IN THE SUPREME COURT OF THE UNITED STATES

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MEDIMMUNE, INC., :

Petitioner, :

v. : No. 05-608

GENENTECH, INC., ET AL. :

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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:

JOHN G. KESTER, ESQ., Washington, D.C.; on behalf of the Petitioner

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 Petitioner.

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

C O N T E N T S

P R O C E E D I N G S

(10:03 a.m.)

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 later -- 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 pay any 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 mean time.

That complaint was ordered dismissed by the Federal Circuit as outside the Article III judicial power of the United States.

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

CHIEF JUSTICE ROBERTS: Mr. Kester, would your position be different if the contract contained a specific license, a specific provision specifying that the licensee may not sue.

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

CHIEF JUSTICE ROBERTS: Do you think such a provision would be enforceable.

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

JUSTICE SCALIA: Excuse me, I don't understand what you just said. It would be enforceable. That if such a suit were brought, the licensor could raise that contractual provision as a basis for dismissing the suit.

MR. KESTER: Under 12(b)(6).

JUSTICE SCALIA: So it is enforceable.

JUSTICE SOUTER: Your point is it is not jurisdictional.

MR. KESTER: Not jurisdictional, exactly, Justice Souter. This is a jurisdictional ruling. And that's all that this Court granted certiorari on.

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

But on the other hand, it may be that there are reasons not to enforce this, so that we don't have courts flooded with law suits, et cetera, et cetera.

MR. KESTER: And those reasons, I would suggest, Justice Kennedy, were taken care of in Lear for the most part in 1969. Provisions in license contracts that prevent challenges to the contracts are not enforceable under the patent laws of the United States. But then, as I was saying, that is a matter of patent law. That is not a matter of jurisdictional law.

CHIEF JUSTICE ROBERTS: Well, let's look at what might be a matter of jurisdictional law. I take it from your position, there's nothing preventing Genentech

from suing either, is there? In other words, to establish the validity of their patent?

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

CHIEF JUSTICE ROBERTS: Against licensees?

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

JUSTICE GINSBURG: Against licensees who are not claiming that the patent is invalid? Where is the controversy?

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

JUSTICE GINSBURG: I can see it if the licensee says the patent is invalid. If the patentee is paying its royalties, how does it --

MR. KESTER: The patentee could be paying his royalties. The patentee could also be putting ads in the paper saying this is not a valid patent, it could have acquired a lot of publicity, and in the end, there could be reasons, and there have been such cases which we cited, 47 of our brief, where such suits have been brought.

JUSTICE GINSBURG: If the licensee came into court and said, I'm not contesting this patent, that

would be the end of it, wouldn't it?

MR. KESTER: If the licensee said, I'm not contesting that, that could be.

CHIEF JUSTICE ROBERTS: Well, the patentee would just say, look, we have a license, I think the patent is valid and you owe me a dollar a unit. The licensee says, well, I don't think it is valid, so I owe you nothing, and they settle on a license for 50 cents. Why can't the patentee say, you know, if I get a judicial decision establishing that the patent is valid, I can charge a higher license, either when this agreement expires or for other licenses.

MR. KESTER: I agree with that, Mr. Chief Justice. But the practicality is that a patentee starts out with, essentially, a judgment that the patent is valid. There is a presumption of validity. And to challenge that patent, that presumption of validity is a very difficult undertaking. Most of them don't bother. Why would they? If they are receiving -- if they're receiving --

CHIEF JUSTICE ROBERTS: I'm trying to see how far you want -- or are willing to push your argument that just because there's been an agreement, or perhaps even a settlement, that that somehow or other doesn't moot the controversy, the underlying legal dispute. I

gather your answer to me is that Genentech or a patentee can sue, even though they have an existing, or are getting royalties from a licensee, they can still sue the licensee.

MR. KESTER: A settlement does not deprive the federal court of subject matter jurisdiction. That's the narrow point before this court.

JUSTICE GINSBURG: You said the only question before the court is jurisdictional. If that's so, why isn't your position that the Federal Circuit put the wrong label on this, that license is listed in 8(C) as a form of defense, so whatever the outcome should be, the wrong label was used. It shouldn't be subject matter jurisdiction, shouldn't be 12(b)(1), it should be an 8 CFR defense. You added the jurisdiction box but you are left with the same underlying question.

MR. KESTER: They are not the same underlying question. With respect, Justice Ginsburg, you are in a situation where the Seventh Circuit which came out shortly after -- there was a settled -- settlement, and it was argued that the settlement was not effective because of the Lear decision. Parties can't settle themselves out of the Lear decision, but that is all under 12(b)(6) and not 12(b)(1). This case involved a 12(b)(1) motion.

JUSTICE GINSBURG: Suppose we said, Federal Circuit, you put the wrong label on it. It should be 12(b)(6), not 12(b)(1), or perhaps even 8(C), affirmative defense, then it goes back to the Federal Circuit, and they'll come up with the same decision, that as long as you are licensed and are paying your royalties, you have -- they just put a different label on it. You have not stated a claim.

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

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

JUSTICE GINSBURG: The Federal Circuit distinguished Lear, and said, in Lear, the licensee had stopped paying royalties; isn't that so?

MR. KESTER: Those were the facts of Lear. But it happened that way in Lear, but that wasn't the reasoning of Lear. Lear would not totally cover that situation, but we would submit to this Court, it shouldn't make any difference. The reasoning of Lear is

the same. The licensee cannot, by contract, be estopped, licensee estoppel, from challenging the patent.

CHIEF JUSTICE ROBERTS: So there is no way, under your view, that a patent holder can protect itself from suit through any license arrangement or any agreement of any kind.

MR. KESTER: I suspect there are many ways, Mr. Chief Justice, but not by throwing them out on a jurisdictional basis at the very first moment of the lawsuit. There may be ways it could be arranged at the second level, through --

JUSTICE GINSBURG: One of those ways -- and one should have been mentioned as possibilities in the government brief, one you rejected, and the other that was mentioned was if you sue, if the licensee sues, then the royalty fees will be upped. Would that be effective?

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

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

MR. KESTER: I don't think that I have rejected both the government's suggestions. I have said that they raise problems as to the scope of Lear.

JUSTICE SOUTER: Are we talking about a jurisdictional defense or whether we are talking about an affirmative defense assuming jurisdiction, is there any reason for us to except accept your position other than the reason that you have mention add number of times and that is the adoption and encouragement of the public policy that allows patent challenges for -- is that one -- the nub of our reasoning if we were to support your position either jurisdictionally in this case or in recognizing -- in dealing with any affirmative defense in any other case.

MR. KESTER: Not quite, Justice Souter. I would say the nub of your position is the Old Quarter case, the Aetna case, the --

JUSTICE SOUTER: The narrow category is difficult for you, isn't it, because there was an injunction in Aetna, wasn't there, which raises an

entirely different policy issue?

MR. KESTER: I would say that what it raises is simply an extra fact but it wasn't a necessary fact. Because this court in Altveder specifically pointed out that even if there weren't an injunction there, there would be the danger forced on the licensee of an infringement suit, and an infringement suit means possibly an injunction of the patent, treble damages, any number of sanctions. An injunction suit can put a company out of businesses, especially like a company like my client here.

JUSTICE SOUTER: That is a good reason. And I take it it's your logic that that is a good reason to recognize a fairly broad right on the part of a licensee to challenge. In other words, the nub of your position, as I understand it, is that the public policy that favors the freedom of challenge --

MR. KESTER: It is more than public policy. It is Article 3. Article 3 says that you can bring a lawsuit in this situation. And that was settled in Aetna.

JUSTICE SOUTER: No, I realize that. But I mean what we have got in this case, and in any of these cases, is a question of line drawing under Article 3. And your argument is you want to draw the line, the way

you want it drawn, primarily because there are practical reasons to favor a public policy of free challenge.

MR. KESTER: What we are presenting in this case is a dispute about money. It is not abstract. It is not hypothetical. It is not conjectural. It is concrete, immediate, all the facts are in. It is definitely adversarial. It is legal.

JUSTICE SCALIA: You can have such a dispute on a theoretical question between, I don't know, the ACLU and the National Rifle Association, but that doesn't create a case or controversy. What is the injury, the imminent injury to your client that is the basis for the case or controversy? Is it anything other than I have to pay the royalties that I agreed to pay?

MR. KESTER: It is, it is that I am having to pay royalties -- that I think I did not agree to pay, because this is an invalid patent. Money is being paid by my client every quarter, large amounts of money that is a major injury.

JUSTICE SCALIA: Is it unlawful to agree to pay somebody money who does not have a patent?

MR. KESTER: It is --

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

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

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

MR. KESTER: Because, because the --

CHIEF JUSTICE ROBERTS: Because of the threat of treble damages and injunction. If we're trying to figure out where the public policy is here, why don't we give some weight to those congressional enactments that obviously fortify the strength of the patent?

In other words, Congress passed these provisions providing for treble damages, for attorneys' fees, and to respond that there has got to be a public policy to counterbalance that, Congress can always do that if it wants; but it didn't, it thinks that you need these provisions to protect the patent holders.

CHIEF JUSTICE ROBERTS: But Mr. Chief Justice, Congress can also amend the Declaratory Judgment Act if it wants. And Congress was proud of the Declaratory Judgment when it was passed in 1934. And the legislative history of it, and nothing -- to the contrary says the purpose of this is so that contracts be resolved without breach, and judicial determinations

can be had.

It is like a noninvasive, or less invasive type of surgery.

JUSTICE STEVENS: Mr. Kester, may I ask you this question? Is it your view that Genoprobe represented a change in the law?

MR. KESTER: Absolutely.

JUSTICE STEVENS: Were there, before Genoprobe was decided, were there any cases like this case that were decided?

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

JUSTICE STEVENS: Where the licensee brought suit challenging validity while the license was still in effect?

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

This case came as a shock in 2004. And in fact, are the judges below in this series of cases all said we thought it was settled law the other way. All this case represents from our point of view is let's go

back to the way it has always been. I'd like to reserve the balance of my time.

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

ORAL ARGUMENT OF DEANNE E. MAYNARD

ON BEHALF OF PETITIONER

MS. MAYNARD: Mr. Chief Justice, and may it please the court. There is a concrete dispute between the parties about their legal rights and obligations. If that dispute is resolved money will change hands. That is an Article 3 case or controversy.

CHIEF JUSTICE ROBERTS: How do you ever end these things? Let's say they have this dispute, they bring the litigation, and they setle it. They say okay we're going to settle it. Instead of paying a license fee of 50 cents it's going to be be 40 cents, and we'll go on. Then they can sue again, I take it.

MS. MAYNARD:: In that situation, recognizing that's not the situation we have here --

CHIEF JUSTICE ROBERTS: Can they settle that, by the way? Is it all right to settle it, or does that interfere with the policy that patents have to be open to challenge?

MS. MAYNARD: If I can answer the first question first.

CHIEF JUSTICE ROBERTS: You may.

MS. MAYNARD: If there were to be a settlement in the second case, it would not be an Article 3 case or controversy problem with the second case. And that suit should not be dismissed under 12(b)(1). In that case the patent holder might have a valid 12(b)(6) defense, and the suit laying aside enforceability issues that you raised, may be easily resolved on that ground. But in terms of the question before the court today, that wouldn't be an Article 3 matter.

I think as a policy matter, so moving off the question before the Court right now, as a policy matter, it is not clear from this Court's cases exactly what types of agreements would be enforceable. I think there's a spectrum of cases one can imagine ranging from Pope the type of promise that was extracted in Pope which this Court held was unenforeable --

CHIEF JUSTICE ROBERTS: Well I think you overread Pope. All Pope said was that they are not going to grant specific performance. In fact, they've said whatever you may think of the policy, we don't -- specific performance calls on the equitable discretion. We're not going to do it. But I don't believe Pope was holding that the clauses are otherwise unenforceable.

In other words you may be entitled to damages. And that may be measured by the license fee that you agreed to pay.

MS. MAYNARD: Well, there certainly would be a question though the way that Lear read Pope, and under Lear about whether a bare agreement not to challenge licenses, especially ones like in Pope, where they agreed not to conflict even beyond the term, would be enforceable. And the government thinks there is a spectrum. At one end of the spectrum would be licenses like those in Pope. And the other end of the spectrum would be a consent decree entered after settlement of a bona fide patent infringement suit which included an agreement not to settle. Now that's clearly not what we have here.

JUSTICE BREYER: I guess there are three possible positions on the question of whether a licensee can attack a contract, a patent where he has a license and wants to keep the contract. One, he can never do it. Two, he can always do it. Three, it depends on what the contract said. Now, do any of those questions have anything to do with the question before us? Which is whether it is a case or controversy.

MS. MAYNARD: No, Your Honor.

JUSTICE BREYER: All right. If we were to

reach the question which itself very interesting, what is the Government's position as to which of those three positions is the right position? Were we to reach it. I agree with you, I don't see it in front of us. But maybe it is; it it were, what would be your view?

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

JUSTICE BREYER: So basically, you are not certain. The Government's view is it is a matter of whether you can sue claiming the patent is invalid, whether the licensee can do it, that probably but you are not certain, you haven't made up your mind definitely because it is not in this case, but you think it is going to be something they could regulate themselves by contract?

MS. MAYNARD: It is certainly not foreclosed by this court's precedent and it is an open question where where the policies, how they would weigh out. There's no language in this license however suggesting any type of settlement. Moreover, I think it is important to recognize the parties here actually have a concrete dispute about what the licensing agreement means. Count 1 in the complaint is asking for a

declaration --

CHIEF JUSTICE ROBERTS: You don't think it matters, though, do you? I mean, even if they all agree there's no dispute about what the license agreement means, your position is still the same, right? There is an Article 3 controversy because they challenge the validity of the patent?

MS. MAYNARD: If the parties have a concrete dispute about the validity of the patent and it would affect their rights and obligations in the way it would here; in other words that money would no longer be due to the respondent if the patent is invalid --

CHIEF JUSTICE ROBERTS: Is that always the case? I mean, can you enforce a license agreement based on an invalid patent? You thought it was valid; the parties had got a dispute about whether it is valid. You entered into agreement, said well, let's split the difference, you know, 50 cents rather than a dollar or nothing; it is determined the patent is invalid, can the patentee then still say well, you still owe me the money. We kind of split the difference; that was part of the agreement?

MS. MAYNARD: It might depend on whether there was consideration beyond the patent itself. In this case, though, the petitioner claims that if the

patent is invalid, they no longer owe licensing fees and under Lear they would be entitled to licensing fees that they paid since they began challenging that. So it is clear that under either the contract --

JUSTICE SCALIA: Contractually, they say that that's their contractual right?

MS. MAYNARD: They claim that under the licensing agreement, they only owe royalties on valid claims. That's count 1 of the complaint.

JUSTICE SCALIA: Where does that appear in the licensing agreement?

MS. MAYNARD: Where does it appear in the licensing --

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

MS. MAYNARD: The parties actually have a concrete dispute about meaning of the licensing agreement in that regard, Justice Scalia. On page 399 of the joint appendix is the provision about which they have a dispute. And the language in there provides that they will pay on substances which would if not ***

licensed under this agreement infringe one or more claims of either or both of the Shamir patents or co-expression patents which have either expired or been held invalid by a court or other body of competent jurisdiction. There was similar language --

JUSTICE SCALIA: So there is really not much at issue in this case. And that's clearly a case of controversy. It is a dispute over the meaning of that provision of the agreement?

MS. MAYNARD: Yes, Your Honor.

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

MS. MAYNARD: That's what the government believes, Your Honor. It is also -- the licensee also does not need to breach the licensing agreement in order to create a case or controversy. The licensee is currently paying royalties that it does not believe it owes and that it believes it would be entitled to have that if it should prevail on it interpretation of the patent and the licensing agreement. It doesn't have to make that injury more severe by breaching. That's clear from this court's decision in Altveder? In Altveder royalties were being demanded and royalties were being paid but nevertheless this Court held --

CHIEF JUSTICE ROBERTS: That's been pointed

out that that was pursuant to an injunction.

MS. MAYNARD: Yes, it was pursuant to an injunction but that was not important to the Court's reasoning. What the Court is said you need not suffer patent damages in order to bring the suit. Not a contempt. You need not breach the injunction and put yourself at risk of treble damages for infringement. It was the patent damages that put the licensee at risk and that's the same risk the petitioner faces here and should not have to bear in order to bring suit.

The case or controversy is whether or not they owe the royalties. The whole point of the Declaratory Judgment Act was allow subcontracting parties not to have to sever their ongoing contractual relations in order to get disputes resolved between themselves.

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

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

CHIEF JUSTICE ROBERTS: Yes.

MS. MAYNARD: Yes, I do. Where the petitioner claims the patent is invalid, that they, that the petitioner's claims unsettled their right, damages

their property value potentially and that they could bring a declaratory judgment action of validity.

JUSTICE SCALIA: And what would their concrete injury be? What is the threatened imminent injury they would assert in that action? You have a licensee who is paying license fees. What is their concrete injury?

MS. MAYNARD: From the moment -- the petitioner has an argument that from the moment it ceased, it starts claiming that the patent is invalid and pays under protest, it is entitled to those royalties back.

JUSTICE SCALIA: But still, so long as they are still paying the royalties, isn't that sort of an abstract disagreement? It is sort of like the ACLU saying that the patent is invalid. It's a nice theoretical question that we can argue about, but as long as they're paying the royalties, where's the concrete injury?

MS. MAYNARD: Well, I think technically, Justice Scalia, they probably have a claim for patent infringement. There is not an Article 3 case or controversy.

JUSTICE SCALIA: I find it very difficult to see how there would be a proper declaratory judgment

action by the patentee here. It is just not the kind of situation where you can have a mirror image suit. I don't see what the --

MS. MAYNARD: You need -- may I answer that question? You need not have a mirror image suit in that sense, Justice Scalia, and Altvader makes that clear. In Altvader, the patentee's claim was much narrower than the counterclaim, and nevertheless the court allowed that counterclaim to proceed.

CHIEF JUSTICE ROBERTS: Thank you, counsel.

Ms. Mahoney?

ORAL ARGUMENT OF MAUREEN E. MAHONEY

ON BEHALF OF RESPONDENT

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

I would like to start with the fact that there are four counts in the complaint for declaratory relief. The first one is styled as a contractual relations claim. The other three are styled as patent law claims. It is important to emphasize at the outset that this Court in Stone Royal and Caldwell, and in really all of the cases has said it's very important to look behind the labels that a declaratory judgment act plaintiff puts on those claims. We need to actually see what is the cause of action they're trying to adjudicate

so we can do an accurate assessment of decisibility standing, like this federal question jurisdiction.

I want to start by explaining why there is no contract claim at issue here. You heard today, they're trying to salvage this to say there's a contract dispute, a dispute about the terms of the contract. They didn't argue that below, and with good reason. And I just point you to the briefs in the Federal Circuit. Roman Numeral I, which is all about the improper dismissal of the declaratory judgment act claims refers to the fact these are "patent law claims", at page 27. Nowhere do they say that there is a dispute about the proper interpretation of the contract terms. And let me explain why.

The contract terms which were just read to you as Section 110 of -- 1.10 at JA-399 of the license says that there is an obligation to pay royalties for Synagis on any claim, not any valid claim, any claim that has not been held invalid by a court or other competent jurisdiction from which no appeal has or may be taken. Now, they never said below that clause means that we can come to court and have the court decide whether this patent is valid, and depending upon whether we win or not, then we can stop paying. And the reason they didn't make that argument is it was rejected by

this Court a hundred years ago in United States versus Harvey Steel.

Very similar clause. The United States says this means we don't have to pay if the patent is invalid. And in an opinion by Justice Holmes, this Court rejected it out of hand by -- and said this was a conventional proviso, we don't even need to look to evidence of the party's intent because this is a standard proviso, it does not mean, and they said it was a twisted interpretation that the government was offering. It doesn't mean the licensee, "Stopped the patent bad and would like to have the court say so now."

JUSTICE GINSBURG: Was that an Article 3 case or controversy?

MS. MAHONEY: It is in the following sense, Your Honor. They can't just show up here today and say well, there really is a dispute about the contract that they never argued below, and --

JUSTICE BREYER: Shouldn't we send that back? I mean, I thought we were here to decide one question, that the Federal Circuit has said that unless there is a reasonable apprehension of a lawsuit, you can't bring a declaratory judgment action because of the Constitution of the United States. Now I have to admit, I looked up, or I had my law clerk look up probably now

hundreds of cases, and we can't find in any case such a requirement. Indeed, the very purpose, as we just heard the SG say of this act, the declaratory judgment act, seems to be to allow people who do a contract, who are in a real concrete disagreement, to get a declaratory judgment without getting rid of the contract. But I might be wrong about that.

But you've now argued a different point. So isn't the right thing for us to do, to decide the issue in front of us and then send it back? If you are right that they have to pay, whether they win or lose; if they are right that they promised not to sue; if you are right on 14 other grounds, you might win. But should we decide those grounds today? Why?

MS. MAHONEY: Well, first of all, with respect to this issue, whether there would be jurisdiction over a real life contract dispute, they never argued it, Your Honor. It is not part of this case. The Federal Circuit didn't address it because they didn't argue it, because they didn't --

JUSTICE GINSBURG: Well, it's presented to us. Whatever they suggested at this oral argument that wasn't in Free, the question presented to us is, was the Federal Circuit right when they said you have no access to a declaratory judgment unless there is a reasonable

apprehension that you will be sued.

MS. MAHONEY: Your Honor, that is the right, that is the right starting point for a test depending upon the cause of action they are seeking to adjudicate. In here, what the Federal Circuit properly understood is that they are seeking to adjudicate affirmative defenses to an infringement action under the patent laws.

And just like in Steffel, if you are trying to adjudicate or an anticipatory basis an enforcement action, you have to show that you would reasonably fear that enforcement action. And in fact, Steffel uses that language, and Cole versus Amman dismisses a case for failure to establish a genuine fear of prosecution. But then you have to go one step beyond, and that is to say are they -- is the cause of action not ripening because the declaratory judgment plaintiff is forfeiting their legal rights in order to avoid some very severe harm that would become veritable coercion? That's the test that's used in Steffel for in essence being able to test defenses to a cause of action that --

JUSTICE SCALIA: Why doesn't that work here?

MS. MAHONEY: Well, it doesn't work here for several reasons. Most fundamentally, this is a settlement. I mean, Mr. Steffel did not enter into a settlement or a compromise with the prosecutor. He

wasn't complying because he was under an agreement to do so. Here it has been settled forever, that if they -- an agreement for making payments pursuant to an agreement in the nature of a compromise, you can't come and say that it has been coerced or is some form of duress.

JUSTICE SOUTER: Well then, why should we accept the characterization that it's a compromise, if it may be just facutally wrong here? I thought at the time they entered into the license agreement, they had some disagreements about the scope of the then patent, the scope of the anticipated patent, and so on, and they couldn't very well be resolved. But they were not settling in the classic sense of the word, to pay a, let us say a focus claim one against the other.

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

JUSTICE SOUTER: But had they gotten to the point prior to the execution of the contract in which

one party was saying, you may not do this, and the other party was saying, oh yes, I can, so that there was a focused controversy that would have been the subject matter of a conventional lawsuit then and there, had there not been this license agreement.

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

JUSTICE SOUTER: But the question is, how far ahead of the pass can they get and still call it a settlement in the sense that you're using that term?

MS. MAHONEY: It's a compromise. It's a compromise of the very claims they are trying to adjudicate here. What they want to adjudicate are affirmative defenses to a patent infringement action. That is not a ripe claim and there is not sufficient immediacy because they are preventing that claim from ripening by continuing to make voluntary pavements under their agreement.

JUSTICE SOUTER: Right, but you were saying that the status of that agreement for purposes of the jurisdictional question here is exactly the same as the status of an agreement that they might have entered into after one party had brought suit against the other, and they settled, and then later on somebody wanted to repudiate the settlement.

MS. MAHONEY: I don't know if it's exactly the status. For instance, in a settlement after litigation has been filed, I think that Lear would say that you can't even repudiate that. But certainly -- so there might be some differences, but from the standpoint of coercion --

JUSTICE SOUTER: Is it equivalent to a settlement after formal demand has been made?

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

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

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

JUSTICE KENNEDY: So then, the argument that

you have made is just not relevant for the fact that they knew everything --

MS. MAHONEY: They did.

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

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

JUSTICE STEVENS: Ms. Mahoney, could I ask this question?. Supposing at the time they negotiate the license agreement, there's some uncertainty about whether the patent is valid or not. So at the end of the license agreement, they agree on the royalties, the term, and everything is covered, but they put in a provision and say we're not entirely sure the patent is valid, so we reserve the right to bring an action challenging the validity of the patent. We'll pay royalties in the meantime and you will accept these royalties as sufficient for the use of the patent, but if we win, you don't have to pay royals, if we lose, you do. Would that be a valid provision?

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

JUSTICE STEVENS: But would it not be precisely the same issue as a jurisdictional matter as to whether there is a case or controversy?

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

JUSTICE STEVENS: He's not being coerced, but he's bargaining a little bit of royalty rate that he otherwise would have to pay.

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

JUSTICE STEVENS: I'm simply asking whether the parties could agree to create a case or controversy.

MS. MAHONEY: I think probably not, Your Honor. I think that is one of the problems.

JUSTICE BREYER: Would you assume Justice Stevens' hypothetical, assume it, take it as given. They did put that in. I know you think they didn't, but I want to assume it. Now I'd like to also assume --

JUSTICE SCALIA: Could I have a review of the bidding?

(Laughter.)

JUSTICE SCALIA: What is the hypothetical?

JUSTICE BREYER: The hypothetical is that

they write into the contract, the party who is the licensee says, and we stipulate that the licensee thinks that the patent is invalid. Nonetheless, the licensee wants a license for business reasons. Therefore, the licensee and the licensor agree that after they sign the contract and he's paying a thousand dollars a month in royalties, he can go into court and challenge the patent.

So we assume that's written into the contract. Now let us also assume a state of the law. The state of the law is that there was no public policy or any other policy that forbids such a condition in a contract.

All right? Now on those two assumptions, the next thing that happens is that the licensee asks for a declaratory judgment that the patent is invalid.

On those assumptions, is there a case or controversy under the federal constitution? If not, why not?

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

JUSTICE BREYER: But he says, by the way, if I win, I will in fact save $42 billion a year in licenses I would either have to pay, and the other

side -- or -- I was a thousand dollars, I meant $42 billion, okay?

MS. MAHONEY: But now when they come even before they sign the deal, in other words --

JUSTICE BREYER: I'm not asking you more hypothetical. I'm asking my hypothetical.

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

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

MS. MAHONEY: I don't think so. I don't think the license agreement itself is invalid. The royalty agreement says, you know, "We're -- we have a dispute about the validity of this patent. We don't know. We disagree. And so, we've entered into a compromise royalty rate that reflects the uncertainty. But once it's determined to be invalid, the license fees are not collectible."

I think that that is correct, your Honor,

under the -- under the current state of the law.

JUSTICE SOUTER: -- one further -- the contract goes the further step and says, "Even if the patent were determined in any action to be invalid, there will still be a royalty payable, because that's what -- that's -- that is consideration for the fact that we are not going to start any controversy now." Let's assume they assume, precisely, the invalidity. Would you say the contract is unenforceable then, and the -- and the --

MS. MAHONEY: Well --

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

MS. MAHONEY: That if, under the -- I'm sorry, this --

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

MS. MAHONEY: Uh-huh.

JUSTICE SOUTER: -- because that is one of the contingencies, which is the consideration for our

bargain. Would you say, in those circumstances, that your answer would be the same, that there's -- that there's no case --

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

JUSTICE SOUTER: No --

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

JUSTICE SOUTER: But do you see --

CHIEF JUSTICE ROBERTS: I thought your argument -- I'm sorry.

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

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

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

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

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

"case or controversy"?

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

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

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

JUSTICE GINSBURG: Yes.

MS. MAHONEY: Yes.

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

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

JUSTICE GINSBURG: I don't mean their view. I mean, they filed a lawsuit. They're saying, "We're -- we want" --

MS. MAHONEY: But that is -- that's what

happened here.

JUSTICE GINSBURG: -- "we want a declaration of infringement." And the patent holder doesn't take the position that you're taking; instead says, "I'm prepared to fight this out now. I know that I have the license, which could be yes or no, either the court has the power or it doesn't.

MS. MAHONEY: But I don't think that the court has to answer that question in order to dismiss on a prudential ground, a prudential jurisdictional ground, and nor is there a need for a remand in Samuels versus Mackell, and in Cardinal, for instance. Those are cases where the Court adopted prudential rule and when it hadn't applied them without remand. I -- and no remand's necessary. The Federal Circuit has already looked at this. They --

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

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

JUSTICE STEVENS: I'm asking you whether --

MS. MAHONEY: -- argued below.
JUSTICE STEVENS: -- you think it was.
MS. MAHONEY: I think it -- it may well be, but I don't think the answer in this case turns on it, because I think they have to have their own right to bring the action, whether it's a breach or not, and that they don't. Because they don't have an implied right of action under Lear, they don't have a right to bring this action. And that is an essential component of their ability to challenge the issue of validity. So, I think that's the first and fundamental --
JUSTICE KENNEDY: Well, if that's so, and it's a super violation of an implied covenant, I guess you could get damages.
MS. MAHONEY: Well, I think that their theory, Your Honor, is that a licensee can do this at any time. And --
JUSTICE KENNEDY: But I think that your theory is that it's a super violation of an implied covenant.
MS. MAHONEY: Your Honor, I don't think -- whether it's an implied covenant or not --
JUSTICE KENNEDY: Not only did we agree to it, but we you can't even do it if you agreed to it.
MS. MAHONEY: I think that an additional

factor that bears on this analysis is also the fact that Congress has never created an implied right of -- has never created a right of action --

Thank you, Your Honor.

CHIEF JUSTICE ROBERTS: Thank you, Ms. Mahoney.

Mr. Kester, you have 3 minutes remaining.

REBUTTAL ARGUMENT OF JOHN G. KESTER

ON BEHALF OF PETITIONER

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

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

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

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

MR. KESTER: No, we don't.

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

MR. KESTER: Well, it's -- it's raised in the

-- in the first -- It's been here throughout. If it -- if it even matters. I mean, we wouldn't conceive that that -- that that would even matter.

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

MR. KESTER: Yes. Well, the whole record was -- you mean was it argued --

CHIEF JUSTICE ROBERTS: Yes.

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

There was never, of course, any -- anything in the license, or anyplace else, where Petitioners gave up the right to sue. Petitioner doesn't need permission in the license to sue. And as for the shock in the lower court when this case was decided, I would call to your attention what the Federal Circuit, in 1983, itself said, and it quoted the Warner-Jenkinson case, which was the Second Circuit case that my friend dismissed somewhat. The C.R. Bard case -- this is Federal Circuit early -- starts out with opening line -- it says, and I quote -- this is 716 -- 875 -- "We hold that a patent license need not be terminated before a patent licensee may bring a Federal declaratory judgment action," close quote. And the

last words of the same opinion, at 882 of 716 -- are, "We hold the patent licensee may bring a Federal declaratory judgment action to declare the Federal -- to declare the patent subject to the license invalid without prior termination of the -- of the license." That was 1983. Gen-Probe was 2004. Something happened in the interval.

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

CHIEF JUSTICE ROBERTS: Thank you, Mr. Kester.

MR. KESTER: Thank you, Mr. --

CHIEF JUSTICE ROBERTS: The case is submitted.

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

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