SOUTER: -- freedom to challenge --

15 MR. KESTER: It's more -- it's more than public
16 policy, it's Article III. Article III says that you can
17 bring a lawsuit in this situation. And that was settled --

18 JUSTICE SOUTER: No --

19 MR. KESTER: -- in Aetna.

20 JUSTICE SOUTER: No, I realize that. But, I
21 mean, what we've got in this case, and in any of these
22 cases, is a question of line-drawing under Article III.
23 And your argument is, you want to draw the line where you
24 want it drawn primarily because there are practical
25 reasons to favor a public policy of free challenge.

1 MR. KESTER: What we are presenting in this case
2 is a dispute about money. It's not abstract. It's not
3 hypothetical. It's not conjectural. It is concrete,
4 immediate. All the facts are in. It's definitely
5 adversarial. It's legal.

6 JUSTICE SCALIA: You -- well, you can have such
7 a dispute on a theoretical question between, I don't know,
8 the ACLU and the National Rifle Association, but that
9 doesn't create a case or controversy. What is the injury,
10 the imminent injury to your -- to your client that is the
11 basis for the case or controversy?

12 MR. KESTER: The --

13 JUSTICE SCALIA: Is it anything other than, "I
14 have to pay the royalties that I agreed to pay."?

15 MR. KESTER: It is the -- it is that, "I am
16 having to pay the royalties -- that I say I did not agree
17 to pay, because this is an invalid patent." Money is
18 being paid by my client every quarter, large amounts of
19 money. That is a major injury.

20 CHIEF JUSTICE ROBERTS: Well, if you don't --

21 MR. KESTER: And if --

22 CHIEF JUSTICE ROBERTS: -- think --

23 MR. KESTER: And if --

24 CHIEF JUSTICE ROBERTS: -- if you don't think --

25 JUSTICE SCALIA: Is it -- is it unlawful to

1 agree to pay somebody money who does not have a patent?

2 MR. KESTER: It is --

3 JUSTICE SCALIA: I mean, you're speaking as
4 though somehow that -- such a contract is contrary to
5 public policy, and void.

6 MR. KESTER: No, we're saying that that isn't
7 what we agreed to. We're saying this is a contract
8 dispute. And the whole purpose of the --

9 CHIEF JUSTICE ROBERTS: Well, then why are you
10 paying it, if you -- if you don't think you owe it?

11 MR. KESTER: Because the --

12 CHIEF JUSTICE ROBERTS: Because of the threat of
13 treble damages --

14 MR. KESTER: The threat --

15 CHIEF JUSTICE ROBERTS: -- and injunction.

16 MR. KESTER: -- of this --

17 CHIEF JUSTICE ROBERTS: If we're trying to
18 figure out where the public policy is here, why don't we
19 give some weight to those congressional enactments that
20 obviously fortify the strength of the patent? In other
21 words, Congress passed these provisions providing for
22 treble damages for attorneys' fees. And --

23 MR. KESTER: But --

24 CHIEF JUSTICE ROBERTS: -- and to respond that
25 there's got to be a public policy to counterbalance that,

1 Congress can always do that, if it wants; but it didn't --
2 it thinks that you need these provisions to protect the
3 patent holders.

4 MR. KESTER: But, Mr. Chief Justice,
5 Congress can also amend the Declaratory Judgment Act, if
6 it wants. And Congress was proud of the Declaratory
7 Judgment Act when it was passed in 1934. And the
8 legislative history of it -- and nothing in the text is
9 contrary, says the purpose of this is so that contracts
10 can be resolved without breach, and judicial
11 determinations can be had. It's like a noninvasive, a
12 less invasive kind of surgery.

13 JUSTICE STEVENS: Mr. Kester, may I ask you this
14 question? Is it your view that Gen-Probe represented a
15 change in the law?

16 MR. KESTER: Absolutely.

17 JUSTICE STEVENS: Were there -- before Gen-Probe
18 was decided, were there any cases, like this case, that
19 were decided?

20 MR. KESTER: There were many, Your Honor, and
21 they were decided --

22 JUSTICE STEVENS: Where the -- where the
23 licensee brought suit challenging validity while the
24 license was still in full --

25 MR. KESTER: We --

1 JUSTICE STEVENS: -- force?

2 MR. KESTER: We had suits in the Third Circuit,
3 the Seventh Circuit, the Second Circuit, and even in the
4 Federal Circuit, in its early days, where it quoted those
5 cases which said, "It is not necessary for the licensee to
6 stop paying payments in order for Article III to be
7 satisfied."

8 This case came as a shock in 2004. And, in
9 fact, the judges below, in this series of cases, all said,
10 "We thought it was settled law the other way." All this
11 case represents, from our point of view, is, "Let's go
12 back to the way it has always been."

13 I'd like to reserve the balance of my time.

14 CHIEF JUSTICE ROBERTS: Thank you, Mr. Kester.
15 Ms. Maynard.

16 ORAL ARGUMENT OF DEANNE E. MAYNARD

17 ON BEHALF OF PETITIONER

18 MS. MAYNARD: Mr. Chief Justice, and may it
19 please the Court:

20 There is a concrete dispute between the parties
21 about their legal rights and obligations. If that dispute
22 is resolved, money will change hands. That is an Article
23 III case or controversy.

24 CHIEF JUSTICE ROBERTS: How do you ever end
25 these things? Let's say they have this dispute, they

1 bring the litigation, and they settle it. They're saying,
2 "Okay, we're going to settle it. Instead of paying a
3 license fee of 50 cents, it's going to be 40 cents, and
4 we'll go on." Then they can sue again, I take it.

5 MS. MAYNARD:: In that situation. Recognizing
6 that's not the situation we have here --

7 CHIEF JUSTICE ROBERTS: Can they settle that, by
8 the way? Is it all right to settle it, or is -- that
9 interfere with the policy that patents have to be open to
10 challenge?

11 MS. MAYNARD: May I -- if I can answer the first
12 question first.

13 CHIEF JUSTICE ROBERTS: Either one.

14 MS. MAYNARD: If there were to be a settlement,
15 in the second case, the -- it would not be an Article III
16 case or controversy problem with the second case. And
17 that suit should not be dismissed under 12(b)(1).

18 CHIEF JUSTICE ROBERTS: Okay.

19 MS. MAYNARD: The -- in that case, the patent
20 holder might have a valid 12(b)(6) defense, and the suit,
21 laying aside enforceability issues that you raised, may be
22 easily resolved, on that ground. But, in terms of the
23 question before the Court today, that wouldn't be an
24 Article III matter.

25 I think, as a policy matter -- so, moving off

1 the question before the Court right now -- as a policy
2 matter, the -- it's not clear from this Court's cases
3 exactly what types of agreements would be enforceable. I
4 think there's a spectrum of cases one can imagine, ranging
5 from Pope -- the type of promise that was extracted in
6 Pope, which this Court held was unenforceable --

7 CHIEF JUSTICE ROBERTS: Well, I think you
8 overread Pope. All Pope said was that they're not going
9 to grant specific performance. In fact, they've said,
10 "Whatever you may think of the policy here, we don't --
11 specific performance calls on the equitable discretion,
12 and we're not going to do it." But, I don't read Pope as
13 holding that the clauses are otherwise unenforceable. In
14 --

15 MS. MAYNARD: Well --

16 CHIEF JUSTICE ROBERTS: -- other words you're
17 maybe entitled to damages. And that may be measured by
18 the license fee that you agreed to pay.

19 MS. MAYNARD: Well, there certainly would be a
20 question, though, the way that Lear read Pope, and under
21 Lear, about whether a bare agreement not to challenge
22 licenses, especially ones like in Pope, where they agreed
23 not to challenge the license, even beyond the term, would
24 be enforceable. And the Government thinks there's a
25 spectrum. One -- at one end of the spectrum would be

1 licenses like those in Pope, and at the other end of the
2 spectrum would be a consent decree entered after
3 settlement of a bona fide patent infringement suit where
4 the -- which included an agreement not to settle. Now,
5 that's clearly not what we have here.

6 JUSTICE BREYER: Now, is -- if -- I guess there
7 are three possible positions on the question of whether a
8 licensee can attack a contract, a patent where he has a
9 license and wants to keep the contract. One, he can never
10 do it. Two, he can always do it. Three, it depends on
11 what the contract says. Now, do any of those questions
12 have anything to do with the question before us, which is
13 whether it is a case or controversy?

14 MS. MAYNARD: No, Your Honor.

15 JUSTICE BREYER: All right. If we were to reach
16 the question, which is very interesting, "What is the
17 Government's position as to which of those three positions
18 is the right position?" -- were we to reach it -- I agree
19 with you, I don't see it in front of us; but maybe it is
20 -- if it were, what would be your view?

21 MS. MAYNARD: The Government's view is that
22 there's a spectrum along the spectrum, and it would have
23 -- you would have to consider each case on its terms. And
24 it's not clear, from this Court's cases, where the
25 policies in that --

1 JUSTICE BREYER: All right. So, basically,
2 though, you're not certain. The Government's view would
3 be, it is a matter as to whether you can sue claiming the
4 patent is invalid, whether the licensee can do it, that
5 probably -- but you're not certain, and you haven't made
6 up your mind definitely, because it is not in this case --
7 but you think it's going to be something they could
8 regulate themselves by contract.

9 MS. MAYNARD: It's certainly not foreclosed by
10 this Court's precedent, and it's an open question where
11 the policies -- how they would weigh out. There's no
12 language in this license, however, suggesting any type of
13 settlement. And, moreover, I think it's important to
14 recognize that the parties here actually have a concrete
15 dispute about what the licensing agreement means. Count
16 one in the complaint is asking for a declaration --

17 CHIEF JUSTICE ROBERTS: Well, you don't think
18 that matters, though, do you? I mean, even if they all
19 agree there's no dispute about what the license agreement
20 means, your position is still the same, right? There is
21 an Article III controversy because they challenge the
22 validity of the patent?

23 MS. MAYNARD: If the parties have a concrete
24 dispute about the validity of the patent, and it would
25 affect their rights and obligations in the way that it

1 would here -- in other words, that money will no longer be
2 due to the Respondents if the patent's invalid --

3 CHIEF JUSTICE ROBERTS: Is --

4 MS. MAYNARD: -- and the --

5 CHIEF JUSTICE ROBERTS: -- that always the case?
6 I mean, could -- can you enforce a license agreement based
7 on an invalid patent? You thought it was valid -- parties
8 had a dispute about it -- whether it is valid. You
9 entered into agreement, say, "Well, let's split the
10 difference. We'll -- you know, 50 cents rather than a
11 dollar or nothing." It's determined that the patent is
12 invalid. Can the patentee then still say, "Well, you
13 still owe me the money. We've, kind of, cut -- split the
14 difference. That was part of the agreement"?

15 MS. MAYNARD: It might depend on whether there
16 was consideration beyond the patent itself. In the -- in
17 this -- in this case, though, the Petitioner claims that
18 if the -- if the patent is invalid, they no longer owe
19 licensing fees, and, under Lear, they would be entitled to
20 the licensing fees, that they've paid since they began
21 challenging, back. So, it's clear that under either the
22 contract or a question of --

23 JUSTICE SCALIA: Contractually? They say that
24 that's their contractual right?

25 MS. MAYNARD: They claim that, under the

1 licensing agreement, they only owe royalties on valid
2 claims. That's count one of the complaint, in the (j) --

3 JUSTICE SCALIA: Where does that appear in the
4 licensing agreement? Or --

5 MS. MAYNARD: Where does it appear in the
6 licensing agreement?

7 JUSTICE SCALIA: Yes, I took them as just
8 asserting a general proposition of law -- that, where
9 they've agreed to pay royalties because of a patent, if
10 the patent is invalid, they don't have to pay royalties --
11 not because there's some special provision in this
12 contract.

13 MS. MAYNARD: The parties actually have a
14 concrete dispute about the meaning of the licensing
15 agreement in that regard, Justice Scalia. On page 399 of
16 the joint appendix is the provision about which they have
17 a dispute. And the language in there provides that they
18 will pay on substances which would, if not licensed under
19 this agreement, infringe one or more claims of either or
20 both of the Shamir patents, or coexpression patents, which
21 have neither expired nor been held invalid by a court or
22 other body of competent jurisdiction. There was similar
23 language in --

24 JUSTICE SCALIA: So, there's really not much at
25 issue in this case. And that's clearly a case of

1 controversy, isn't it? There is a dispute over the
2 meaning of that provision of the agreement.

3 MS. MAYNARD: Yes, Your Honor.

4 JUSTICE SCALIA: Gee, there's less here than
5 meets the eye.

6 MS. MAYNARD: That's what the Government
7 believes, Your Honor.

8 It's also -- the licensee also does not need to
9 breach the licensing agreement in order to create a case
10 or controversy. The licensee is currently paying
11 royalties that it does not believe it owes and that it
12 believes it would be entitled to have back if it should
13 prevail on its interpretation of the -- of the patent and
14 the licensing agreement. It doesn't have to make that
15 injury more severe by breaching. That's clear from this
16 Court's decision in Altvater. In Altvater, royalties were
17 being demanded and royalties were being paid, but,
18 nevertheless, this Court held --

19 CHIEF JUSTICE ROBERTS: Well, but that -- it's
20 been pointed out that was pursuant to an injunction.

21 MS. MAYNARD: Yes, it was pursuant to
22 injunction, but that was not important to the Court's
23 reasoning. What the Court said is, "You need not suffer
24 patent damages in order to bring the suit." Not a
25 contempt. "You need not breach the injunction and put

1 yourself at risk of treble damages for infringement." It
2 was the patent damages that put the licensee at risk, and
3 that's the same risk that the Petitioner faces here and
4 should not have to bear in order to bring suit.

5 The case or controversy is whether or not the --
6 they owe the royalties. The whole point of the
7 Declaratory Judgment Act was to allow contracting parties
8 not to have to sever their ongoing contractual relations
9 in order to get disputes resolved between --

10 CHIEF JUSTICE ROBERTS: Do you think --

11 MS. MAYNARD: -- themselves.

12 CHIEF JUSTICE ROBERTS: Do you think there would
13 be a case or controversy if Genentech were suing to
14 establish the validity of its patent?

15 MS. MAYNARD: In the situation that we have
16 here, Your Honor?

17 CHIEF JUSTICE ROBERTS: Yes.

18 MS. MAYNARD: Yes, I do. Where the Petitioner
19 claims that the patent is invalid, that they could -- that
20 the Petitioner's claims unsettles their right, damages
21 their property value, potentially, and that they could
22 bring a declaratory judgment action of validity.

23 JUSTICE SCALIA: And what would their -- what
24 would their concrete injury be? What is the threatened
25 imminent injury that they would assert in that -- in that

1 action?

2 MS. MAYNARD: Well, right now --

3 JUSTICE SCALIA: You have a licensee who's
4 paying the license fees. What is their concrete injury?

5 MS. MAYNARD: It -- from the moment -- the
6 Petitioner has an argument that from the moment it ceased
7 -- it starts claiming that the patent is invalid and pays
8 under protest, that it is entitled to those royalties
9 back.

10 JUSTICE SCALIA: But --

11 MS. MAYNARD: The --

12 JUSTICE SCALIA: -- so long as they're still
13 paying the royalties, isn't that sort of an abstract
14 disagreement? I mean, it's sort of like the ACLU saying
15 that the patent's invalid. You know, it's a nice
16 theoretical question that we can argue about, but as long
17 as they're paying the royalties, where's the concrete
18 injury?

19 MS. MAYNARD: Well, I think, technically,
20 Justice Scalia, they probably have a claim for patent
21 infringement, to which the defense, as Justice Ginsburg --

22 JUSTICE SCALIA: I --

23 MS. MAYNARD: -- points out --

24 JUSTICE SCALIA: I find it --

25 MS. MAYNARD: -- would be an easy defense.

1 JUSTICE SCALIA: I --

2 MS. MAYNARD: So, there's not an Article III
3 lack of case or controversy, which is --

4 JUSTICE SCALIA: I find it --

5 MS. MAYNARD: -- what's the question before --

6 JUSTICE SCALIA: -- very difficult --

7 MS. MAYNARD: -- the Court.

8 JUSTICE SCALIA: -- to see how there would be a
9 proper declaratory judgment action brought by the patentee
10 here. It's just not the kind of a situation where you can
11 have a mirror-image suit. I don't see what the --

12 MS. MAYNARD: Well, you need --

13 JUSTICE SCALIA: -- patentee --

14 MS. MAYNARD: You -- may I answer that question?
15 You need not have a mirror-image suit, in that sense,
16 Justice Scalia. And Altvater makes that clear. In
17 Altvater, the patentee's claim was --

18 JUSTICE SCALIA: That's fine.

19 MS. MAYNARD: -- much narrower than the
20 counterclaim; and, nevertheless, the Court allowed that
21 counterclaim to proceed.

22 CHIEF JUSTICE ROBERTS: Thank you, Counsel.

23 Ms. Mahoney.

24 ORAL ARGUMENT OF MAUREEN E. MAHONEY

25 ON BEHALF OF RESPONDENT

1 MS. MAHONEY: Mr. Chief Justice, and may it
2 please the Court:

3 I'd like to start with the fact that there are
4 four counts in the complaint for declaratory relief. The
5 first one is styled as a -- contractual relations claims.
6 The other three are styled as patent law claims. And it's
7 important to emphasize, at the outset, that this Court, in
8 *Skelly Oil*, in *Calderone*, and in, really, all of the
9 cases, has said it's very important to look behind the
10 labels that a Declaratory Judgment Act plaintiff puts on
11 their claims. We need to actually see what is the cause
12 of action they're trying to adjudicate so we can do an
13 accurate assessment of justiciability -- standing,
14 ripeness, Federal-question jurisdiction.

15 I want to start by explaining why there is no
16 contract claim at issue here. You heard today, they're
17 trying to salvage this, say that there's a contract
18 dispute, a dispute about the terms of the contract. They
19 didn't argue that below, and with good reason. And I'd
20 just point you to the briefs in the Federal Circuit.
21 Roman numeral I, which is all about the improper dismissal
22 of the Declaratory Judgment Act claims, refers to the fact
23 these are, quote, "patent-law claims," end quote, at page
24 27. Nowhere do they say that there is a dispute about the
25 proper interpretation of the contract terms. And let me

1 explain why.

2 The contract terms, which were just read to you,
3 is Section 110 of -- 1.10 at JA-399 of the license -- says
4 that there is an obligation to pay royalties for Synagis
5 on any claim -- not any valid claim, any claim -- that has
6 not been held invalid by a court or other competent
7 jurisdiction from which no appeal has, or may, be taken.
8 Now, they never said, below, "That clause means that we
9 can come to court and have the court decide whether this
10 patent is valid, and, depending on whether we win or not,
11 then we can stop paying." And the reason they didn't make
12 that argument is, it was rejected by this Court a hundred
13 years ago, in United States versus Harvey Steel. Very
14 similar clause. The United States says, "This means that
15 we don't have to pay if the patent is invalid." And, in
16 an opinion by Justice Holmes, this Court rejected it out
17 of hand by -- and said, "This was a conventional proviso.
18 We don't even need to look to evidence of the party's
19 intent, because this is the standard proviso. It does not
20 mean" -- and they said it was a "twisted interpretation"
21 that the Government was offering -- it doesn't mean that
22 the licensee, quote, "thought the patent bad and would
23 like to have the Court say so now," end quote. Yet that
24 is exactly --

25 JUSTICE GINSBURG: Was that a case about Article

1 III case or controversy?

2 MS. MAHONEY: It is, in the following sense,
3 Your Honor. They can't just show up here today and say,
4 "Well, there really is a dispute about the contract." But
5 they never argued, below, and is foreclosed --

6 JUSTICE BREYER: Shouldn't we send that back? I
7 mean, I thought we were here to decide one question, that
8 the Federal Circuit has said that, "Unless there is a
9 reasonable apprehension of a lawsuit, you can't bring a
10 declaratory judgment action, because of the Constitution
11 of the United States." Now, I have to admit, I've looked
12 up, or I've had my law clerk look up, probably now
13 hundreds of cases, and we can't find, in any case, such a
14 requirement. Indeed, the very purpose -- as I -- we've
15 just heard the SG say, of this act, the Declaratory
16 Judgment Act, seems to be to allow people who -- a
17 contract -- who are in a real concrete disagreement, to
18 get a declaratory judgment without getting rid of the
19 contract. But I might be wrong about that.

20 But you've now argued a different point.

21 MS. MAHONEY: Well --

22 JUSTICE BREYER: So, isn't the right thing for
23 us to do, to decide the issue in front of us and then send
24 it back? If you're right that they have to pay, whether
25 they win or lose; if they're right that they promise not

1 to sue; if you're right on 14 other grounds, you might
2 win. But should we decide those grounds today? Why?

3 MS. MAHONEY: Well, first of all, with respect
4 to this issue, whether there would be jurisdiction over a
5 real live contract dispute, they never argued it, Your
6 Honor. It's not part of this case. The Federal Circuit
7 didn't address it, because they didn't argue it, because
8 it's foreclosed by --

9 JUSTICE GINSBURG: But the question --

10 MS. MAHONEY: -- a precedent a hundred --

11 JUSTICE GINSBURG: The question that is
12 presented to us -- whatever they suggested at this oral
13 argument that wasn't in III, the question it presented to
14 us is, Was the Federal Circuit right when they said, "You
15 have no access to a declaratory judgment unless there is a
16 reasonable apprehension that you will be sued"?

17 MS. MAHONEY: Your Honor, that is the right --
18 that is the right starting point for a test, depending on
19 the cause of action they're seeking to adjudicate. In
20 here, what the Federal Circuit properly understood is that
21 they are seeking to adjudicate affirmative defenses to an
22 infringement action under the patent laws.

23 And, just like in Steffel, if you're trying to
24 adjudicate, on an anticipatory basis, an enforcement
25 action, you have to show that you would reasonably fear

1 that enforcement action. And, in fact, Steffel uses that
2 language, and Poe versus Ullman dismisses a case for
3 failure to establish a genuine fear of prosecution. But
4 then, you have to go one step beyond, and that is to say,
5 Are they -- is the cause of action not ripening because
6 the declaratory judgment plaintiff is forfeiting their
7 legal rights in order to avoid some very severe harm that
8 would be cognizable coercion? That's the test that's used
9 in Steffel for -- in essence, being able to test a --
10 defenses to a cause of action that --

11 JUSTICE SCALIA: And why --

12 MS. MAHONEY: -- an enforcement action.

13 JUSTICE SCALIA: -- doesn't that work here?

14 MS. MAHONEY: It doesn't work here, for several
15 reasons. Most fundamentally, this is a settlement. I
16 mean, Mr. Steffel did not enter into a settlement or a
17 compromise with the prosecutor. He wasn't complying
18 because he was under an agreement to do so. Here, it has
19 been settled for -- forever, that if a -- an agreement --
20 if you're making payments pursuant to an agreement, in the
21 nature of a compromise, you can't come and say that it's
22 been coerced or it's a form of duress.

23 JUSTICE SCALIA: What is the --

24 JUSTICE SOUTER: Why should we accept the
25 characterization that it's a compromise? As I -- and

1 maybe I'm just factually wrong here? I thought, at the
2 time they entered into the license agreement, they had
3 some disagreements about the scope of the then-patent, the
4 scope of the anticipated patent, and so on, and they
5 couldn't very well be resolved. But they were -- they
6 were not settling, in the -- in the classic sense of the
7 word, a -- let us say, a focus claim, one against the
8 other.

9 MS. MAHONEY: I think the answer, Your Honor,
10 is, they weren't settling, for all time, in the sense that
11 they could never get out of the deal. Certainly, they
12 could repudiate and then go ahead and sue. But yet, at
13 page 3 of their petition, they expressly say, the reason
14 they entered into this agreement was in order to avoid the
15 costs and risks of litigation. It is the reason --

16 JUSTICE SOUTER: But had they gotten to the
17 point, prior to the execution of the contract, in which
18 one party was saying, "You may not do this," and the other
19 party was saying, "Oh, yes I can," so that there -- there
20 was a focus controversy that would have been the subject
21 matter of a conventional lawsuit, then and there, had
22 there not been this license agreement?

23 MS. MAHONEY: Not exactly, but what they did was
24 they headed it off at the pass. They understood that --

25 JUSTICE SOUTER: But the question is, "How far

1 ahead of the pass can they get and still call it a
2 settlement?" in the sense that you're using that term.

3 MS. MAHONEY: It's a compromise. It's a
4 compromise of the very claims they're trying to adjudicate
5 here. What they want to adjudicate are affirmative
6 defenses to a patent infringement action. That is not a
7 ripe claim, and there is not sufficient immediacy, because
8 they are preventing that claim from ripening by continuing
9 to make voluntary payments --

10 JUSTICE SOUTER: But --

11 MS. MAHONEY: -- under their --

12 JUSTICE SOUTER: But you --

13 MS. MAHONEY: -- agreement.

14 JUSTICE SOUTER: Right. But you were saying
15 that the status of that agreement, for purposes of the
16 jurisdictional question here, is exactly the same as the
17 status of an agreement that they might have entered into
18 after one party had brought suit against the other. And
19 --

20 MS. MAHONEY: Well --

21 JUSTICE SOUTER: And they -- they had settled.
22 And then, later on, somebody wanted to repudiate the
23 settlement.

24 MS. MAHONEY: I don't know if it's exactly the
25 status. For instance, in a settlement after litigation

1 has been filed, I think that Lear would say that you can't
2 even repudiate that. But certainly -- so, there might be
3 some differences -- but from --

4 JUSTICE SOUTER: In any event --

5 MS. MAHONEY: -- the standpoint of coercion --

6 JUSTICE SOUTER: -- it's equivalent to a
7 settlement after a formal demand has been made.

8 MS. MAHONEY: It is equivalent to that, in the
9 following sense. They understood that if they -- if they
10 didn't get a license, that they would be exposed to
11 Genentech's claims under the -- under the infringement
12 laws. And in order to avoid that exposure, even though
13 they had all the information they needed to assess the
14 validity of this patent at the time --

15 JUSTICE KENNEDY: Suppose they didn't have all
16 the information. Suppose you enter into a license
17 agreement -- you're convinced, as the one that's going to
18 pay the license fee, that it's a good patent -- after the
19 agreement's signed, the technological advances, other
20 disclosures, indicate that the patent is deficient. Could
21 you sue then?

22 MS. MAHONEY: No, I don't think so, unless --

23 JUSTICE KENNEDY: Well, but then -- so then, the
24 argument that you've made is just not --

25 MS. MAHONEY: No, I --

1 JUSTICE KENNEDY: -- relevant for us, the fact
2 that they knew everything --

3 MS. MAHONEY: They did.

4 JUSTICE KENNEDY: And it also means that this
5 isn't really a settlement, in any respect.

6 MS. MAHONEY: It's a compromise of claims that
7 could be brought.

8 JUSTICE STEVENS: Ms. Mahoney, can I ask this
9 question? Supposing at the time they negotiate the
10 license agreement there's some uncertainty about whether
11 the patent is valid or not. So, at the end of the license
12 agreement -- they agree on the royalties, the term, and
13 the -- everything it covers, but they put in a provision
14 and say, "We're not entirely sure the patent is valid, so
15 we reserve the right to bring an action challenging the
16 validity of the patent. We will pay royalties in the
17 meantime, and the -- you will accept these royalties as
18 sufficient for the use of the patent, that, if we win, you
19 don't have to pay royals, if we lose, you do." Would that
20 be a valid provision?

21 MS. MAHONEY: I don't think so, but that would
22 certainly be a closer case if there --

23 JUSTICE STEVENS: But would it --

24 MS. MAHONEY: But I --

25 JUSTICE STEVENS: -- not be precisely the same

1 issue as a jurisdictional matter as to whether there's a
2 case or controversy?

3 MS. MAHONEY: No, I don't think so, because the
4 real issue, in terms of Steffel, is whether you can say
5 that the party is being coerced. And, at least in your
6 hypothetical, you could say that they have --

7 JUSTICE STEVENS: He's not being coerced, but
8 he's bargaining a little better royalty rate than he'll --
9 otherwise would have to pay.

10 MS. MAHONEY: Well, in terms of whether they're
11 -- if the parties expressly agreed that that was part of
12 their deal, then you at least wouldn't say that there was
13 an issue of coercion. But here, that isn't what happened.
14 Instead, they used --

15 JUSTICE STEVENS: No, I'm really asking --

16 MS. MAHONEY: -- a standard proviso --

17 JUSTICE STEVENS: -- whether the parties could
18 agree to create a case or controversy.

19 MS. MAHONEY: I think probably not, Your Honor.
20 I think --

21 JUSTICE BREYER: Let's suppose --

22 MS. MAHONEY: -- that that's one of the --

23 JUSTICE BREYER: Well --

24 MS. MAHONEY: -- one of the problems --

25 JUSTICE BREYER: Will you assume Justice

1 Stevens' hypothetical? Assume it, take it as given. They
2 did put that in. I know you think they didn't, but I want
3 to assume it.

4 MS. MAHONEY: Uh-huh.

5 JUSTICE BREYER: Now, I'd like to also assume --

6 JUSTICE SCALIA: Could I have a review of the
7 bidding? What --

8 [Laughter.]

9 JUSTICE SCALIA: Go back -- what is the
10 hypothetical --

11 JUSTICE BREYER: The hypothetical is --

12 JUSTICE SCALIA: Continue on.

13 JUSTICE BREYER: -- that they write into the
14 contract -- the party who's the licensee says, "And we
15 stipulate that the licensee thinks that the patent is
16 invalid." Nonetheless, the licensee wants a license, for
17 business reasons. Therefore, the licensee and the
18 licensor agrees that, after they sign the contract and
19 he's paying a thousand dollars a month in royalties, he
20 can go into court and challenge the patent. So, we
21 assume that's written into the contract.

22 MS. MAHONEY: Uh-huh.

23 JUSTICE BREYER: And now, let us also assume a
24 state of the law. The state of the law is that there is
25 no public policy or any other policy that forbids such a

1 condition in a contract. All right?

2 Now, on those two assumptions, the next thing
3 that happens is that the licensee asks for a declaratory
4 judgment that the patent is invalid.

5 On those assumptions, is there a case or
6 controversy under the Federal Constitution? If not, why
7 not?

8 MS. MAHONEY: I don't think so, because I think
9 what they're really asking for is advice about a business
10 deal under those circumstances.

11 JUSTICE BREYER: But he says, by the way, "If I
12 win, I will, in fact, save \$42 billion a year in licenses"
13 --

14 MS. MAHONEY: Yes.

15 JUSTICE BREYER: -- "I would other have to pay."
16 And the other side will -- or -- I was a thousand dollars,
17 I meant 42 billion, okay?

18 [Laughter.]

19 MS. MAHONEY: But -- you know, but now -- but
20 now, can they come even before they sign the deal? In
21 other words, what's --

22 JUSTICE BREYER: No. Now, that's --

23 MS. MAHONEY: -- the line?

24 JUSTICE BREYER: I'm not asking --

25 MS. MAHONEY: In other words --

1 JUSTICE BREYER: -- your hypothetical.

2 MS. MAHONEY: -- I -- no. Oh, no, I'm just
3 saying --

4 JUSTICE BREYER: I'm asking --

5 MS. MAHONEY: -- I think that --

6 JUSTICE BREYER: -- my hypothetical.

7 [Laughter.]

8 MS. MAHONEY: I think the problem -- I think the
9 problem is, it -- is, it leads notion that parties can
10 simply, sort of, set up a -- even if there's not true
11 adversity, and come to court for answers to legal
12 questions. And that has --

13 CHIEF JUSTICE ROBERTS: Well, isn't there --

14 MS. MAHONEY: -- is something --

15 CHIEF JUSTICE ROBERTS: -- true adversity? I
16 thought the assumption underlying the -- everybody's
17 hypothetical is that, if the patent is determined to be
18 invalid, that the license -- then the license agreement is
19 also invalid. Is that -- is that right?

20 MS. MAHONEY: I don't think so. I don't think
21 the license agreement itself is invalid. It simply --

22 CHIEF JUSTICE ROBERTS: Can you -- can you --

23 MS. MAHONEY: -- means --

24 CHIEF JUSTICE ROBERTS: -- can you collect --
25 can a patentee collect license fees based on an -- patent

1 that has been determined to be invalid?

2 MS. MAHONEY: Not on that patent. Right. The
3 license --

4 CHIEF JUSTICE ROBERTS: It would --

5 MS. MAHONEY: -- made.

6 CHIEF JUSTICE ROBERTS: It would be pursuant to
7 the agreement.

8 MS. MAHONEY: If the patent has been -- under
9 Lear and other cases, if a patent has been held to be
10 invalid by a final decision of a court, then I think it is
11 improper for a licensee to seek to obtain --

12 CHIEF JUSTICE ROBERTS: Collective --

13 MS. MAHONEY: -- royalties --

14 CHIEF JUSTICE ROBERTS: Even if --

15 MS. MAHONEY: -- for that.

16 CHIEF JUSTICE ROBERTS: -- the royalty agreement
17 says, you know, "We have a dispute about the validity of
18 this patent. We don't know. We disagree. And so, we've
19 entered into a compromise royalty rate that reflects the
20 uncertainty." But once it's determined to be invalid, the
21 license fees are not collectible.

22 MS. MAHONEY: I think that that is correct, Your
23 Honor, under the -- under the current state of the law.

24 JUSTICE SOUTER: One further -- one further
25 wrinkle. What if the contract goes the further step and

1 says, "Even if the patent were determined, in any action,
2 to be invalid, there will still be a royalty payable,
3 because that's what -- that's -- that is consideration for
4 the fact that we are not going to start any controversy
5 now." Let's assume they assume, precisely, the
6 invalidity. Would you say the contract is unenforceable
7 then, and the -- and the --

8 MS. MAHONEY: Well --

9 JUSTICE SOUTER: -- and, for jurisdictional
10 purposes, there would be no case or controversy then?

11 MS. MAHONEY: That if, under the -- I'm sorry,
12 to --

13 JUSTICE SOUTER: The --

14 MS. MAHONEY: The --

15 JUSTICE SOUTER: Take the Chief Justice's
16 hypothetical, add the following. There is a provision in
17 there to the effect that if, during the term of this
18 contract, the license is determined to be invalid,
19 royalties will still be payable under this contract --

20 MS. MAHONEY: Uh-huh.

21 JUSTICE SOUTER: -- because that is one of the
22 contingencies, which is a consideration for our bargain.
23 Would you say, in those circumstances, that your answer
24 would be the same, that there's no -- there's no case or
25 --

1 MS. MAHONEY: Well, I don't know what the
2 dispute would be about, Your Honor, because it sounds like
3 the contract terms would be clear. And if the contract
4 terms are clear, they would simply go in accordance,
5 unless they have an argument that the contract is --

6 JUSTICE SOUTER: No, but I'm talking about
7 jurisdictional purposes.

8 MS. MAHONEY: -- unenforceable. If the -- if
9 the point is that it is actually invalid, illegal, that --
10 that may be a different case, although I think there would
11 still be an estoppel argument, that they should not be
12 permitted to bring that action without giving up the
13 benefits of the bargain, which is the immunity from suit.
14 I mean, that is one of the fundamental problems with this
15 case.

16 JUSTICE SOUTER: But do you see --

17 JUSTICE ALITO: I thought your argument
18 -- I'm sorry.

19 JUSTICE SOUTER: Well, if -- do you see a
20 difference between -- I guess you're saying there's no
21 difference between my added wrinkle on the hypo and the
22 Chief Justice's hypo, for jurisdictional purposes.

23 MS. MAHONEY: I don't think that there's a
24 difference, from a jurisdictional perspective --

25 JUSTICE SOUTER: Okay.

1 MS. MAHONEY: -- but I think, here, that the
2 major problem, from a jurisdictional perspective, is that
3 there is not anything in the language of the contract that
4 gives them a right to come to court to dispute validity.
5 Instead, we're --

6 CHIEF JUSTICE ROBERTS: What about the fact that
7 it's under protest?

8 MS. MAHONEY: That makes no difference, Your
9 Honor. The fact is that they are making the payments
10 pursuant to an agreement. They're not under compulsion of
11 an injunction. They're doing it because they voluntarily
12 entered into it. Altvater is completely different.
13 There, there was no license agreement in force. The
14 courts found that it -- that the reissue patents were
15 never part of the agreement, to begin with. In other
16 words, Altvater never agreed to pay royalties. Altvater
17 had been sued, so there wasn't a counterclaim for
18 invalidity.

19 JUSTICE GINSBURG: Could the --

20 MS. MAHONEY: And --

21 JUSTICE GINSBURG: -- patent holder take the
22 position that, "I -- Sooner or later, I'm going to have to
23 fight out validity with someone, and might as well do it
24 sooner rather than later, so I am not going to raise the
25 license as a defense"? Would that be a "case or

1 controversy"?

2 MS. MAHONEY: I don't think that the patent
3 holder is allowed to come to court and seek a declaration
4 of validity. I don't think any court has ever allowed
5 that.

6 JUSTICE GINSBURG: Is it -- it's -- no, the
7 patent -- the licensee is coming into court and wants a
8 declaration of invalidity so it can manufacture without
9 the fear of an infringement suit.

10 MS. MAHONEY: And they're under a license?

11 JUSTICE GINSBURG: Yes.

12 MS. MAHONEY: Yes.

13 JUSTICE GINSBURG: And the patent holder chooses
14 not to plead the license -- chooses not to plead the
15 license. Wouldn't the patent holder have that option?

16 MS. MAHONEY: Yes, the patent -- well, no. I
17 mean, not necessarily. Their view is that, because of the
18 terms of the agreement, that the patent holder has no
19 choice but to -- because they're receiving the royalties,
20 to simply --

21 JUSTICE GINSBURG: I don't mean their view. I
22 mean, they start a lawsuit. They say, "We're -- we want"
23 --

24 MS. MAHONEY: But that is -- that's what
25 happened here.

1 JUSTICE GINSBURG: -- "we want a declaration of
2 infringement." And the patent holder doesn't take the
3 position that you're taking; instead says, "I'm prepared
4 to fight this out now. I know that I have the license,
5 which could be an affirmative defense, but I'm not going
6 to raise it. I'm going to go head to head on the validity
7 of this patent." Would that be a case or controversy?

8 MS. MAHONEY: I don't think so, Your Honor,
9 because I don't think the parties are allowed to just
10 decide, "Well, we'd like to do this now," when they're --

11 JUSTICE GINSBURG: So, even --

12 MS. MAHONEY: -- they've treated --

13 JUSTICE GINSBURG: -- even if the patent holder
14 chooses not to raise the license, the court would have to,
15 on its own motion, say, "Sorry, you didn't -- you're not
16 the master of your defense. We decide that you have to
17 effectively plead the license."

18 MS. MAHONEY: I think the plaintiff has to show
19 that they are here pursuant to -- that they have a legal
20 right that permits them to adjudicate the issue of
21 validity. What the -- what the patent owner does, or not,
22 I don't think turns this into a case or controversy; that,
23 instead, we have to start with the fundamental question,
24 "What is the cause of action that they are attempting to
25 adjudicate? Is it a contract action or is it a -- an

1 action under the patent laws? Is it an infringement
2 action?" Here, I don't think there's any question but
3 that it is -- they're trying to adjudicate an action for
4 an infringement that can't arise, because they're immune
5 from suit, because they continue to make their payments.
6 And, under those circumstances, it is not sufficiently
7 immediate to establish jurisdiction in --

8 JUSTICE BREYER: It is --

9 MS. MAHONEY: -- this Court.

10 JUSTICE BREYER: -- it is, under other fields of
11 the law, isn't it? I mean, I imagine that the very -- we
12 see, all the time, declaratory judgments where a State
13 passes a law and the individual says, "Well, I think this
14 is unconstitutional, but my preferences are not to go to
15 jail; my preferences are not to be penalized. So, my
16 first choice is unconstitutional and my second is to obey
17 it." There's no possibility in the world that he will
18 violate that law. And yet, we've often held that, with
19 regulations, you have to have the other requirements. You
20 have to have the requirements that it's concrete, it's not
21 just ideological, there's real harm. But, if those other
22 requirements that are fulfilled, I've never seen any where
23 it said that there also has to be a reasonable
24 apprehension of a lawsuit in the absence of the
25 declaratory judgment. I've just never found that phrase,

1 and I can't imagine why it would be part of the law.

2 MS. MAHONEY: Your Honor, Poe versus Ullman,
3 this Court actually dismissed a declaratory judgment --

4 JUSTICE BREYER: Oh, there are many dismissed,
5 for the reasons that they aren't concrete, definite --
6 there are a lot of reasons why to dismiss it. I'm just
7 wondering if there is an additional reason that there has
8 to be a reasonable apprehension of a lawsuit in the
9 absence of the declaratory judgment action. It's that
10 phrase that I've never found anywhere --

11 MS. MAHONEY: We --

12 JUSTICE BREYER: -- and can't think of any
13 reason why that would be an additional constitutional
14 requirement. And I'm putting that directly to you,
15 because I want to hear you give me the counterexamples.

16 MS. MAHONEY: Well -- but in Poe versus Ullman,
17 it was a declaratory judgment action. They were seeking
18 to have a statute declared unconstitutional. And this
19 Court did dismiss, because they didn't have a reasonable
20 fear that they would actually be prosecuted. Dismissed
21 for lack of jurisdiction.

22 JUSTICE BREYER: And you say there has never
23 been a declaratory judgment action, except in the instance
24 where, in the absence of the action, the person would have
25 violated the law, if it's a Government law. In other

1 words, if they're -- so, it's really not --

2 MS. MAHONEY: Even --

3 JUSTICE BREYER: Yes.

4 MS. MAHONEY: Well, you could -- you could --

5 I'm not -- it is possible that that framework could be

6 extended. I -- it has not been done to date, and it would

7 be --

8 JUSTICE BREYER: As I think as we --

9 MS. MAHONEY: But --

10 JUSTICE BREYER: -- both know --

11 MS. MAHONEY: But --

12 JUSTICE BREYER: -- in the Government area, it

13 happens --

14 MS. MAHONEY: It --

15 JUSTICE BREYER: -- a lot.

16 MS. MAHONEY: It does.

17 JUSTICE BREYER: Yes.

18 MS. MAHONEY: But there is always a reasonable

19 apprehension, and there was always a finding of coercion.

20 Poe versus Ullman says you can't do it unless there is --

21 JUSTICE GINSBURG: Do I remember that --

22 JUSTICE KENNEDY: Well, Poe versus Ullman was a

23 case in which, even if there was a violation of the law,

24 there was going to be no prosecution.

25 MS. MAHONEY: That's why they didn't --

1 JUSTICE KENNEDY: He -- but, in this -- in this
2 case, if there's a failure to -- of -- conform to the
3 terms of the license agreement, there's going to be a
4 lawsuit. So, I think Poe versus Ullman is just not
5 relevant.

6 MS. MAHONEY: That -- it goes to the next point,
7 which is that there still has to be a coercive choice.
8 You have to choose -- there, they're choosing to give up
9 constitutional rights in order to avoid jail and
10 imprisonment, arrest and prosecution. Here --

11 JUSTICE KENNEDY: No, but --

12 MS. MAHONEY: -- what's at issue --

13 JUSTICE KENNEDY: -- but, in Poe versus Ullman,
14 the ultimate action was basically like violating the
15 contract here, and that's why it's not an applicable
16 precedent.

17 MS. MAHONEY: I don't -- I don't think it's like
18 violating the contract here, though, Your Honor, because,
19 What are the consequences here? What is the choice?
20 First of all, they actually owe the royalties under the
21 agreement, so they're trying to escape their bargain, not
22 enforce it. That's number one. So, they're not
23 forfeiting any rights under the contract, they're simply
24 trying to get out of the contract.

25 Number two, the consequences here, the choice

1 they're talking about, isn't in the nature of coercion.
2 Again, they're not being arrested or prosecuted. All
3 they're going to do if they walk out of this agreement, if
4 they stop paying royalties -- yes, they may well be sued
5 for infringement -- but, if they do, all they face is the
6 loss of their discount.

7 JUSTICE ALITO: But your argument seems --

8 MS. MAHONEY: That's --

9 JUSTICE ALITO: -- to be based on their having
10 implicitly given up their right to sue. Isn't that right?
11 That was your main argument. This is a settlement. This
12 is in the nature of the settlement. As part of the
13 bargain, the patent holder promises not to sue for
14 infringement.

15 MS. MAHONEY: It's not based on them giving up
16 their right to sue, in the sense that all they have to do
17 is stop paying royalties, and they can sue. They have to
18 --

19 JUSTICE ALITO: But in answer to the
20 hypotheticals, you seem to say it wouldn't matter if they
21 explicitly did not give up their right to sue. So, what
22 is left of this argument that what's involved here is
23 essentially a settlement?

24 MS. MAHONEY: Well, it is in the nature of a
25 compromise, Your Honor, and there's nothing in this

1 agreement that gives them a right to sue. They have to
2 find some legal right. What they're really saying -- what
3 their argument has always been is that Lear actually
4 creates an implied right of action for a licensee to sue
5 at any time of their choosing. That's been their argument
6 from the beginning.

7 CHIEF JUSTICE ROBERTS: Well, their concrete
8 right is, as I thought you conceded earlier, that if the
9 patent is declared invalid, they will not owe license
10 fees.

11 MS. MAHONEY: That's true. But that's getting
12 the cart before the horse. What this Court said in --

13 CHIEF JUSTICE ROBERTS: Well, that's what --

14 MS. MAHONEY: -- U.S. v. Harvey Steel is --

15 CHIEF JUSTICE ROBERTS: -- a declaratory
16 judgment action does, though, isn't it?

17 MS. MAHONEY: Well, I don't think so, Your
18 Honor. I think every single contract case in the lower
19 courts where they have allowed a suit to be brought on a
20 contract prior to breach, there was a genuine dispute
21 about the interpretation of the terms. Here, what they're
22 trying to do is adjudicate a cause of action outside of
23 the contract. They're trying to adjudicate an
24 infringement action and then say, "Aha, see what I have?
25 I have a judgment that the patent's invalid. And so, now

1 I'd like to say that I don't have to pay royalties under
2 my contract."

3 JUSTICE SCALIA: Ms. Mahoney, the patent bar is
4 sort of specialized -- more than "sort of" -- it's a
5 specialized bar, and I've never -- I've never been a part
6 of it. Do you agree with the statement of the
7 Petitioner's counsel that Gen-Probe came as a -- as a
8 shock to the --

9 MS. MAHONEY: As a -- I do not agree that it
10 came as a shock. And, in fact, I think that Warner
11 Jenkinson, which is a Second Circuit case that allowed
12 this kind of action back in the '70s, was one of the only
13 cases ever that allowed it. And other reasons were found
14 to dismiss similar kinds of claims. In Gen-Probe, it was
15 a surprise that a licensee could do this. It -- the law
16 -- by the time that this license was executed in the
17 Federal Circuit, there was a case, called Shell Oil, where
18 the Court specifically held that a licensee cannot take
19 advantage of the protections of Lear until it has
20 repudiated the license, stopped paying, and said that it
21 wants to challenge validity. So that was the background
22 rule that was in force at the time of this license. And
23 then, when you couple that with the fact that --

24 JUSTICE GINSBURG: But that wasn't -- the
25 district court, in this very case, seemed to say, "I think

1 this suit should go forward, but there's Gen-Probe, and I
2 must follow Gen-Probe." The district court, at least as I
3 read it, seemed to think that Gen-Probe moved in a
4 different direction from where the Federal Circuit was
5 before.

6 MS. MAHONEY: In all of the prior Federal
7 Circuit cases, the licensee had stopped paying royalties.
8 And what the Court explained in Gen-Probe is that that is
9 the sine qua non, that a licensee can't establish
10 jurisdiction, and it can't establish a right to challenge
11 validity, if it's still paying royalties.

12 CHIEF JUSTICE ROBERTS: Ms. Mahoney, you argue,
13 in the alternative, that we should dismiss it on the basis
14 of equitable considerations under the Declaratory Judgment
15 Act. We can't reach that argument unless we rule against
16 you on the Article III question. Is that right?

17 MS. MAHONEY: I don't think so, Your Honor. I
18 think you can, because I think that you can do it as an
19 alternative-threshold prudential jurisdictional dismissal
20 in the nature --

21 CHIEF JUSTICE ROBERTS: We would have to be
22 assuming that we had jurisdiction, wouldn't we?

23 MS. MAHONEY: I think that --

24 CHIEF JUSTICE ROBERTS: Under Article III?

25 MS. MAHONEY: I think that a prudential

1 dismissal under Article III would also be fine, and that
2 Steel Co. would allow for that kind of dismissal, because
3 Wilton said that you can dismiss for lack of jurisdiction,
4 at the front end, on prudential grounds if you know that
5 there would not be relief allowed at the back end.

6 And I think that there's no need for a remand to
7 do this. We are really talking about an equitable rule
8 that has governed equitable actions for 300 years. It is
9 a --

10 JUSTICE GINSBURG: But what -- but jurisdiction
11 is a question of power, Does the Court have the power to
12 do this? A discretion question is different. It's, "We
13 have the power to entertain this case, but, as a matter of
14 equity, we're not going to do so." The power question, I
15 think, is a -- one that's -- it's either yes or no, either
16 the court has the power, or doesn't.

17 MS. MAHONEY: But I don't think that the Court
18 has to answer that question in order to dismiss on a
19 prudential ground, a prudential jurisdictional ground, and
20 nor is there a need for a remand in Samuels versus
21 Mackell, and in Cardinal, for instance. Those are cases
22 where the Court adopted prudential rules and went ahead
23 and applied them without remand. I -- and no remand's
24 necessary. The Federal Circuit has already looked at
25 this. They --

1 JUSTICE STEVENS: Ms. Mahoney, can I ask you one
2 question before your light goes off? I know it's not --
3 goes to the "case or controversy" issue, but, in your
4 view, was the bringing of this action a material breach of
5 an implied condition of the contract that would justify a
6 termination of a license?

7 MS. MAHONEY: It would depend on whether there
8 is an implied covenant, Your Honor. It wasn't --

9 JUSTICE STEVENS: I'm asking you whether --

10 MS. MAHONEY: -- argued below.

11 JUSTICE STEVENS: -- you think there was.

12 MS. MAHONEY: I think it -- it may well be, but
13 I don't think the answer in this case turns on it, because
14 I think they have to have their own right to bring the
15 action, whether it's a breach or not, and that they don't.
16 Because they don't have an implied right of action under
17 Lear, they don't have a right to bring this action. And
18 that is an essential component of their ability to
19 challenge the issue of validity. So, I think that's the
20 first and fundamental --

21 JUSTICE KENNEDY: Well, if that's so, and it's a
22 super-violation of an implied covenant, and I guess you
23 could get damages.

24 MS. MAHONEY: I think that their theory, Your
25 Honor, is that a licensee can do this at any time, and

1 that --

2 JUSTICE KENNEDY: But I think that your theory
3 is that it's a super-violation of an implied covenant.

4 MS. MAHONEY: Your Honor, I don't think --
5 whether it's an implied covenant or not --

6 JUSTICE KENNEDY: "Not only did we agree to it,
7 but we you can't even do it if you agree to it."

8 MS. MAHONEY: I think that an additional factor
9 that bears on this analysis is also the fact that Congress
10 has never created an implied right of -- has never created
11 a right of action --

12 Thank you, Your Honor.

13 CHIEF JUSTICE ROBERTS: Thank you, Ms. Mahoney.

14 Mr. Kester, you have 3 minutes remaining.

15 REBUTTAL ARGUMENT OF JOHN G. KESTER

16 ON BEHALF OF PETITIONER

17 MR. KESTER: Thank you, Mr. Chief Justice. Just
18 several quick items.

19 I think -- I think, Mr. Chief Justice, you were,
20 a while ago, putting the horse in front of the cart, which
21 was right where it belongs. The contract claim is clear
22 in the record. It's at page 136 of the joint appendix. I
23 don't think more needs to be said about it.

24 Harvey Steel, on which Respondents rely, was, of
25 course, overruled --

1 JUSTICE SCALIA: Wait, wait. Before you leave
2 that, do you agree that it was not raised below?

3 MR. KESTER: No, we don't.

4 JUSTICE SCALIA: Where -- can you tell us where
5 it was raised below?

6 MR. KESTER: Well, it -- it's raised in the --
7 in the first remanded complaint. It's been a -- it's been
8 here throughout. If it -- if it even matters. I mean, we
9 wouldn't concede that that -- that that would even matter.

10 CHIEF JUSTICE ROBERTS: But was it raised before
11 the Federal Circuit?

12 MR. KESTER: Yes. The whole record was -- you
13 mean was it argued --

14 CHIEF JUSTICE ROBERTS: Yes.

15 MR. KESTER: I believe it was. I'd have to go
16 back and -- you mean in terms of the oral argument. It
17 was certainly in the briefs. It was certainly not waived.

18 There was never, of course, any -- anything in
19 the license, or anyplace else, where Petitioner gave up
20 the right to sue. Petitioner doesn't need permission in
21 the license to sue.

22 And as for the shock in the lower courts when
23 this case was decided, I would call to your attention what
24 the Federal Circuit, in 1983, itself, said, and it quoted
25 the Warner-Jenkinson case, which was the Second Circuit

1 case that my friend dismissed somewhat. The C.R. Bard
2 case -- this is Federal Circuit, early -- starts out, the
3 opening line -- it says, and I quote -- this is 716 F.2d
4 875 -- "We hold that a patent license need not be
5 terminated before a patent licensee may bring a Federal
6 declaratory judgment action," close quote. And the last
7 words of the same opinion, at 882 of 716 F.2d, are, "We
8 hold that a patent licensee may bring a Federal
9 declaratory judgment action to declare the Federal -- to
10 declare the patent subject to the license invalid without
11 prior termination of the -- of the license." That was
12 1983. Gen-Probe was 2004. Something happened in the
13 interval.

14 Finally, the discussion of settlements here
15 strikes me as, indeed, strange, because if this -- if a
16 license were to be redesignated as a settlement, we would
17 have the situation here where -- a license was signed in
18 1977; the only patent at issue in this case was not even
19 issued until 2001.

20 CHIEF JUSTICE ROBERTS: Thank you, Mr. Kester.

21 MR. KESTER: Thank you, Mr. --

22 CHIEF JUSTICE ROBERTS: The case is submitted.

23 [Whereupon, at 11:05 a.m., the case in the
24 above-entitled matter was submitted.]

25

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