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DECLARATORY JUDGMENT JURISDICTION IN PATENT DISPUTES: A ROCK AND A HARD PLACE

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ABSTRACT

In 2007, the United States Supreme Court invalidated the Federal Circuit's test for declaratory judgment jurisdiction explaining that the law requires an "all circumstances" approach and that the "reasonable apprehension of suit" test is not sufficient. The Federal Circuit's subsequent applications of the "all circumstances" test show that a potential infringer is likely to sustain jurisdiction where the potential infringer and the patentee have merely communicated their adverse positions to one another. On the other hand, the Federal Circuit is not likely to find jurisdiction where the patent-holder has not communicated, or has vaguely communicated, its position to the potential infringer. The focus on clarity of communication renders a patentee unable to effectively negotiate licensing agreements without putting itself at risk of litigation. This risk increases the cost of enforcing a patent and may discourage participation in the patent system. A system of post-grant review through a third party, non-profit organization would provide a cost-effective means to solve validity disputes which alleviates some of the financial burden of enforcing a patent. This savings would encourage the filing of patent applications and promote innovation.

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DECLARATORY JUDGMENT JURISDICTION IN PATENT DISPUTES: A ROCK AND A HARD PLACE

JONATHAN POPE*

INTRODUCTION

The state of declaratory judgment (“DJ”) jurisdiction in patent law has become analogous to the “Secret Word” theme made popular on the late 1980’s children’s television show *Pee-Wee’s Playhouse*.¹ In every episode, the host Pee-Wee Herman would trick the show’s characters and guests into saying the “Secret Word” which induced a loud, wacky response from the audience and cast.² As applied to DJ jurisdiction in potential patent infringement contexts, the “Secret Word” is “infringement” and the “wacky response” is a DJ suit.

The Supreme Court’s decision in *MedImmune, Inc. v. Genentech, Inc.*,³ broadened the standard for DJ jurisdiction in patent cases from “a reasonable apprehension of suit” test to an “all circumstances” test.⁴ While a DJ action is a common counter-claim in an infringement suit, this comment focuses on a party’s ability to sustain a DJ action against a patentee in the absence of a coinciding infringement suit. Typically, the party will ask for a declaration of invalidity, non-infringement, or both.⁵

The Court of Appeals for the Federal Circuit’s (“Federal Circuit”) applications of the “all circumstances” test focuses largely upon the parties’ communications with one another.⁶ When parties to a potential infringement suit have clearly communicated their detailed and adverse positions to each other, the Federal Circuit is likely to find DJ jurisdiction.⁷ Conversely, if the correspondence between the parties does not establish each party’s position or if there is a lack of correspondence

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¹ Harry M. Benshoff, *The Museum of Broadcast Communications*, <http://www.museum.tv/archives/etv/P/htmlP/peeweespla/peeweepla.htm> (last visited Dec. 2, 2009). *Pee-Wee’s Playhouse* was a children’s show starring Paul Reubens as “Pee-Wee Herman.” *Id.* Airing from 1986 to 1991, *Pee-Wee’s Playhouse*, was a huge success with adults and children and won six Emmy awards. *Id.*

² *E.g.*, *Pee-Wee’s Playhouse: Ice Cream Soup* (CBS television broadcast 1986). The reoccurring “Secret Word” theme involved the audience being told what that episode’s secret word was, and if the word was said, the audience and characters, alike, were to “scream real loud” to spring the joke on whoever said the word. *See id.*

³ 549 U.S. 118 (2007).

⁴ *Id.* at 127, 132 n.11.

⁵ *E.g.*, *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1376 (Fed. Cir. 2007) (invalidity and non-infringement); *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1342 n.12 (Fed. Cir. 2008) (non-infringement only).

⁶ *See, e.g.*, *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1286 (Fed. Cir. 2007) (“In short, because Guardian *asserts* that it is owed royalties based on specific . . . activities by Sony, and because Sony *contends* that it has a right to engage in those activities without a license, there is an actual controversy . . . within the meaning of the Declaratory Judgment Act.”) (emphasis added).

⁷ *See id.* at 1285.

between the parties, the court is likely to find that insufficient controversy exists to support DJ jurisdiction.⁸ Thus, a patentee may avoid DJ jurisdiction by vague communication to the potential DJ plaintiff or by no communication at all.⁹ This situation devalues patents by forcing the patentee to put itself at risk of litigation in order to negotiate licenses.¹⁰ A less expensive avenue for adjudicating disputed patent claims would increase the value of patents and encourage participation in the patent system.¹¹

The Background section of this comment provides an overview of the Declaratory Judgment Act and *MedImmune* caselaw. It also provides summaries of the Hatch-Waxman Act's vehicle for establishing sufficient controversy, proposed post-grant patent review legislation, and the Uniform Domain Name Dispute Resolution Policy. The Analysis section illustrates how the applicable precedent puts patent-holders at an unreasonable risk of a DJ suit, devaluing the patent. Lastly, the Proposal section sets forth a third-party, post-grant review process modeled after proposed post-grant review legislation and the Uniform Domain Name Dispute Resolution Policy. The proposed, cost-effective process works to alleviate the loss in patent value resulting from the unreasonable risk of a DJ suit.

I. BACKGROUND

A. *The Declaratory Judgment Act*

The Declaratory Judgment Act,¹² passed in 1934, was meant to provide access to courts for would-be litigants.¹³ Its proponents had patent law in mind, and sought to remedy the patentee's paralyzing hold, through extra-judicial threats, over an alleged infringer.¹⁴ Present day scholars assert that intellectual property law generally, and

⁸ *Prasco*, 537 F.3d at 1340 n.8 (“In addition, the lack of clearly delineated, adverse positions by the parties diminishes the ‘definite[ness] and concrete[ness]’ of any potential controversy and its fitness for current judicial resolution.” (alterations in original)).

⁹ *See, e.g., id.* at 1340 (holding that the lack of clear and adverse positions diminishes the justiciability of a controversy and its fitness for judicial resolution.).

¹⁰ *See* Angela Foster, *Case or Controversy? The Impact of the New Declaratory Judgment Rulings on Biotechnology*, THE SCITECH LAWYER, Fall 2008, at 18, 22.

¹¹ *See* UNITED STATES PATENT AND TRADEMARK OFFICE, 21ST CENTURY STRATEGIC PLAN, POST-GRANT REVIEW OF PATENT CLAIMS (Apr. 2, 2003) (“By using the [PTO]’s expertise, these [post-grant] challenges could be adjudicated for less money and in less time than by civil suit.”), available at <http://www.uspto.gov/web/offices/com/strat21/action/sr2.htm> (hereinafter “USPTO, POST-GRANT REVIEW”).

¹² Declaratory Judgment Act, ch. 512, 48 Stat. 955, 955–56 (1934) (codified as amended at 28 U.S.C. §§ 2201–02 (2006)).

¹³ Lorelei Ritchie De Larena, *Re-Evaluating Declaratory Judgment Jurisdiction in Intellectual Property Disputes*, 83 IND. L.J. 957, 958 (2008).

¹⁴ *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735 (Fed. Cir. 1988) *abrogated by*. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007).

[A] patent owner attempts extra-judicial patent enforcement with scare-the-customer-and-run tactics that infect the competitive environment of the business community with uncertainty and insecurity. Before the [Declaratory Judgment] Act, competitors victimized by that tactic were rendered helpless and immobile so long as the patent owner refused to grasp the nettle and sue. After the

patent law more specifically, provide a fertile ground for DJ jurisprudence though they may disagree on the application of the test.¹⁵ For purposes of this comment, I assume that a court will exercise its discretion to here a DJ case if the court makes a finding of sufficient controversy under the “all circumstances” test promulgated by the Supreme Court in *MedImmune* and applied by the Federal Circuit.¹⁶

B. *MedImmune Case law*

Prior to 2007, the Federal Circuit articulated a two-pronged test to determine whether it had DJ jurisdiction over patent disputes.¹⁷ To find sufficient controversy, the court would need to determine (1) that the patentee’s conduct created a reasonable apprehension of suit between the patentee and the DJ plaintiff, and (2) that the DJ plaintiff’s conduct amounted to infringing activity or demonstrated concrete steps taken with the intent to conduct such activity.¹⁸ In January 2007, the Supreme Court rejected the Federal Circuit’s “reasonable apprehension of suit requirement,” and reaffirmed the test for DJ jurisdiction as “whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.”¹⁹

In surveying post-*MedImmune* caselaw, it is important to note that while the court scrutinizes individual facts, the ultimate finding of DJ jurisdiction rests on the sum of all facts and circumstances.²⁰ The following cases represent a cross-section of the facts and issues that the Federal Circuit has found to be relevant in its determination of DJ jurisdiction.

In *MedImmune*, the Court held that under a patent-licensing agreement where royalties are paid under protest and with a reservation of rights, an actual controversy exists sufficient to give the court DJ jurisdiction.²¹ The court held that a licensee does not need to breach a contract in order to have DJ jurisdiction.²² In a ruling later that year, the Federal Circuit found DJ jurisdiction in a circumstance

[Declaratory Judgment] Act, those competitors were no longer restricted to an *in terrorem* choice between the incurrence of a growing potential liability for patent infringement and abandonment of their enterprises; they could clear the air by suing for a judgment that would settle the conflict of interests.

Arrowhead, 846 F.2d at 735 (citation omitted).

¹⁵ De Larena, *supra* note 13, at 959, 964–65, 977 (stating that to properly find DJ jurisdiction a court must first find baseline DJ Act jurisdiction, and then in its discretion, decide to hear the case).

¹⁶ *MedImmune*, 549 U.S. at 127, 132 n.11 (quoting *Md. Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

¹⁷ *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1379 (Fed. Cir. 2007).

¹⁸ *Id.* Arguably, the second prong of the old test is still valid. *See Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871, 880 (Fed. Cir. 2008).

¹⁹ *MedImmune*, 549 U.S. at 127, 132 n.11 (quoting *Md. Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

²⁰ *See, e.g., Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1341 (Fed. Cir. 2008) (“[T]hough a defendant’s failure to sign a covenant not to sue is one circumstance to consider in evaluating the totality of the circumstances, it is not sufficient to create an actual controversy—some affirmative actions by the defendant will also generally be necessary.”).

²¹ *MedImmune*, 549 U.S. at 128, 137.

²² *Id.* at 137.

similar to the one in *MedImmune*, but also relied on the patentee's threat of suit if royalties were not paid and the fact that the product at issue was the subject of a previous suit between the patentee and another licensee.²³

When the parties are not engaged in a formal agreement, the court looks to any correspondence between the parties and the conduct of each party to determine if their positions are sufficiently adverse and an actual controversy exists.²⁴ In *SanDisk Corp. v. STMicroelectronics, Inc.*,²⁵ the patentee, STMicroelectronics, sent a letter to a competitor, SanDisk, suggesting certain patents which "may be of interest" and after further correspondence, the parties met to discuss their positions.²⁶ At the meeting, STMicroelectronics made a four to five hour presentation on how some of SanDisk's products infringed certain identified patents.²⁷ At the conclusion of the meeting, STMicroelectronics expressed that it had no intention of suing for infringement.²⁸ The Federal Circuit held that the meeting evinced sufficient controversy and STMicroelectronics's expression of intent not to sue did not comport with the meeting's conduct and, therefore, did not prevent DJ jurisdiction.²⁹

Moreover, in the absence of the parties actually meeting each other, the Federal Circuit has held that an actual controversy may exist.³⁰ In *Micron Technology, Inc., v. Mosaid Technologies, Inc.*,³¹ the court found that four warning letters sent by the patentee to the alleged infringer that strongly advise a licensing agreement, coupled with the patentee's aggressive patent enforcement activities targeting other alleged infringers, created a sufficient controversy.³²

The Federal Circuit has also held that mere correspondence may establish an actual case or controversy.³³ In *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*,³⁴ the court found that the correspondence between the parties during 2004 and 2005 established a sufficient controversy because each party communicated its position and supporting analysis in a clear and detailed manner.³⁵ The court held that because the patentee asserted a right to royalties based on the alleged infringer's activities while the alleged infringer asserted that it had a right to engage in the activities without a license, an actual controversy existed between the parties.³⁶ *Sony* creates a DJ threshold which a party meets when it clearly

²³ *Adenta GmbH v. OrthoArm, Inc.*, 501 F.3d 1364, 1370 (Fed. Cir. 2007).

²⁴ *E.g.*, *SanDisk Corp. v. STMicroelectronics, Inc.* 480 F.3d 1372, 1374–76, 1382–84 (Fed. Cir. 2007) (considering the correspondence of the parties and their meetings with each other to determine if an actual controversy existed which the court could adjudicate).

²⁵ 480 F.3d 1372 (Fed. Cir. 2007).

²⁶ *Id.* at 1374–75.

²⁷ *Id.* at 1375.

²⁸ *Id.* at 1376.

²⁹ *Id.* at 1382–83.

³⁰ *E.g.*, *Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 901–02 (Fed. Cir. 2008).

³¹ 518 F.3d 897 (Fed. Cir. 2008).

³² *Id.* at 899, 901–02.

³³ *E.g.*, *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285 n.9, 1286 (Fed. Cir. 2007).

³⁴ 497 F.3d 1271 (Fed. Cir. 2007).

³⁵ *Id.* at 1285 n.9, 1286.

³⁶ *Id.* at 1286.

communicates its adverse position.³⁷ If the other party responds in kind, then under *Sony*, a sufficient controversy exists between the parties.³⁸

The Federal Circuit has never found sufficient controversy when there was no meaningful correspondence between the DJ plaintiff and the patentee.³⁹ In *Prasco, LLC v. Medicis Pharmaceutical Corp.*,⁴⁰ the plaintiff brought a DJ action seeking a declaration of non-infringement regarding one of its products and the defendant's patent.⁴¹ The court disagreed with Prasco's argument that the marking⁴² of defendant's product with the patent number combined with a prior infringement suit between the same parties on an unrelated patent amounts to sufficient controversy.⁴³ During the suit, Prasco sent Medicis a letter requesting a covenant not sue.⁴⁴ Medicis responded with a letter stating that it would not withdraw its motion to dismiss, effectively ignoring Prasco's request.⁴⁵ The court stated that the patentee's decision to ignore Prasco's request for a covenant not to sue did not create a sufficient controversy.⁴⁶

C. Hatch-Waxman Declaratory Judgment Jurisdiction

Another method of establishing sufficient controversy involves a situation that arises under the Hatch-Waxman Act ("Hatch-Waxman"),⁴⁷ which governs the Food and Drug Administration's ("FDA") approval process of new and generic drugs.⁴⁸ Hatch-Waxman establishes a five-step process relevant to DJ jurisdiction.⁴⁹ First, the pioneering drug company must submit a New Drug Application ("NDA") to the FDA, which informs the FDA of all the patents covering the drug and its method of making.⁵⁰ The FDA lists these patents and others in a publication commonly known

³⁷ *Id.*

³⁸ *Id.*

³⁹ *E.g.*, *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1340–41 (Fed. Cir. 2008).

⁴⁰ 537 F.3d 1329 (Fed. Cir. 2008).

⁴¹ *Id.* at 1334.

⁴² 35 U.S.C. § 287 (2006) (marking a patented invention with the applicable patent number services as notice for purposes of damage calculations).

⁴³ *Prasco*, 537 F.3d at 1340–41.

⁴⁴ *Id.* at 1334.

⁴⁵ *Id.*

⁴⁶ *Id.* at 1341.

⁴⁷ 21 U.S.C. §§ 355, 360(cc) (2006), 35 U.S.C. §§ 156, 271, 282 (2006); *see* *Caraco Pharm. Labs., Ltd. v. Forest Labs., Inc.*, 527 F.3d 1278, 1282 n.1 (Fed. Cir. 2008) ("The Hatch-Waxman Act is the name commonly used to refer to the Drug Price Competition and Patent Term Restoration Act of 1984, Pub.L. No. 98-417, 98 Stat. 1585 (1984) (codified at 21 U.S.C. §§ 355, 360(cc) (2000), 35 U.S.C. §§ 156, 271, 282 (2000)), as amended by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub.L. No. 108-173, 117 Stat. 2066 (2003).").

⁴⁸ 21 U.S.C. § 355(a); *see* *Caraco Pharm. Labs., Ltd. v. Forest Labs., Inc.*, 527 F.3d 1278, 1282 (Fed. Cir. 2008) ("The goal of the [Hatch-Waxman] Act is to '[strike] a balance between two competing policy interests: (1) inducing pioneering research and development of new drugs and (2) enabling competitors to bring low-cost, generic copies of those drugs to market.'" (citing *Andrx Pharms., Inc. v. Biovail Corp.*, 276 F.3d 1368, 1371 (Fed. Cir. 2002)) (alterations in original).

⁴⁹ *See* 28 U.S.C. § 2201(b); 35 U.S.C. § 271(e)(2); *see also* *Caraco*, 527 F.3d at 1282–85.

⁵⁰ 21 U.S.C. §§ 355(a)–(c); *Caraco*, 527 F.3d at 1282.

as the “Orange Book.”⁵¹ Drugs that are approved by the FDA are published in the Orange Book and are known as “listed drugs.”⁵²

Second, the generic drug company may file an “Abbreviated New Drug Application” (“ANDA”), which states that the generic drug is a bioequivalent to a listed drug and, therefore, can rely on the safety studies of the listed drug.⁵³ Additionally, the ANDA filer must certify one of four options.⁵⁴ The fourth option, relevant here, certifies that the patent referred to for the listed drug is invalid or that the manufacture, use, or sale of the generic drug will not infringe the patent.⁵⁵ A company filing under the fourth option is known as a “Paragraph IV ANDA filer” and must submit a detailed statement of the factual and legal basis for its position of patent invalidity or non-infringement.⁵⁶

Third, Hatch-Waxman facilitates early resolution of the patent dispute by providing that filing a Paragraph IV ANDA constitutes an act of infringement.⁵⁷ Hatch-Waxman also includes provisions to provide incentive for generic drug companies to file ANDAs⁵⁸ and allows the NDA filer forty-five days to sue the ANDA filer for infringement before the ANDA filer can sue for a declaratory judgment.⁵⁹ When the forty-five day limit is up, the ANDA filer may file a DJ action on the relevant patents.⁶⁰

Conceptually, the first Paragraph IV ANDA filer is simply a specific application of the acknowledged DJ standard. The situation is virtually identical to that of *Sony Electronics, Inc. v. Guarding Media Technologies, Ltd.* because the Paragraph IV ANDA filer must submit a detailed notice to the patentee.⁶¹ The detailed statement combined with the patent-holders listing in the Orange Book establishes clear and adverse positions.⁶² Here, the *Sony* threshold is satisfied.

D. Post-Grant Review

The concept of a post-grant patent review provides the foundation for the Proposal discussed in Section III. While Congress has proposed legislation for a post-

⁵¹ U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, APPROVED DRUG PRODUCTS WITH THERAPEUTIC EQUIVALENCE EVALUATIONS iv, add. (29th ed. 2008) available at <http://www.fda.gov/downloads/Drugs/DevelopmentApprovalProcess/UCM071436.pdf>.

⁵² 21 U.S.C. § 355(j)(2)(A)(i).

⁵³ *Id.* at § 355(j)(2)(A); see *Eli Lilly & Co. v. Medtronic Inc.*, 496 U.S. 661, 676 (1990).

⁵⁴ 21 U.S.C. § 355(j)(2)(A)(vii).

⁵⁵ *Id.* at § 355(j)(2)(A)(vii)(IV).

⁵⁶ *Id.* at § 355(j)(2)(B)(iv)(II).

⁵⁷ 35 U.S.C. § 271(e)(2).

⁵⁸ *E.g.*, 21 U.S.C. § 355(j)(5)(B)(iv).

⁵⁹ *Id.* at § 355(j)(5)(C).

⁶⁰ 35 U.S.C. § 271(e)(5).

⁶¹ Compare 21 U.S.C. § 355(j)(2)(B)(iv)(II) (requiring that ANDAs include a detailed statement of factual and legal bases of the invalidity or non-infringement opinion) with *Sony Elecs., Inc. v. Guarding Media Techs., Ltd.*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007) (holding that a sufficient controversy existed because the parties correspondence clearly established their position, which were adverse, and supported their positions with research and analysis that strongly represented that which is to be expected during litigation).

⁶² See *Sony*, 497 F.3d at 1285–86.

grant review process, it has not voted such a process into law.⁶³ For example the proposed Patent Reform Act of 2007, which included post-grant review provisions, passed in the House of Representatives but was never brought to the Senate floor in part due controversial provisions regarding patent infringement damages.⁶⁴ A brief overview of the procedure, as proposed in 2007⁶⁵ and 2008⁶⁶ will illustrate its superiority to current methods of adjudicating the validity of a patent.

Any third party seeking the cancellation of a patent claim would initiate the post-grant review procedure.⁶⁷ The party petitioning for review to invalidate a claim would provide the claim information, reasons why it believes the claim to be invalid, and any evidence in support thereof.⁶⁸ For the review to be instituted, the Patent and Trademark Office (“PTO”) would have to make a finding that the petitioner made a sufficient initial showing of unpatentability.⁶⁹

Upon notice of the institution of a review proceeding, the patent-holder may respond by challenging, with evidentiary support, the assertions in the petition, or the patent-holder may respond by amending the claim to avoid the assertions in the petition.⁷⁰ Throughout the proceeding, both parties may submit supplemental evidence, which would be governed by the rules of discovery to be set by the PTO.⁷¹

If a party institutes a review, the PTO is required to render a decision within one year.⁷² A decision that invalidates a claim extinguishes the patent-holder’s rights as to that claim.⁷³ A decision that upholds the validity of a claim is binding on the party that sought to invalidate the claim.⁷⁴

E. Uniform Domain-Name Dispute Resolution Policy

The Uniform Domain-Name Dispute-Resolution Policy (“UDRP”)⁷⁵ is an excellent example of a private/government partnership that brings efficient results to intellectual property disputes. UDRP is a policy adopted by the Internet Corporation for Assigned Names and Numbers (“ICANN”).⁷⁶ ICANN is a private-public partnership, non-profit organization which manages and oversees the coordination of

⁶³ Angela Payne James, Shri Abhyankar, & David S. Frist, *Recent Developments in Patent Law and the Potential Impact on Patent Litigation*, in *Patent Litigation 2009*, at 249, 282 (PLI Patents, Copyrights, and Literary Property Course, Handbook Series No. 982, 2009), available at WL, 982 PLI/Pat 249; e.g., H.R. 1908, 110th Cong. sec. 6(f) (2007) (as passed Sept. 7, 2007) (failing in the Senate).

⁶⁴ James, Abhyankar, & Frist, *supra* note 63, at 249.

⁶⁵ H.R. 1908, 110th Cong. § 6 (2007).

⁶⁶ S. 3600, 110th Cong. § 5(c) (as introduced Sept. 25, 2008).

⁶⁷ H.R. 1908 § 6 (proposed 35 U.S.C. § 321).

⁶⁸ S. 3600 § 5(c) (proposed 35 U.S.C. § 323).

⁶⁹ *Id.* (proposed 35 U.S.C. § 327).

⁷⁰ *Id.* (proposed 35 U.S.C. §§ 330, 332).

⁷¹ *Id.* (proposed 35 U.S.C. § 329).

⁷² *Id.* (proposed 35 U.S.C. § 329(b)(1)).

⁷³ *Id.* (proposed 35 U.S.C. § 335).

⁷⁴ H.R. 1908, 110th Cong. § 6 (2007) (proposed 35 U.S.C. § 335).

⁷⁵ INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, UNIFORM DOMAIN NAME DISPUTE RESOLUTION POLICY (October 24, 1999), available at <http://www.icann.org/en/dndr/udrp/policy/htm> (hereinafter “UDRP”).

⁷⁶ *Id.* at para. 1.

the internet's domain name system.⁷⁷ When an entity registers a domain name with ICANN, the entity agrees to be bound by the UDRP.⁷⁸

The UDRP provides for a "Mandatory Administrative Proceeding" by which a trademark owner can challenge the registration of a domain name.⁷⁹ The trademark owner files a complaint against the registrant with an approved "administrative-dispute-resolution service provider."⁸⁰ The complaint must allege that (1) the domain name is identical or confusingly similar to the trademark, (2) the registrant has no rights or legitimate interest in the domain name, and (3) the domain name was registered in bad faith.⁸¹ The registrant files its response with the provider, and the provider selects an "Administrative Panel" to render a decision to the provider as to whether the domain name should be cancelled, transferred, or remain unchanged.⁸²

The provider then notifies ICANN which enforces the Administrative Panel's decision.⁸³ A party can delay ICANN's enforcement by filing a civil action within ten days of the decision.⁸⁴ Courts, however, need not give any deference to the Administrative Panel's decision.⁸⁵

II. ANALYSIS

The Federal Circuit's application of the "all circumstances" test discourages patentees from establishing a clear position when negotiating a patent dispute, so that the patentee may avoid DJ jurisdiction.⁸⁶ On the other hand, it is always in the potential infringer's interest to be as clear and direct as possible in presenting its position.⁸⁷ This imbalance makes negotiations cumbersome, and the patent less valuable. A set of hypothetical situations will illustrate this point.

⁷⁷ Internet Corporation for Assigned Names and Numbers, General Information, <http://www.icann.org/tr/english.html> (last visited Dec. 1, 2009).

⁷⁸ UDRP, *supra* note 75, at para. 1.

⁷⁹ *Id.* at para. 4.

⁸⁰ INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, RULES FOR UNIFORM DOMAIN NAME DISPUTE RESOLUTION POLICY, at para. 3(a) (October 24, 1999), *available at* <http://www.icann.org/en/dndr/udrp/uniform-rules.htm> (hereinafter "UDRP Rules").

⁸¹ *Id.* at para. 3(b)(ix).

⁸² *Id.* at paras. 5, 6.

⁸³ UDRP, *supra* note 75, para. 3(c).

⁸⁴ *Id.* at para. 4(k).

⁸⁵ *Barcelona.com, Inc. v. Excelentismo Ayuntamiento De Barcelona*, 330 F.3d 617, 623, 626 (4th Cir. 2003).

⁸⁶ *Compare Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007) (holding that a sufficient controversy existed because the parties correspondence, which included legal research and analysis, clearly established their adverse positions), *with Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1341 (Fed. Cir. 2008) (holding that the patentee's elusive response to the plaintiff's request not to sue did not give rise to a sufficient case or controversy).

⁸⁷ *See Sony*, 497 F.3d at 1285–86.

A. Situation 1: Potential Infringer Makes First Contact

Company makes a product that potentially infringes Patentee's patent. When alleged infringing Company discovers the patent, it has a few options.⁸⁸ One possibility may be to continue production, disregard the patent and hope that Patentee does not find out.⁸⁹ This course of action, however, exposes Company to heightened damages due to willful infringement.⁹⁰ Alternatively, Company may stop production and cut its losses, rarely a favorable option.⁹¹

Company's most prudent course of action is to notify Patentee.⁹² This notification should be as clear and detailed as possible to fulfill Company's side of the *Sony* threshold.⁹³ Providing an unclear position only stalls negotiation and suit, which does not benefit Company.⁹⁴ Upon receipt of Company's notification and clear position, Patentee has three viable courses of action.⁹⁵

1. Option 1: File an Infringement Suit

In response to Company's notification, Patentee may bring an infringement suit.⁹⁶ Bringing suit, however, may not be the best option here. Infringement suits are costly.⁹⁷ Moreover, the Patentee only has limited knowledge of Company's activities. Granted, Company provided a detailed letter on its position, but there could be more products or patents at issue. Suing at this juncture would push any further information gathering into the discovery period.⁹⁸ During discovery, the parties will have to abide by the Federal Rules of Civil Procedure and will be subject to discovery orders.⁹⁹ All of which, could be avoided if Patentee gathered the information before commencing suit.¹⁰⁰ Filing an infringement complaint upon receipt of Company's notification, would lead to heavy discovery costs incurred by both parties.¹⁰¹ Patentee could avoid these costs if it delays filing the infringement suit.¹⁰²

⁸⁸ See *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1576 (Fed. Cir. 1988) ("In a normal negotiation, the potential licensee has three basic choices, forego all use of the invention; pay an agreed royalty; infringe the patent and risk litigation."), *overruled by* *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004).

⁸⁹ See *Fromson*, 853 F.2d at 1576.

⁹⁰ 35 U.S.C. §§ 284–85 (2006).

⁹¹ See *Fromson*, 853 F.2d at 1576.

⁹² See *id.*

⁹³ See *Sony Elecs., Inc. v. Guarding Media Techs., Ltd.*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007).

⁹⁴ See generally 55 AM. JUR. *Trials* §§ 11–15 (2009).

⁹⁵ See *Fromson*, 853 F.2d at 1576.

⁹⁶ See 35 U.S.C. § 271(a) (2006).

⁹⁷ Matthew B. Zisk, *Mediation and Settlement of Patent Disputes in the Shadow of the Public Interest*, 14 OHIO ST. J. ON DISP. RESOL. 481, 491–92 (1999).

⁹⁸ See FED. R. CIV. P. 26–37.

⁹⁹ *Id.*

¹⁰⁰ *Id.* at R. 1, 3 (providing that the federal rules only apply once an action has been filed).

¹⁰¹ Zisk, *supra* note 97, at 491–92.

¹⁰² See *id.*

2. Option 2: Do Nothing

Another option would be for Patentee to do nothing and incur whatever losses are attributable to Company's activities.¹⁰³ This option would be viable if Patentee fully agreed with Company's analysis or if Patentee believed that its losses due to Company's activity was negligible. At this stage in the hypothetical, however, Patentee would be basing its decision solely on one letter from Company. It would not be prudent for Patentee to follow this course of action. Further inquiry could suggest that Patentee is owed royalties and that there may be other relevant activities not mentioned in Company's initial notification.

3. Option 3: Response Letter

The third and probably most reasonable course of action is a response letter.¹⁰⁴ The Patentee experiences conflicting influences about what he should include in the response letter.¹⁰⁵ If the Patentee establishes a clear position, intending to expedite the dispute's resolution, he would satisfy his side of the *Sony* threshold and be subject to a DJ suit brought by Company.¹⁰⁶ If, instead, Patentee responds with a vague or uninformative position or assertion, it does not risk a DJ suit.¹⁰⁷

The unresponsive Patentee situation is analogous to the fact pattern in *Prasco* where the patent-holder responded to the DJ plaintiff's request for a covenant not to sue by stating that the patent-holder did not plan to withdraw its motion to dismiss for lack of jurisdiction.¹⁰⁸ The court found that this lack of meaningful correspondence showed an insufficient case or controversy to sustain DJ jurisdiction.¹⁰⁹ A patentee seeking to avoid a DJ suit should not reveal its position in the dispute.¹¹⁰

A vague response, however, does not work to resolve the parties' dispute.¹¹¹ In responding to Company's notification, Patentee is forced to choose between risking DJ litigation and preventing meaningful negotiation.

¹⁰³ See *Fromson*, 853 F.2d at 1576.

¹⁰⁴ See *id.*

¹⁰⁵ Compare *Sony Elecs., Inc. v. Guarding Media Techs., Ltd*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007) (finding that each party's correspondence clearly established its position which was adverse to the other parties, and establishes sufficient controversy to sustain declaratory judgment jurisdiction) with *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1341 (Fed. Cir. 2008) (holding that the patentee's vague response to a request not to sue did not give rise to a sufficient case or controversy).

¹⁰⁶ See *Sony*, 497 F.3d at 1285–86.

¹⁰⁷ See *Prasco*, 537 F.3d at 1341.

¹⁰⁸ *Id.* at 1334.

¹⁰⁹ *Id.* at 1341.

¹¹⁰ See *id.*

¹¹¹ See generally 55 AM. JUR. *Trials* §§ 11–15 (2009).

B. Situation 2: Patentee Makes First Contact

Patentee finds itself in a similar situation as in Situation 1 when Patentee is the one who discovers Company's activities and believes that it infringes the patent. At this point, Patentee has the same three options as above.¹¹² It may sue for infringement (Option 1), incur a loss due to Company's activities (Option 2), or he may notify Company (Option 3).¹¹³ Notification, like the response letter discussed above, is probably the most prudent course of action.¹¹⁴

At this point, Situation 2 may be a little more forgiving to Patentee than Situation 1. As above, a notification that provides a detailed analysis of Patentee's position would satisfy half of the *Sony* threshold, which requires the parties to establish clear and adverse positions in order to find sufficient controversy to sustain a DJ action.¹¹⁵ The detailed notification would expose Patentee to DJ jurisdiction if Company provides a detailed analysis of an adverse position in return.¹¹⁶ A vague notification, however, such as one that merely mentions "patents of interest," would not satisfy the *Sony* threshold and would notify Company of the potential infringement.¹¹⁷ This course of action would at least give Patentee a chance to evaluate Company's position and its willingness to negotiate a settlement.

Unfortunately for Patentee, when Company responds with a detailed analysis and asks for Patentee's position, the parties are brought back to Situation 1 and Patentee must chose Option 1, 2, or 3.¹¹⁸ Regardless of which party provides the initial correspondence, Patentee always has to choose between risking a DJ suit by establishing his clear position and providing meaningless correspondence resulting in stalling resolution of the dispute.¹¹⁹ Essentially, when *MedImmune's* "all circumstances" test is applied to patent disputes, it forces the patent-holder to do nothing and incur losses or to bring a costly infringement suit.¹²⁰ There is little room for negotiation prior to suit.¹²¹

C. Conflicting with Declaratory Judgment Act Policy

The Declaratory Judgment Act was meant to give a remedy to those being coerced or harassed by someone who possesses an allegedly superior right.¹²² In

¹¹² *See supra* sec. II.A.

¹¹³ *See supra* sec. II.A.

¹¹⁴ *See supra* sec. II.A.

¹¹⁵ *Sony Elecs., Inc. v. Guarding Media Techs., Ltd*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007).

¹¹⁶ *See id.*

¹¹⁷ *See id.*

¹¹⁸ *See supra* sec. II.A.

¹¹⁹ *Compare Sony*, 497 F.3d at 1285–86 (finding that clearly established, adverse positions establishes sufficient controversy to sustain declaratory judgment jurisdiction) *with* *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1341 (Fed. Cir. 2008) (holding that vague correspondence does not evince to sufficient controversy).

¹²⁰ *See supra* secs. II.A–B.

¹²¹ *See id.*

¹²² *See* *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 129 (2007) ("The dilemma posed by that coercion-putting the challenger to the choose between abandoning his rights or risking

patent disputes, however, broadening of the DJ jurisdiction standard can be used as coercion against the patentee.¹²³ An alleged infringer can coerce a more favorable settlement with the patentee by threatening a DJ suit, even though the patentee wishes to settle the dispute outside of court.¹²⁴ In patent disputes, the Declaratory Judgment Act has surpassed its goal of equalizing the set of weapons available to the adverse parties and has given the alleged infringer a substantial advantage in negotiations.¹²⁵

D. Conflicting with the U.S. Constitution

The United States Constitution provides that Congress may enact laws that promote the progress of science and the useful arts.¹²⁶ The Federal Circuit's application of the "all circumstances" test works against the progress of the useful arts by encouraging inventors to keep their inventions secret.

Patents derive much of their value from licensing agreements.¹²⁷ Licensing agreements are the result of initial correspondence and negotiations between the patentee and the party seeking the license.¹²⁸ As discussed in Situation 1, Option 3 (Patentee's Response Letter), this correspondence and negotiation may expose the patentee to DJ jurisdiction.¹²⁹ Conceivably, for every possible licensing negotiation, the patentee may need to prevail in a DJ suit brought by the other party.¹³⁰

To avoid being hauled into court to litigate multiple potential DJ complaints, an inventor can simply keep the invention secret. This strategy is viable where the invention is not easily reverse engineered and where the invention itself, without patent-licensing revenue, is valuable enough to outweigh the cost of research, development, and production.¹³¹ If the cost of research and development outweighs the value of the invention, no inventor is likely to pursue the invention.

prosecution is 'a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.'" (quoting *Abbott Labs. v. Gardner*, 387 U.S. 136, 152 (1967)).

¹²³ See Foster, *supra* note 10, at 22.

¹²⁴ See *id.*

¹²⁵ See *id.*

¹²⁶ U.S. CONST. art. I § 8 cl. 8.

¹²⁷ See Michael S. Kramer, *Valuation and Assessment of Patents and Patent Portfolios Through Analytical Techniques*, 6 J. MARSHALL REV. INTELL. PROP. L. 463, 464 (2007) ("The clearest application of patent and patent portfolio assessment is in the arena of patent licensing. Often, licensing transactions are straightforward, involving one of a limited number of patents that have clear commercial analogs, making accurate valuation tenable."). See generally Mohammad S. Rahman, *Patent Valuation: Impacts on Damages*, 6 U. BALT. INTELL. PROP. L.J. 145 (Spring 1998).

¹²⁸ See 55 AM. JUR. *Trials* § 15 (2009).

¹²⁹ See *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007).

¹³⁰ See Foster, *supra* note 10, at 22.

¹³¹ See Andrew Beckerman-Rodau, *The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 371, 391–92, 403 (2002).

There is a distinction between the value of the invention and the value of the patent.¹³² An invention derives its value from its marketability or usefulness.¹³³ The value of the patent is derived from license agreements and maintaining an advantage over competitors in the industry.¹³⁴ Though there is a distinction, a valuable invention increases the market advantage that the patent secures.¹³⁵

The broadened DJ standard decreases the value of a patent by decreasing the profitability of license agreements.¹³⁶ If this decrease in patent value crosses the threshold of profitability, inventors will no longer pursue patent-protection.¹³⁷ Without patents, inventors will only recognize profits from the actual use of the invention and some initial sales, until someone copies the invention.¹³⁸ Thus, inventors will only pursue inventions that have value through their use.¹³⁹

E. Summary of Analysis

The Federal Circuit's application of the "all circumstances" test for DJ jurisdiction makes it difficult for a patentee to have meaningful negotiations with a potential licensee. Engaging in meaningful negotiations puts the patentee at risk of a DJ suit and can result in increased costs through litigation.¹⁴⁰ To avoid these risks and costs, inventors are less likely to seek patent protection and are more likely to keep inventions secret.¹⁴¹ Moreover, inventors will only pursue an invention that has use-derived value that outweighs its cost of research, development, and production.¹⁴² A system that promotes this limited class of profitable inventions is not concurrent with the limitations of the U.S. Constitution.¹⁴³

III. PROPOSAL

An adversarial, post-grant review procedure would alleviate the dilemma that the "all circumstances test" places on patent-holders. This procedure would be less expensive and more expedient than litigation in the district courts.¹⁴⁴ The decrease

¹³² See *id.* at 403; see also 35 U.S.C. § 284 (2006) (providing two acceptable damage calculations: (1) reasonable compensation which is based on the value of the invention or (2) a reasonable royalty which is based on the value of a license).

¹³³ See Beckerman-Rodau, *supra* note 131, at 403.

¹³⁴ See Kramer, *supra* note 127, at 464.

¹³⁵ See Beckerman-Rodau, *supra* note 131, at 403.

¹³⁶ See Foster, *supra* note 10, at 22.

¹³⁷ See Beckerman-Rodau, *supra* note 131, at 403.

¹³⁸ See *generally* Beckerman-Rodau, *supra* note 131 (discussing business and marketing considerations with regard to whether an inventor pursues patent or trade secret protection).

¹³⁹ See *generally id.*

¹⁴⁰ See *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285–86 (Fed. Cir. 2007).

¹⁴¹ See *generally* Beckerman-Rodau, *supra* note 131.

¹⁴² See *generally id.*

¹⁴³ See U.S. CONST. art. I § 8 cl. 8.

¹⁴⁴ Kevin A. Meehan, *Shopping for Expedient, Inexpensive & Predictable Patent Litigation*, B.C. INTELL. PROP. & TECH. F., Nov. 2008, at 1, 10 (asserting that proponents of a post-grant review

in litigation expenses increases the value of the patent and works to avoid the scenario discussed in the Analysis above.¹⁴⁵ Unfortunately, it would be unmanageable for the already overburdened PTO to take on another responsibility.¹⁴⁶ A third-party, post-grant review proceeding, analogous to the proposed post-grant review is viable, however, and would strengthen the patent system by providing the low-cost relief that patentees need. A basic framework for such a review process is set forth below.

A. *The “Post-Grant Review Organization”*

The “Post-Grant Review Organization” or “PGRO” would be organized similarly to ICANN and the UDRP. PGRO would be a public-private, non-profit group that would be in charge of the administration of the review proceeding.¹⁴⁷ PGRO would be created through a Memorandum of Understanding (“MoU”) between the Executive Branch, the PTO, and PGRO.¹⁴⁸ The MoU would recognize PGRO as the primary forum for patent validity disputes, would set goals for PGRO, and would establish a high deference for the PGRO decisions.¹⁴⁹ The MoU would also provide that as a condition for receiving a patent, the patentee would agree to resolve validity disputes before PGRO.¹⁵⁰

1. *PGRO Structure*

PGRO would be divided into an administrative branch and a decision branch.¹⁵¹ The administrative branch would be responsible for setting PGRO policy and procedure for initiating the proceeding before the decision branch.¹⁵² The decision branch would review the submitted documents and evidence and render its decision regarding the validity of the patent at issue.¹⁵³ The administrative branch would be

procedure note that adjudicating invalidity issues before the USPTO would be substantially cheaper than litigation before the judiciary); USPTO, POST-GRANT REVIEW, *supra* note 11 .

¹⁴⁵ See Meehan, *supra* note 144, at 10.

¹⁴⁶ See Raj Bawa, *Nanotechnology Patenting in the US*, 1 NANOTECHNOLOGY LAW & BUSINESS 31, 47–50 (2004).

¹⁴⁷ See Internet Corporation for Assigned Names and Numbers, General Information, <http://www.icann.org/tr/english.html> (last visited Dec. 1, 2009).

¹⁴⁸ See Memorandum of Understanding, U.S. Dept. of Commerce-Internet Corporation for Assigned Names and Numbers, (Nov. 25, 1998), *available at* <http://www.icann.org/en/general/icann-mou-25nov98.htm> (creating ICANN).

¹⁴⁹ See *id.*

¹⁵⁰ See *id.*

¹⁵¹ See UDRP, *supra* note 75, at para. 6 (establishing that ICANN is separate from the domain name dispute arbitrations).

¹⁵² See Internet Corporation for Assigned Names and Numbers, General Information, <http://www.icann.org/tr/english.html> (last visited Dec. 1, 2009).

¹⁵³ See UDRP, *supra* note 75, at paras. 4, 6 (requiring arbitration proceedings to take place before ICANN approved “administrative-dispute-resolution service providers” and not before ICANN itself).

responsible for communicating the decisions to the PTO, which would honor the decision and act accordingly.¹⁵⁴

The decision branch would be composed of technical experts with patent experience.¹⁵⁵ Ideal candidates would be former PTO examiners. The branch would be divided based on technological expertise.¹⁵⁶ At the outset of a review proceeding, a “Panel” would be selected from the pool of experts within the decision branch.¹⁵⁷ The Panel would consist of one or three people, depending on the request set forth in the complaint.¹⁵⁸ Ultimately, the Panel would render a decision on the patent’s validity.¹⁵⁹

2. PGRO Procedure

To commence a validity challenge, a party would file a Complaint with PGRO.¹⁶⁰ The administrative branch would then make an initial determination as to whether the Complaint complies with PGRO rules of procedure.¹⁶¹ The Complaint would need to clearly allege which patents or patent claims are being challenged, the basis for the challenge, and what evidence the Complainant is relying on.¹⁶² Proper challenges would strictly be limited to the failure to meet statutory requirements for patenting.¹⁶³ Defenses to infringement that render a patent unenforceable, such as inequitable conduct, double patenting, or laches, shall not be determined by PGRO and would remain the province of the courts.¹⁶⁴ If the complaint is sufficient, PGRO would forward the Complaint to the patentee, and the validity proceeding would formally begin.¹⁶⁵

The patentee, upon receipt of the complaint, would have the opportunity to file a Response.¹⁶⁶ The Response would specifically address the Complaint’s allegations and evidence and could provide evidence supporting the validity of the patent claims.¹⁶⁷ Once the PGRO administrative branch receives the Response, it forwards the file to the decision branch.¹⁶⁸ Once at the decision branch, the file is assigned to a Panel.¹⁶⁹ The Panel, in its discretion, may render a decision based on the Complaint and Response, or it may request additional evidence and hearings.¹⁷⁰ After

¹⁵⁴ *See id.* at para. 3(c).

¹⁵⁵ *See* Meehan, *supra* note 144, at 19.

¹⁵⁶ *See* <http://www.uspto.gov/web/offices/pac/dacp/peg/> (last visited Dec. 1, 2009) (listing the eight Technology Centers utilized by the PTO).

¹⁵⁷ *See* UDRP Rules, *supra* note 80, at para. 6.

¹⁵⁸ *See id.*

¹⁵⁹ *See id.* at para. 15.

¹⁶⁰ *See id.* at para. 3(a).

¹⁶¹ *See id.* at para. 4(a).

¹⁶² *See id.* at para. 3(b).

¹⁶³ *See* S. 3600, 110th Cong. § 5(c) (as introduced Sept. 25, 2008) (proposed 35 U.S.C. §§ 323(3), 327(a)).

¹⁶⁴ *See id.*

¹⁶⁵ *See* UDRP Rules, *supra* note 80, at para. 4(a).

¹⁶⁶ *See id.* at para. 5(a).

¹⁶⁷ *See id.* at para. 5(b)(i).

¹⁶⁸ *See id.* at para. 9.

¹⁶⁹ *See id.* at para. 6(b).

¹⁷⁰ *See id.* at para. 12.

considering all evidence and arguments, the Panel would decide whether the evidence *clearly and convincingly* shows that the patent claims should be declared invalid.¹⁷¹ This decision is binding, but may be reviewed by the federal courts.¹⁷²

3. Relation of PGRO to Federal Courts

PGRO decisions may be reviewed by a district court of competent jurisdiction.¹⁷³ The court, however, should give a high degree of deference to the PGRO Panel's decision, and should only reverse the decision upon a finding of *abuse of discretion*.¹⁷⁴ This high standard reflects the fact that the Panel rendered its decision using a clear and convincing evidentiary standard, and the fact that the Panel consists of a(n) expert(s) in the technical field of the patent.¹⁷⁵ Importantly, while this comment does not focus on DJ counter-claims, this judicial review standard would apply whether the invalidity allegation is brought via a DJ complaint or a counter-claim.

The above provisions summarize the type of organization and procedures that would provide cost-effective, validity dispute resolution. The proposed organization and rules are not meant to be a complete, exhaustive set of procedures, but are meant to provide a spring board to a much more complete and thorough system of review.

B. Post-Grant Review in the Context of Declaratory Judgment Jurisdiction

While proposed legislation has mainly focused on a petitioner seeking to invalidate one or more patent claims,¹⁷⁶ the PGRO procedure would allow a patent-holder to file a defense action. This defense action would not force a potential complainant into the PGRO process. It would put the potential complainant on notice that should the party decide to initiate a validity challenge, it must do so through PGRO. A defense action through PGRO would eliminate the patent-holder's dilemma discussed above.¹⁷⁷

The hypothetical situations above resulted in the Patentee having to put itself at risk of DJ jurisdiction, and potential costly litigation, in order to negotiate effectively with Company, the potential infringer.¹⁷⁸ This risk of DJ jurisdiction, now greatly

¹⁷¹ See *Impax Labs., Inc. v. Aventis Pharms., Inc.*, 545 F.3d 1312, 1314 (Fed. Cir. 2008) ("An issued patent enjoys a presumption of validity. Thus, a party challenging patent validity has the burden to prove its case with clear and convincing evidence.") (citation omitted).

¹⁷² Compare S. 3600, 110th Cong. § 5(c) (as introduced Sept. 25, 2008) (proposed 35 U.S.C. § 322(d)) (providing that a party is estopped from raising a validity challenge in civil litigation that was raised in a post-grant review proceeding) with *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 330 F.3d 617, 623 (4th Cir. 2003) (granting no deference to UDRP Panel's decision).

¹⁷³ See UDRP, *supra* note 75, at para. 4(k).

¹⁷⁴ See *Impax Labs.*, 545 F.3d at 1314 (stating that the clear and convincing evidentiary burden is further heightened when the basis for the validity challenge has already been examined).

¹⁷⁵ See *id.*

¹⁷⁶ *E.g.*, S. 3600 § 5(c) (proposed 35 U.S.C. §§ 323(3), 327(a)).

¹⁷⁷ See *supra* sec. II.

¹⁷⁸ See *supra* sec. II.

expanded by *MedImmune*, coupled with exorbitant litigation costs reduces the value of the patent.¹⁷⁹ This devaluing of the patent discourages inventors from applying for patents and potentially decreases the pool of knowledge that the patent system discloses.¹⁸⁰

Implementing a low-cost alternative forum, such as the proposed PGRO procedure for patent validity disputes, restores the value that was lost to easily obtainable DJ jurisdiction and litigation.¹⁸¹ If devaluing a patent discourages inventors from disclosing their invention, as established above, then increasing the value most certainly encourages disclosure.

Some have argued that PTO post-grant review offers other benefits to the patent system.¹⁸² A party that brings a validity dispute before the PTO instead of a federal district court avails itself of the technical and patent law expertise of the PTO.¹⁸³ Some commentators assert that the PTO is better equipped to decide patent issues than many district courts and that the courts should give great deference to the PTO in lieu of the PTO's expertise.¹⁸⁴ Additionally, the PTO argues that post-grant reviews would enhance the integrity of the patent system.¹⁸⁵ The current system allows for "a reiteration of the examination process but not . . . a fully adversarial adjudicative process."¹⁸⁶ An adversarial procedure would weed out weak patents, which can be counter-productive to the patent system.¹⁸⁷ The proposed PGRO contains all the benefits of PTO post-grant review without the administrative nightmare of adding more work to the overburdened PTO.

C. Validity Limitation

Most post-grant review recommendations, including the proposed PGRO, are strictly limited to claim validity challenges.¹⁸⁸ While alleged infringers have many other possible defenses besides invalidity, they most commonly raise the invalidity defense.¹⁸⁹ Critics may suggest that removing one issue to an alternate forum will not decrease the cost of litigation, as the remainder of the dispute will still need to be litigated before the courts. Many people involved in the patent reform debate, however, disagree.¹⁹⁰

¹⁷⁹ See Foster, *supra* note 10, at 22.

¹⁸⁰ See *supra* sec. II.D.

¹⁸¹ See Meehan, *supra* note 144, at 19.

¹⁸² See Meehan, *supra* note 144, at 19 ("[A post-grant review proceeding] would increase the accuracy of claim construction, improve patent quality, and decrease the cost of patent litigation.").

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ USPTO, POST-GRANT REVIEW, *supra* note 11; Meehan, *supra* note 144, at 19 ("Post-grant review would also improve patent quality by providing an extra layer of review.").

¹⁸⁶ USPTO, POST-GRANT REVIEW, *supra* note 11.

¹⁸⁷ *Id.*

¹⁸⁸ *E.g.*, S. 3600, 110th Cong. § 5(c) (as introduced Sept. 25, 2008) (proposed 35 U.S.C. §§ 323(3), 327(a)).

¹⁸⁹ Simone A. Rose & Debra R. Jessup, *Whose Rules Rule? Resolving Ethical Conflicts During the Simultaneous Representation of Clients in Patent Prosecution*, 44 IDEA 283, 291 n.33 (2004).

¹⁹⁰ See Meehan, *supra* note 144, at 19 (advocating that post-grant review would assist courts in the accurate resolution of patent litigation and significantly decrease the cost of patent litigation).

Post-grant review proceedings would provide district courts with a record created through an adversarial process by those having technical backgrounds and expertise in patent law.¹⁹¹ This record would greatly aid courts, particularly with claim construction, in resolving infringement disputes.¹⁹²

CONCLUSION

In *MedImmune*, the Supreme Court held that the Federal Circuit's "reasonable apprehension of suit test" was invalid and that the "all circumstances test" is the proper test for DJ jurisdiction.¹⁹³ The Federal Circuit's application of the "all circumstances test" in *Sony* resulted in a holding that mere correspondence that clearly establishes both parties' positions, which are adverse, is sufficient to find DJ jurisdiction.¹⁹⁴ In *Prasco*, however, the Federal Circuit held that where the parties' correspondence does not clearly state their positions the court does not have DJ jurisdiction.¹⁹⁵

Sony and *Prasco* established that a patentee puts itself at risk of a DJ suit if it provides a detailed statement expressing his position that another is infringing his patent, but that the patentee can avoid this risk through expressing his position in vague and general terms.¹⁹⁶ In order to resolve a dispute, a party must clearly communicate its position.¹⁹⁷ In a patent dispute, this communication puts the patentee at risk of suit.¹⁹⁸

Incorporating the high risk of DJ suit into the value of a patent decreases the patent's value, particularly the value derived from licensing.¹⁹⁹ To negotiate a license, the patentee must put itself at risk of costly DJ litigation.²⁰⁰ The decrease in patent value due to probable litigation costs will lead to only intrinsically valuable innovations being patented.²⁰¹ A patent system that only promotes such a narrow class of inventions does not further the patent system's goal of encouraging dissemination of ideas and can inhibit innovation.²⁰²

The creation of a third-party, post-grant review procedure would solve the problems created by the DJ standard in patent disputes. Patentees and challengers

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007).

¹⁹⁴ *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285–86. (Fed. Cir. 2008).

¹⁹⁵ *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1340–41 (Fed. Cir. 2008).

¹⁹⁶ *Compare Sony*, 497 F.3d at 1285–86 (holding that a sufficient controversy existed because the parties correspondence, which included legal research and analysis, clearly established their adverse positions), *with Prasco*, 537 F.3d at 1340–41 (holding that the patentee's elusive response to the plaintiff's request not to sue did not give rise to a sufficient case or controversy).

¹⁹⁷ *See generally* 55 Am. Jur. *Trials* §§ 11–15 (2009).

¹⁹⁸ *See Sony*, 497 F.3d at 1285–86.

¹⁹⁹ Foster, *supra* note 10, at 22.

²⁰⁰ *Id.*

²⁰¹ *See generally* Beckerman, *supra* note 131 (discussing business and marketing reasons for keeping an invention secret instead of pursuing patent protection).

²⁰² *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989) (“[T]he ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure.”).

would be required to dispute a claim's validity, if validity is in dispute, before the proposed PGRO prior to litigating in Federal Court. PGRO's validity determination would be more cost-effective than traditional litigation, thereby restoring the patent's value.²⁰³ Furthermore, PGRO is a viable solution in that it would provide the benefits of a post-grant review procedure without burdening the PTO. Finally, the PGRO would be modeled after an already successful public-private, intellectual property dispute resolution organization. PGRO would make uttering the "Secret Word" infringement, less daunting, and the audience response would not be quite so loud.

²⁰³ See Meehan, *supra* note 144, at 19.