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 the 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 -- 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

the Article III judicial power of the United States.

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

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

MR. KESTER: Yes?

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

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

CHIEF JUSTICE ROBERTS: You -- 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 -- it would be an affirmative defense if such -- if such a claim were raised. This case is here at the level of subject-matter jurisdiction.

JUSTICE SCALIA: Excuse me, I don't -- I don't understand what you just said. You mean, 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. Is that --

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

JUSTICE SCALIA: Okay.

MR. KESTER: -- perhaps.
JUSTICE SCALIA: So, then it is enforceable.
JUSTICE SOUTER: No, but --
MR. KESTER: No.
JUSTICE SOUTER: -- your point is, it's not jurisdictional.
MR. KESTER: It's 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, we, 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 be -- not be talking about much. It's just going to be boilerplate in every license agreement, and that's the end of it. And it --
MR. KESTER: And so --
JUSTICE KENNEDY: -- but it -- on the other hand, it may be that there are reasons not to enforce this, so that we don't have courts flooded with lawsuits, 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, I -- as I was saying, that is a matter of patent law. That's not a matter of jurisdictional law. We're here --

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 -- 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? And where is the controversy?

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

JUSTICE GINSBURG: I mean, I can see, if the -- if licensee says the patent is invalid, that the patentee says 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 --

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. But --

JUSTICE GINSBURG: If it -- if the -- if the -- 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 am not contesting that patent," that could be.

CHIEF JUSTICE ROBERTS: Oh, but the patentee would just say, "Look, we have a license. I think the patent's valid, and you owe me a dollar a unit." The licensee said, "Well, I don't think they're -- it's 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: That -- 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 -- are willing to push your argument that just because there's been an agreement, or perhaps even a settlement, that that somehow or another doesn't moot the controversy, the underlying legal dispute. And it -- I gather your answer to me is that Genentech, or a patentee, can sue, even though they have an existing -- they're getting royalties from the licensee, they can still sue the licensee.

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

JUSTICE GINSBURG: Why aren't you -- 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 an affirmative defense; so, whatever the outcome should be, the wrong label should -- is -- was used. It shouldn't be a subject-matter jurisdiction, shouldn't be 12(b)(1); it should be an 8(c) affirmative defense. And then the -- you're out of the jurisdiction box, but you're left with the same underlying question.

MR. KESTER: But not the same underlying

question, Justice Ginsburg, with respect, because then you are in a situation like the business forms case in the Seventh Circuit, which came out shortly after the Lear. There was a settle -- settlement, and the -- and it was argued that the settlement was not effective because of the Lear decision, and 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 involves a 12(b)(1) motion, not a 12(b)(6) --

JUSTICE GINSBURG: But what --

MR. KESTER: -- motion.

JUSTICE GINSBURG: -- good would it do? 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 you go 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 -- and they just put a different label on it -- you have --

MR. KESTER: They --

JUSTICE GINSBURG: -- you have no -- 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 inhibitions of challenges to patent licenses. A licensee can challenge the validity, the 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 -- to a patent --

JUSTICE GINSBURG: But then --

MR. KESTER: -- license.

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

MR. KESTER: That -- 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 a patent.

CHIEF JUSTICE ROBERTS: So, there's no way, I -- 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.

JUSTICE GINSBURG: How about --

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

JUSTICE GINSBURG: Well, what are those ways -- I mean, the ones that 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 have 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've said that they raise problems on -- as to the scope of Lear.

JUSTICE SOUTER: With respect to -- whether we

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

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

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

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

JUSTICE SOUTER: Which raises an entirely different policy issue?

MR. KESTER: Well, I would say what it -- what it raises is simply an extra fact, but it wasn't a necessary fact. Because this Court, in Altvater, specifically pointed out that even if there weren't an injunction there, there would be -- 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 business, especially like a company like my client here. And --

JUSTICE SOUTER: But that is -- 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 the licensee to challenge.

MR. KESTER: Right.

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

MR. KESTER: It --

JUSTICE SOUTER: -- freedom to challenge --

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

JUSTICE SOUTER: No --

MR. KESTER: -- in Aetna.

JUSTICE SOUTER: No, I realize that. But, I mean, what we've got in this case, and in any of these cases, is a question of line-drawing under Article III. And your argument is, you want to draw the line where 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's not abstract. It's not hypothetical. It's not conjectural. It is concrete, immediate. All the facts are in. It's definitely adversarial. It's legal.

JUSTICE SCALIA: You -- well, 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 -- to your client that is the basis for the case or controversy?

MR. KESTER: The --

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

MR. KESTER: It is the -- it is that, "I am having to pay the royalties -- that I say 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.

JCHIEF JUSTICE ROBERTS: Well, if you don't --

MR. KESTER: And if --

CHIEF JUSTICE ROBERTS: -- think --

MR. KESTER: And if --

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

JUSTICE SCALIA: Is it -- 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 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 of the --

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

MR. KESTER: Because the --

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

MR. KESTER: The threat --

CHIEF JUSTICE ROBERTS: -- and injunction.

MR. KESTER: -- of this --

CHIEF JUSTICE ROBERTS: 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 --

MR. KESTER: But --

CHIEF JUSTICE ROBERTS: -- and to respond that there's 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.

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

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

MR. KESTER: Absolutely.

JUSTICE STEVENS: Were there -- before Gen-Probe 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 -- where the licensee brought suit challenging validity while the license was still in full --

MR. KESTER: We --

JUSTICE STEVENS: -- force?

MR. KESTER: We had suits in the Third Circuit, the 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 III to be satisfied."

This case came as a shock in 2004. And, in fact, 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 III 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 settle it. They're saying, "Okay, we're going to settle it. Instead of paying a license fee of 50 cents, it's going to 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 is -- that interfere with the policy that patents have to be open to challenge?

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

CHIEF JUSTICE ROBERTS: Either one.

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

CHIEF JUSTICE ROBERTS: Okay.

MS. MAYNARD: The -- 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 III matter.

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

the question before the Court right now -- as a policy matter, the -- it's 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 unenforceable --

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

MS. MAYNARD: Well --

CHIEF JUSTICE ROBERTS: -- other words you're maybe 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 challenge the license, even beyond the term, would be enforceable. And the Government thinks there's a spectrum. One -- at one end of the spectrum would be

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

JUSTICE BREYER: Now, is -- if -- 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 says. 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 is 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 -- if it were, what would be your view?

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

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

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

CHIEF JUSTICE ROBERTS: Well, you don't think that 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 III 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 that it

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

CHIEF JUSTICE ROBERTS: Is --

MS. MAYNARD: -- and the --

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

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

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 one of the complaint, in the (j) --

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

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

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

MS. MAYNARD: The parties actually have a concrete dispute about the 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 coexpression patents, which have neither expired nor been held invalid by a court or other body of competent jurisdiction. There was similar language in --

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

controversy, isn't it? There 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's 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 back if it should prevail on its interpretation of the -- 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 Altvater. In Altvater, royalties were being demanded and royalties were being paid, but, nevertheless, this Court held --

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

MS. MAYNARD: Yes, it was pursuant to injunction, but that was not important to the Court's reasoning. What the Court said is, "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 that the Petitioner faces here and should not have to bear in order to bring suit.

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

CHIEF JUSTICE ROBERTS: Do you think --

MS. MAYNARD: -- 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 that the patent is invalid, that they could -- that the Petitioner's claims unsettles their right, damages their property value, potentially, and that they could bring a declaratory judgment action of validity.

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

action?

MS. MAYNARD: Well, right now --

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

MS. MAYNARD: It -- 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, that it is entitled to those royalties back.

JUSTICE SCALIA: But --

MS. MAYNARD: The --

JUSTICE SCALIA: -- so long as they're still paying the royalties, isn't that sort of an abstract disagreement? I mean, it's sort of like the ACLU saying that the patent's invalid. You know, 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, to which the defense, as Justice Ginsburg --

JUSTICE SCALIA: I --

MS. MAYNARD: -- points out --

JUSTICE SCALIA: I find it --

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

JUSTICE SCALIA: I --

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

JUSTICE SCALIA: I find it --

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

JUSTICE SCALIA: -- very difficult --

MS. MAYNARD: -- the Court.

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

MS. MAYNARD: Well, you need --

JUSTICE SCALIA: -- patentee --

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

JUSTICE SCALIA: That's fine.

MS. MAYNARD: -- 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'd 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 claims. The other three are styled as patent law claims. And it's important to emphasize, at the outset, that this Court, in Skelly Oil, in Calderone, 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 their 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 justiciability -- standing, ripeness, 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, say that 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'd 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, quote, "patent-law claims," end quote, 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, is 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 on 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 that 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 the standard proviso. It does not mean" -- and they said it was a "twisted interpretation" that the Government was offering -- it doesn't mean that the licensee, quote, "thought the patent bad and would like to have the Court say so now," end quote. Yet that is exactly --

JUSTICE GINSBURG: Was that a case about Article

III 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." But they never argued, below, and is foreclosed --

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've looked up, or I've 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 I -- we've just heard the SG say, of this act, the Declaratory Judgment Act, seems to be to allow people who -- 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.

MS. MAHONEY: Well --

JUSTICE BREYER: 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're right that they have to pay, whether they win or lose; if they're right that they promise not

to sue; if you're 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 live contract dispute, they never argued it, Your Honor. It's not part of this case. The Federal Circuit didn't address it, because they didn't argue it, because it's foreclosed by --

JUSTICE GINSBURG: But the question --

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

JUSTICE GINSBURG: The question that is presented to us -- whatever they suggested at this oral argument that wasn't in III, the question it 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 on the cause of action they're 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're trying to adjudicate, on 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 Poe versus Ullman 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 be cognizable coercion? That's the test that's used in Steffel for -- in essence, being able to test a -- defenses to a cause of action that --

JUSTICE SCALIA: And why --

MS. MAHONEY: -- an enforcement action.

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

MS. MAHONEY: 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 for -- forever, that if a -- an agreement -- if you're making payments pursuant to an agreement, in the nature of a compromise, you can't come and say that it's been coerced or it's a form of duress.

JUSTICE SCALIA: What is the --

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

maybe I'm just factually 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 -- they were not settling, in the -- in the classic sense of the word, 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 3 of their 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 -- there was a focus 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 that --

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're 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 payments --

JUSTICE SOUTER: But --

MS. MAHONEY: -- under their --

JUSTICE SOUTER: But you --

MS. MAHONEY: -- 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 --

MS. MAHONEY: Well --

JUSTICE SOUTER: And they -- they had 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 --

JUSTICE SOUTER: In any event --

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

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

MS. MAHONEY: It is equivalent to that, in the following sense. They understood that if they -- if they didn't get a license, that they would be exposed to Genentech's claims under the -- 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 that's going to pay the license fee, that it's a good patent -- after the agreement's 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: Well, but then -- so then, the argument that you've made is just not --

MS. MAHONEY: No, I --

JUSTICE KENNEDY: -- relevant for us, 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, can 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 the -- everything it covers, 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 will pay royalties in the meantime, and the -- you will accept these royalties as sufficient for the use of the patent, that, 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 --

MS. MAHONEY: But I --

JUSTICE STEVENS: -- not be precisely the same

issue as a jurisdictional matter as to whether there's 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. And, at least in your hypothetical, you could say that they have --

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

MS. MAHONEY: Well, in terms of whether they're -- 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: No, I'm really asking --

MS. MAHONEY: -- a standard proviso --

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

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

JUSTICE BREYER: Let's suppose --

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

JUSTICE BREYER: Well --

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

JUSTICE BREYER: Will 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.

MS. MAHONEY: Uh-huh.

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

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

[Laughter.]

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

JUSTICE BREYER: The hypothetical is --

JUSTICE SCALIA: Continue on.

JUSTICE BREYER: -- that they write into the contract -- the party who's 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 agrees 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.

MS. MAHONEY: Uh-huh.

JUSTICE BREYER: And now, let us also assume a state of the law. The state of the law is that there is 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" --

MS. MAHONEY: Yes.

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

[Laughter.]

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

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

MS. MAHONEY: -- the line?

JUSTICE BREYER: I'm not asking --

MS. MAHONEY: In other words --

JUSTICE BREYER: -- your hypothetical.
MS. MAHONEY: -- I -- no. Oh, no, I'm just saying --
JUSTICE BREYER: I'm asking --
MS. MAHONEY: -- I think that --
JUSTICE BREYER: -- my hypothetical.
[Laughter.]
MS. MAHONEY: I think the problem -- I think the problem is, it -- is, it leads 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 has --
CHIEF JUSTICE ROBERTS: Well, isn't there --
MS. MAHONEY: -- is something --
CHIEF JUSTICE ROBERTS: -- true adversity? I thought the assumption underlying the -- everybody's hypothetical is that, if the patent is determined to be invalid, that the license -- then the license agreement is also invalid. Is that -- is that right?
MS. MAHONEY: I don't think so. I don't think the license agreement itself is invalid. It simply --
CHIEF JUSTICE ROBERTS: Can you -- can you --
MS. MAHONEY: -- means --
CHIEF JUSTICE ROBERTS: -- can you collect -- can a patentee collect license fees based on an -- patent

that has been determined to be invalid?

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

CHIEF JUSTICE ROBERTS: It would --

MS. MAHONEY: -- made.

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

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

CHIEF JUSTICE ROBERTS: Collective --

MS. MAHONEY: -- royalties --

CHIEF JUSTICE ROBERTS: Even if --

MS. MAHONEY: -- for that.

CHIEF JUSTICE ROBERTS: -- the royalty agreement says, you know, "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.

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

JUSTICE SOUTER: One further -- on further wrinkle. What if 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 or controversy then?

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

JUSTICE SOUTER: The --

MS. MAHONEY: The --

JUSTICE SOUTER: 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 a consideration for our bargain. Would you say, in those circumstances, that your answer would be the same, that there's no -- there's no case or --

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, but I'm talking about jurisdictional purposes.

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 suit. I mean, 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's a difference, from a jurisdictional perspective --

JUSTICE SOUTER: Okay.

MS. MAHONEY: -- 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. The courts 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.

JUSTICE GINSBURG: Could the --

MS. MAHONEY: And --

JUSTICE GINSBURG: -- patent holder take the position that, "I -- 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, 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 start a lawsuit. They say, "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 an affirmative defense, but I'm not going to raise it. I'm going to go head to head on the validity of this patent." Would that be a case or controversy?

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

JUSTICE GINSBURG: So, even --

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

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

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

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

JUSTICE BREYER: It is --

MS. MAHONEY: -- this Court.

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

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

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

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

MS. MAHONEY: We --

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

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

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

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

MS. MAHONEY: Even --

JUSTICE BREYER: Yes.

MS. MAHONEY: Well, you could -- you could -- I'm not -- it is possible that that framework could be extended. I -- it has not been done to date, and it would be --

JUSTICE BREYER: As I think as we --

MS. MAHONEY: But --

JUSTICE BREYER: -- both know --

MS. MAHONEY: But --

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

MS. MAHONEY: It --

JUSTICE BREYER: -- a lot.

MS. MAHONEY: It does.

JUSTICE BREYER: Yes.

MS. MAHONEY: But there is always a reasonable apprehension, and there was always a finding of coercion. Poe versus Ullman says you can't do it unless there is --

JUSTICE GINSBURG: Do I remember that --

JUSTICE KENNEDY: Well, Poe versus Ullman was a case in which, even if there was a violation of the law, there was going to be no prosecution.

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

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

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

JUSTICE KENNEDY: No, but --

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

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

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

Number two, the consequences here, the choice

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

JUSTICE ALITO: But your argument seems --

MS. MAHONEY: That's --

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JUSTICE GINSBURG: But that wasn't -- the District Court, in this very case, seemed to say, "I think

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

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

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

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

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

MS. MAHONEY: I think that --

CHIEF JUSTICE ROBERTS: Under Article III?

MS. MAHONEY: I think that a prudential

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

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

JUSTICE GINSBURG: But what -- but jurisdiction is a question of power, Does the Court have the power to do this? A discretion question is different. It's, "We have the power to entertain this case, but, as a matter of equity, we're not going to do so." The power question, I think, is a -- one that's -- it's either yes or no, either the court has the power, or 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 rules and went ahead and 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 there 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, and I guess you could get damages.

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

that --

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 agree 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: Wait, 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 -- it's raised in the -- in the first remanded complaint. It's been a -- it's been here throughout. If it -- if it even matters. I mean, we wouldn't concede that that -- that that would even matter.

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

MR. KESTER: Yes. 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 waived.

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

And as for the shock in the lower courts 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, the opening line -- it says, and I quote -- this is 716 F.2d 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 F.2d, are, "We hold that a 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 settlements 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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