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**THE LICENSEE'S CHOICE: MECHANICS OF SUCCESSFULLY CHALLENGING A PATENT UNDER
LICENSE**

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***2 I. Overview**

A. Introduction

For over a century,¹ licensees were precluded from challenging the validity of patents under which they were licensed by the patentees.² As a result of this rule, a patent owner who licensed her invention on a running-royalty basis was assured continued income as long as her licensee used the invention.³ However, in 1969 the Supreme Court, in the seminal case of *Lear, Inc. v. Adkins*,⁴ abolished the licensee estoppel doctrine and permitted a licensee to contest the validity of a patent⁵ as a defense to a charge of infringement or breach of contract brought by the patent owner.⁶ The rationale was that the federal interest in placing invalid patents in the public domain outweighed the requirements of state contract law.⁷ As a result of *Lear*, the licensee has the power to negotiate a license, sue for a declaratory judgment of invalidity to release herself from future royalty obligations, and possibly be free of such payments while the suit is in progress.⁸

***3 B. General Considerations in Entering a License Agreement**

As a result of the demise of licensee estoppel, entering a license agreement provides certain advantages for the licensee. For instance, it may be worthwhile for a party to enter a license agreement with the patentee even though she is contemplating attacking the validity or scope of the patent. A license agreement can eliminate the negative risks of litigation for the licensee.⁹ Furthermore, the license contract permits the licensee to postpone the decision to litigate or even postpone the litigation itself.¹⁰ A party should consider entering a license even if she has already decided to litigate.¹¹ In effect the license can provide: (1) an insurance policy to reduce the risks of patent infringement; and (2) an option to postpone the decision whether to attack the patent.¹²

First, a license acts as an insurance policy by eliminating the risks associated with losing a potential patent infringement suit, even when the prospects of winning are high.¹³ The risks of losing an infringement suit are many. One risk is an injunction that may shut down a successful operation which relies predominantly on the patented product.¹⁴ Other unacceptable risks include high actual damages,¹⁵ possible triple damages,¹⁶ attorney fees,¹⁷ and prejudgment interest,¹⁸ all of which could be crippling to a business. In turn for eliminating these risks, the licensee pays a negotiated set sum while retaining an option to challenge the patent later.¹⁹

A license also provides an option to defer the decision to attack the validity of a patent.²⁰ This choice may be attractive in many situations. For example, when the patented product is untested in the marketplace and the profitability of the product has not yet been proven, a party may not desire investing hundreds of thousands of *4 dollars in a lawsuit.²¹ Furthermore, other sunk costs may be associated with introducing a new product to the market, and involvement in a lawsuit at this

fledgling stage may be commercially unacceptable.²² It may make better business sense to postpone the lawsuit to a time when the profitability of the product is more established.²³ At that point in time, the past and future profits of the product may outweigh the costs of litigation, and thereby justify a challenge to the patent.²⁴ Taking a license, therefore, may allow the licensee to defer the decision to fight the patent, or, if the decision has been made, to postpone the suit itself.²⁵

This Article focuses on the point when the licensee is deciding or has decided to challenge the validity of patents under her license from the patentee.²⁶ Specifically, this Article addresses the mechanics by which a licensee can attack a patent, whether through court action or by reexamination. Part II addresses the mechanics of the licensee's challenge of patent validity. Part II begins with a discussion of *Lear, Inc. v. Adkins*,²⁷ which spelled the demise of the licensee estoppel doctrine. Part II.B reviews when and how a licensee can seek declaratory adjudication of patent invalidity in federal court. Part II.C considers the licensee's tactics for enjoining the patent owner from terminating the license contract during the pendency of the underlying patent validity suit. This section also addresses the corresponding issue of whether an escrow account is permissible for deposit of royalties paid pendente lite to avoid a material breach of the license by the licensee. Part III considers what type of paid royalties may be recouped by the licensee and what conditions need to be present in order to recover those royalties. Part III also discusses the licensee's choice regarding payment or nonpayment of royalties, which was created as a result of the rule permitting the refund of royalties paid pendente lite. Finally, Part IV addresses the tactic of requesting reexamination of the patent as an alternative or prior to court action.

***5 II. Mechanics of Contesting Patent Validity by a Licensee**

A. *Lear, Inc. v. Adkins*: the Demise of Licensee Estoppel

Under the estoppel rule, a licensee was barred from attacking the validity of the patent as a defense to the patentee's charge of infringement or breach of contract.²⁸ However, in *Lear, Inc. v. Adkins*, the Supreme Court abolished this rule.²⁹

1. The Facts

In 1952, Lear, Inc. (Lear) hired John Adkins, an inventor, to develop a more accurate gyroscope to meet the needs of the aviation industry.³⁰ Adkins and Lear initially entered into a rudimentary agreement whereby any inventions developed by Adkins would become the property of Adkins, who in turn promised to grant Lear a license to those inventions.³¹ Adkins then developed improvements to the gyroscope.³² In 1954, Adkins filed a patent application for these improvements with the Patent Office.³³ In 1955, the parties further solidified their relationship by drafting a contract delineating the conditions upon which Lear promised to pay royalties to Adkins.³⁴ Lear was given an option to terminate the contract should the Patent Office refuse to issue a patent on Adkins's invention or if the issued patent should be later held invalid.³⁵ Meanwhile, Lear began producing Adkins's invention.³⁶ However, in 1957, after the Patent Office twice rejected Adkins's patent application, Lear informed Adkins that it would no longer pay royalties, because it had found a patent that anticipated Adkins's discovery.³⁷ In 1960, the Patent Office finally granted a patent on Adkins's application.³⁸

*6 As soon as Adkins obtained his patent, he filed suit in a California superior court against Lear for breach of contract.³⁹ He obtained a substantial jury verdict.⁴⁰ On appeal, the California Supreme Court affirmed the jury verdict and barred Lear from questioning the validity of Adkins's patent, basing their decision on the doctrine of licensee estoppel.⁴¹ The United States Supreme Court reversed, holding that the common law doctrine of licensee estoppel was preempted by federal patent policy,⁴² and remanded to the California courts for consideration of the validity of the patent.⁴³

2. Federal Preemption of State Law

The Court in *Lear* was faced with a policy conflict between contract law and federal patent law. The Court began its assessment of contract law principles by reviewing the history of licensee estoppel.⁴⁴ The Court noted that many exceptions had been carved out of the estoppel rule, and it surmised that "the uncertain status of licensee estoppel ... was a product of judicial efforts to accommodate the competing demands of the common law of contracts and the federal law of patents."⁴⁵ Furthermore, in trying to achieve a compromise between these two conflicting policies, the courts had created "chaos of conflicting case law."⁴⁶ In considering the equities presented by state contract law and federal patent law, the Supreme Court concluded that the federal interest in "permitting full and free competition in the use of ideas, which are in reality a part of the public domain,"⁴⁷ outweighed the common law interest in upholding contractual obligations.⁴⁸ The theme behind the Court's reasoning was that invalid patent exclusivities must be weeded out: "Licensees may often be the only individuals with

enough economic incentive to challenge the patentability of an inventor's discovery ... and if they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification."⁴⁹ Thus, *Lear* was not estopped from *7 challenging the validity of Adkins's patent.⁵⁰ The Court went on to hold that *Lear* could avoid payment of all royalties accruing after issuance of the patent if it could prove that the patent was invalid.⁵¹

B. Licensee Seeking Declaratory Adjudication of Patent Invalidity

To avoid continued royalty payments, a licensee may desire to challenge the validity of the patent under which she is licensed. *Lear* allows the licensee to contest patent validity when sued, but does not explain how to do so when the licensee has not been sued.⁵² Clearly, under *Lear*, a licensee may assert invalidity of the patent as a defense to a suit filed by the patentee for patent infringement or breach of the license agreement.⁵³

But what if the licensee wants to take the initiative and file suit? License controversies are generally governed by state contract laws even if they involve federal patent rights.⁵⁴ Thus, the licensee can bring suit for a declaratory judgment of patent invalidity in state court,⁵⁵ if the pleading is couched in contract terms.⁵⁶ *8 For instance, the licensee in a state court declaratory judgment suit can assert that no royalties are due under the license contract because the underlying patent is invalid. However, a question arises as to whether entering a license agreement prevents the licensee from filing in federal court a declaratory judgment action of invalidity and/or non-infringement as an alternative to the state declaratory judgment suit.⁵⁷

***9 1. The Basics of the Declaratory Judgment Act**

Enacted in 1934, the Declaratory Judgment Act permits a party to file suit in federal court to obtain a declaration of rights with respect to another party--whether or not other relief, such as damages or an injunction, is sought.⁵⁸ In the context of patents, it allows a party charged with patent infringement to initiate a suit by seeking a declaratory judgment of noninfringement and/or invalidity of the other party's patent.⁵⁹ Essentially, it is a suit for patent infringement with the parties reversed.⁶⁰

The Declaratory Judgment Act does not independently create federal jurisdiction.⁶¹ An action for declaratory judgment may be brought in federal court only if there is a basis for federal jurisdiction in the suit between the parties.⁶² Federal subject matter jurisdiction exists under three relevant circumstances: (1) if the action arises under a federal law,⁶³ (2) if there is diversity of citizenship between the parties,⁶⁴ or (3) if the action arises under the patent laws.⁶⁵ Thus, questions of patent validity or infringement as part of a claim arising under the patent laws are specifically included within the subject matter jurisdiction of the federal courts.⁶⁶

2. The Requirements of Federal Subject Matter Jurisdiction

First, in order to institute successfully a federal declaratory judgment suit for patent invalidity, the licensee must establish that the federal court has subject matter jurisdiction.⁶⁷ A declaratory judgment suit that anticipates a patent infringement action is clearly an action arising under the patent laws; thus federal jurisdiction is *10 appropriate.⁶⁸ In this circumstance, the Federal Circuit would have exclusive appellate jurisdiction.⁶⁹

A pleading asserting a controversy concerning the amount of royalties due under the patent license does not typically present a federal question, and, in the absence of diversity jurisdiction, a federal court lacks subject matter jurisdiction.⁷⁰ In these latter cases, the appropriate forum is the state court. However, if diversity exists between the parties, federal jurisdiction is proper, even though the controversy is a contract dispute over the amount of royalties due.⁷¹ In this situation, the regional circuit court would have appellate jurisdiction.⁷²

3. The Declaratory Judgment Requirement of Actual Controversy

Second, in order to conform to the requirements of the Declaratory Judgment Act, the licensee must demonstrate that there is an "actual controversy" between the parties.⁷³ In the patent arena, there are two prongs that must be satisfied in order to establish an actual controversy between the parties. First, the declaratory complainant must be producing or preparing to produce the accused device.⁷⁴ *11 Second, the declaratory complainant must be under a reasonable apprehension that the patentee will enforce her rights by initiating an infringement suit if the allegedly infringing activity in question continues.⁷⁵

The declaratory complainant can satisfy the latter prong by demonstrating that the patentee has written threatening letters⁷⁶ or has a history of prior litigation.⁷⁷

The first and second prongs of the “actual controversy” test present an obstacle for the licensee who wants to test the patent’s validity whether or not the patentee has taken any threatening steps.⁷⁸ If the licensee is currently under an agreement with the patentee, there has not yet been any infringing activity. Absent affirmative steps by the licensee, there can be no patent infringement because the license permits the licensee to undertake acts that would otherwise be considered infringement and thereby bars the patentee from bringing suit.⁷⁹ However, if the licensee stops paying royalties, asserting patent invalidity, the patentee may then exercise her option to terminate the license and indicate that she considers the licensee’s acts an infringement.⁸⁰ In such a situation, both prongs of the test set forth above have been met: (1) there is an absence of an operative license that furnishes a bar or defense to a suit for patent infringement, and (2) the patentee’s out-of-court charge of infringement has given the ex-licensee reasonable apprehension that a patent infringement suit against the ex-licensee is likely.

One issue that has created judicial confusion in this area is whether “arising under” jurisdiction exists when a licensee attempts to retain her rights under the license by continuing to pay royalties while simultaneously seeking a federal *12 declaratory judgment that the patent is invalid. Some circuit court decisions required termination of the license agreement⁸¹ in order to find jurisdiction for a case arising under the patent laws, reasoning that there can be no threatened action for infringement until such termination occurs.⁸² Other jurisdictions, including the Federal Circuit, do not require termination of the license agreement to find jurisdiction under 28 U.S.C. § 1338(a), reasoning that to require the termination of a license agreement as a precondition to suit would discourage licensees from contesting patent validity and would be contrary to the policies expressed in *Lear*.⁸³ Considering that the Federal Circuit has exclusive appellate jurisdiction over suits arising under the patent laws,⁸⁴ the precedent offered by the Federal Circuit on this issue is dispositive.

4. License Termination Unnecessary for Federal “Arising Under” Jurisdiction

The Federal Circuit has held that the continued existence of the license agreement does not preclude a finding of “arising under” jurisdiction.⁸⁵ Therefore, a licensee may successfully institute a federal action for a declaratory judgment of *13 patent invalidity while the license is in effect, even though diversity between the parties is lacking.⁸⁶ In making its determination, the Federal Circuit opted to follow the views of the Second,⁸⁷ Ninth,⁸⁸ and District of Columbia Circuits.⁸⁹ In *C.R. Bard, Inc. v. Schwartz*,⁹⁰ the Federal Circuit held that even absent diversity, a patent licensee could bring an “arising under” declaratory judgment action to declare the patent invalid without prior termination of the license.⁹¹

The plaintiff, Bard, had entered into an exclusive worldwide license with the patent holder, Schwartz.⁹² The licensee paid some royalties pursuant to the agreement, but later ceased the payments and subsequently instituted this suit in federal court.⁹³ The licensee sought a declaration that the defendant’s patent was invalid, and that no royalties would be due under the license.⁹⁴ The licensee also contended that its declaratory judgment suit raised a defense in anticipation of an impending federal action--a patent infringement suit--thus satisfying federal “arising under” jurisdiction.⁹⁵ However, because the two parties were residents of the same state, there was no diversity jurisdiction.⁹⁶

The district court, relying on the Third Circuit’s decision in *Thiokol Chemical Corp. v. Burlington Industries, Inc.*,⁹⁷ held that it did not have jurisdiction because *14 the license agreement had not been terminated.⁹⁸ The Federal Circuit reversed, holding that it did have jurisdiction under section 1338(a).⁹⁹ In reaching its conclusion, the Federal Circuit conceded that *Lear* had left unresolved the question of when there is federal jurisdiction for a licensee’s invalidity claim.¹⁰⁰

The Federal Circuit noted that to institute successfully a federal action for declaratory judgment, a case must first arise under federal law in order to grant the court jurisdiction.¹⁰¹ A case cannot “arise under” federal law where the claim is merely a defense to a state court action.¹⁰² Thus, if the licensee is simply asserting patent invalidity as a defense to a state court contract suit by the patent owner, there is no federal jurisdiction.¹⁰³ The court recognized that the second requirement for bringing a declaratory judgment suit is to show that there is a justiciable case or controversy in order to comply with the requirements of the Declaratory Judgment Act.¹⁰⁴ The court elaborated that this element is satisfied if the declaratory complainant has (1) sufficient interest in the controversy and (2) there is a reasonable threat of an infringement suit by the patent owner.¹⁰⁵

In deciding whether, absent diversity, a licensee may seek declaratory adjudication of patent validity while the license is in effect, the Federal Circuit acknowledged the split in the circuits over this issue.¹⁰⁶ The court compared the view presented by the Third Circuit in *Thiokol Chemical Corp. v. Burlington Industries, Inc.*,¹⁰⁷ with the opinion presented by the Second Circuit

in ***16** *WarnerJenkinson Co. v. Allied Chemical Corp.*¹⁰⁸ After a thorough analysis of the two cases, the Federal Circuit decided to follow the Second Circuit.¹⁰⁹ The court stated:

***17** We reject the blanket approach of *Thiokol* that there can never be an apprehension of a federal infringement suit and thus no controversy when a license is still in effect. To always require the termination of a license agreement as a precondition to suit would mean that a licensee must then bear the risk of liability of infringement. This would discourage licensees from contesting patent validity and would be contrary to the policies expressed in *Lear* For declaratory relief to be appropriate, the Supreme Court in *Wycoff* simply required that: “[t]he disagreement must not be nebulous or contingent but must have taken on fixed and final shape so that a court can see what legal issues it is deciding, what effect its decision will have on the adversaries, and some useful purpose to be achieved in deciding them.”¹¹⁰

The court then concluded that the above conditions could be met where the license agreement has not been terminated.¹¹¹ Therefore, the court held that “an examination of the totality of the circumstances must be made to determine whether there is a controversy arising under the patent laws.”¹¹²

The Federal Circuit proceeded to consider the factors presented in the case to determine if there was sufficient controversy to justify federal jurisdiction. First, the court noted that the licensee had ceased royalty payments, which was a material ***18** breach of the agreement, and the patent owner could thereby terminate the license.¹¹³ Second, it stated that because the sublicensee of Bard continued to produce the patented goods, the patent owner could sue Bard for infringement at any time.¹¹⁴ Third, the court recognized that the patentee had filed suit in state court for recovery of royalties, demonstrating the patent owner’s willingness to enforce his patent rights and hinting at the threat of an infringement suit.¹¹⁵ Fourth, it asserted that the patentee had demanded future royalty payments, which also indicated that the licensee would have reasonable apprehension of an infringement suit.¹¹⁶ The court also set forth three other factors that were not present in this case but could be relied upon to find reasonable apprehension of infringement suit: actual or threatened suits against the declaratory complainant’s customers, lawsuits against other manufacturers of similar products, and notices of infringement in trade journals.¹¹⁷

The court considered the affidavit filed by the patent owner, which expressed his intention not to terminate the license or file suit for infringement.¹¹⁸ However, the court stated that intentions may change over time.¹¹⁹ Furthermore, the patentee’s counsel refused to declare that no infringement would ever be filed.¹²⁰ Additionally, the patentee reserved the right to sue a sublicensee of the plaintiff for infringement.¹²¹ The court found that in light of the factors present in the instant case, the licensee had reasonable apprehension that the patent owner might bring an infringement action against it.¹²² The court in *Bard* concluded that termination of the license is not a prerequisite to instituting a federal declaratory judgment suit, and that the totality of the circumstances in this case demonstrate sufficient controversy to confer jurisdiction upon the federal court.¹²³

***19 5. Federal Declaratory Adjudication When Diversity Exists**

When there is diversity between the licensee and the patentee, the requirements necessary for bringing a declaratory judgment in federal courts are far easier to satisfy.¹²⁴ Because the Declaratory Judgment Act does not independently create federal jurisdiction, an action for declaratory judgment may be brought in federal court only if there exists a basis for federal jurisdiction.¹²⁵ A party, such as a licensee, can bring a declaratory judgment action under the diversity statute, 28 U.S.C. § 1332, even when she cannot demonstrate “arising under” patent law jurisdiction, as per 28 U.S.C. § 1338(a).¹²⁶ Thus, if the federal court has jurisdiction for declaratory adjudication through diversity of citizenship,¹²⁷ the question of ***20** arising under jurisdiction as per Section 1338 is eliminated.¹²⁸ In these circumstances, the licensee can seek a federal declaratory judgment of patent invalidity in anticipation of a suit for breach of contract by the patentee. Even though the suit would be one arising under state contract law, diversity jurisdiction would still be proper for federal court.¹²⁹

a) The Existence of an Actual Controversy Without License Termination

Although federal jurisdiction can be predicated on diversity, there is still the question of whether there is a sufficient “actual controversy” to support declaratory adjudication when the licensee challenges validity but has not repudiated the license or stopped paying royalties.¹³⁰ The Seventh Circuit dispensed with this issue in *Precision Shooting Equipment Co. v. Allen Archery, Inc.*¹³¹ The court there stated that termination of the license is not a prerequisite to establishing federal jurisdiction when there is diversity between the plaintiff and the defendant of the declaratory judgment suit.¹³² Hence, because the licensee in *Precision Shooting* predicated federal jurisdiction upon the diversity statute, the licensee was permitted to challenge the underlying patent via the Declaratory Judgment Act *if the licensee could demonstrate an actual controversy.*¹³³ Although the license continued in force, the court reasoned that the licensee was faced with a reasonable apprehension of an infringement action once it ceased royalty payments.¹³⁴ Furthermore, a judicial determination of patent validity would impact the business relationship of the parties.¹³⁵ Therefore, the court concluded that even though the licensee refused to exercise the license

contract's termination provision, there was sufficient controversy to confer jurisdiction upon the court to make a declaratory adjudication.¹³⁶

***21 b) Federal Declaratory Judgment of a Contract Dispute**

From a tactical perspective, the licensee may desire to file a declaratory judgment suit for patent invalidity in federal court with the regional circuit court decisions providing precedent. The licensee can do so by pleading a dispute over the license contract. The dispute would arise under state law, and the federal district court would have subject matter jurisdiction due to diversity. In this situation, the appellate court would be limited to the regional circuit court.¹³⁷ Such a fact situation was presented in *American Sterilizer Co. v. Sybron Corp.*¹³⁸

The licensee, American Sterilizer (Amsco), brought an action effectively seeking a declaration of patent invalidity.¹³⁹ Amsco initially brought three counts in its complaint.¹⁴⁰ Counts I and II respectively alleged patent invalidity and noninfringement,¹⁴¹ with jurisdiction predicated on 28 U.S.C. § 1338(a) as an action arising under the patent laws.¹⁴² Count III alleged that the licensee's "process did not come within the license agreement"¹⁴³ and asserted jurisdiction under 28 U.S.C. § 1332, the diversity statute.¹⁴⁴ The parties then stipulated that the sole issue to be tried would be Count III of Amsco's complaint.¹⁴⁵ Following the stipulation, Sybron, the patentee's successor, counterclaimed that it was entitled to a full accounting for all royalties due.¹⁴⁶ Amsco answered the counterclaim by asserting as affirmative defenses the same claims as its first two counts: a challenge to the patent's validity (Count I) and a challenge to the patent's scope (Count II).¹⁴⁷ Amsco also refused to exercise the termination provision of the license.¹⁴⁸ The trial court, however, prevented Amsco from challenging the validity and the scope of the patent by dismissing all of Amsco's motions that sought to raise these essential *22 issues.¹⁴⁹ The trial court was convinced that the licensee would have to first terminate the license agreement before challenging validity.¹⁵⁰

In reversing the trial court's decision, the Third Circuit first noted that its jurisdiction was predicated on 28 U.S.C. § 1291.¹⁵¹ The court then asserted that the facts of the case were governed by *Lear, Inc. v. Adkins*.¹⁵² The court indicated that this declaratory judgment action by a licensee against the licensor was "the type of suit authorized by *Lear*."¹⁵³ It noted that *Lear* permitted a patent licensee to allege patent invalidity in response to the licensor's suit for royalties, which is based on state contract laws.¹⁵⁴ Furthermore, the licensee need not terminate its contract before challenging validity.¹⁵⁵ In fact, the court concluded that in this context, the presence or absence of license termination is irrelevant to the licensee's ability to challenge the validity of the patent.¹⁵⁶ Therefore, the court concluded that a trial of the patent validity and patent scope issues should be permitted.¹⁵⁷

In sum, when there is diversity between the parties, a licensee can bring a declaratory judgment suit for patent invalidity in federal court and limit appeals within the regional circuit. As was evidenced in *American Sterilizer*, one way to do so is to limit the complaint to a contract dispute in anticipation of the defendant's counterclaim for an accounting of royalties.¹⁵⁸ Challenges to the validity and scope of the patent claims would then be an affirmative defense to the defendant's contract-based counterclaim. The issues of validity and scope would still be tried in federal district court. Furthermore, appeals would be limited to the regional circuit court, and not the Federal Circuit because federal jurisdiction in these cases is predicated on diversity rather than on Section 1338(a). Clearly, termination of the license contract would also be unnecessary prior to bringing suit.

***23 C. Preliminary Injunction Prohibiting Patentee from Terminating the License**

A licensee should, in conjunction with its declaratory judgment suit, consider seeking a preliminary injunction against the patentee to prohibit the patentee from terminating the license during the pendency of the underlying patent invalidity suit.¹⁵⁹ The benefit of this tactic is that it eliminates the "patentee's choice." Typically, if the licensee withholds royalties, he has presented the patentee with two options: (1) rescinding the license, enjoining the licensee from producing or selling the patented item, and suing for infringement damages, which might exceed the royalties under the license; or (2) suing under the license for the royalties.¹⁶⁰ By enjoining the patent owner from contract termination, the patent owner may not sue for infringement damages or enjoin the licensee's use of the patented product because the valid license is an absolute defense to such a suit.¹⁶¹ Typically, the licensee, contemporaneously with its request for an injunction, moves for an order to establish an escrow account into which royalties will be deposited during the pendency of the underlying litigation.¹⁶² This is done so that

the licensee avoids a material breach of the license agreement. However, whether a licensee may, pending the resolution of the underlying patent validity challenge, withhold royalties or pay royalties into an escrow account and enjoin the patent owner from terminating the license due to nonpayment has been the subject of dispute.¹⁶³

***24 1. Rejection of Escrow Accounts by Other Circuits**

Not all courts permit the use of an escrow account for deposit of royalties pendente lite.¹⁶⁴ The Second Circuit explained its position on this subject in *Warner-Jenkinson Co. v. Allied Chemical Corp.*¹⁶⁵ According to the Second Circuit, the licensee may file a declaratory judgment action without repudiating the license and still recover royalties paid pendente lite upon establishing invalidity.¹⁶⁶ However, the licensee cannot pay royalties into escrow during the litigation, thereby preventing the patent owner from terminating the agreement.¹⁶⁷ The court reasoned that the licensee has the option of withholding payments and thereby breaching the license.¹⁶⁸ But the licensee would then run the risk of an injunction and liability for payment of infringement damages if the licensee loses on the merits.¹⁶⁹ However, according to the court, permitting the licensee to pay royalties into an escrow account during the litigation would be unfair because the licensee would be “allowed simultaneously to reap all the benefits of the licensing agreement and to deprive the licensor of all his royalties The principal effect of the an escrow arrangement would be to put undeserved pressure on the licensor .”¹⁷⁰ Therefore, the licensee’s request for an escrow account for deposit of royalties pendente lite was rejected.¹⁷¹

***25 2. The Federal Circuit’s View**

Other courts have not only rejected the establishment of an escrow account, but have also denied the licensee’s request for a preliminary injunction.¹⁷² The Federal Circuit was faced with such a request in *Cordis Corp. v. Medtronic, Inc.* (1985) hereinafter *Cordis I* .¹⁷³ Cordis filed a suit against Medtronic, the patent owner, seeking a declaratory judgment that the patent was invalid and the license “ wa s void in its inception.”¹⁷⁴ Cordis also sought to enjoin Medtronic from terminating the license agreement and requested a court-ordered escrow account.¹⁷⁵ The district court, mindful of its interpretation of the *Lear* decision,¹⁷⁶ granted Cordis’s requests but the Federal Circuit vacated this decision.¹⁷⁷

First, the Federal Circuit advanced the appropriate standard for granting a preliminary injunction:

The ... court must examine and balance the parties’ asserted rights, the acts sought to be enjoined, the likelihood that the movant will prevail on the merits, the irreparable nature *26 of the harm if the injunction is not granted, and whether public interest is better served by issuing rather than denying the injunction.¹⁷⁸

The Federal Circuit then chastised the lower court’s misapplication of *Lear*: “[W]e find no authority in *Lear* for establishing an escrow account for royalties due pendente lite or preliminarily enjoining a licensor from canceling the license agreement and, thus, from counterclaiming for patent infringement when this material breach of the license occurs.”¹⁷⁹ The court reasoned that a licensee may withhold royalties while challenging the patent, but it would be unfair to allow the licensee “to avoid facing the consequences that such an action would bring.”¹⁸⁰

The Federal Circuit then considered the merits of Cordis’s request for a preliminary injunction. Cordis had advanced four ways by which it would be irreparably harmed: (1) being exposed to potential patent infringement suits, (2) risking forfeiture of royalties paid while challenging the patents, (3) foregoing contest of the patents’ validity, or (4) terminating any manufacture, sale, or use of the products covered by the patents.¹⁸¹ The Federal Circuit rejected Cordis’s argument that the harm that it would suffer, when balanced against the harm Medtronic would suffer in receiving delayed royalties, would tip the scales of equity in Cordis’s favor.¹⁸² However, the court did indicate that a showing that the licensor is financially irresponsible or judgment proof might meet the irreparable harm prong of the test.¹⁸³

The court was also dissatisfied with Cordis’s attempt to show likelihood of success on the merits.¹⁸⁴ Cordis presented only the affidavit of an employee of Medtronic’s competitor setting forth facts which tended to invalidate the patent.¹⁸⁵ However, the court stated that although this affidavit may have been sufficient to prove that the patent was invalid, it did not support Cordis’s likelihood of success on the merits of the second count of its complaint that the license agreement “ wa s void in its inception.”¹⁸⁶ Consequently, the court vacated the lower court’s grant of a preliminary injunction and remanded the case.¹⁸⁷

*27 In keeping with the *Warner-Jenkinson* court, the Federal Circuit, in *Cordis I*, clearly rejected the use of escrow accounts for deposit of royalties pendente lite.¹⁸⁸ Thus, the licensee was required to continue making payments to the patentee during the pendency of the underlying suit. Furthermore, the Federal Circuit declined to decide “which party is entitled to royalties

paid or accrued pendente lite” should the patent be held invalid.¹⁸⁹

In considering whether a preliminary injunction would be appropriate, the court indicated in dicta that the licensee can satisfy the irreparable harm prong of the test by demonstrating that the licensor is financially irresponsible or might be judgment proof.¹⁹⁰ The court also seemed to suggest that had Cordis only alleged patent invalidity in its declaratory judgment action and not that the license agreement was “void in its inception,” the court may have looked more favorably upon Cordis’s attempt to show likelihood of success on the merits.¹⁹¹ Hence, this case does not stand for a blanket rejection of enjoining the patent owner from terminating the license. Instead, it proposes that preliminary injunctions may be granted, albeit in certain narrow circumstances.

In fact, in a later case, the Federal Circuit did grant an injunction in such circumstances. In *Cordis Corp. v. Medtronic, Inc.* (1987) [hereinafter *Cordis II*],¹⁹² the court granted the licensee’s request for a preliminary injunction.¹⁹³ However, the facts of *Cordis II* were in stark contrast to those presented in *Cordis I*. In *Cordis II*, the licensee had entered a license agreement covering endocardial leads for pacemakers.¹⁹⁴ Cordis, the licensee, paid royalties on one form of leads, the “tined” leads, but not on another form, the “finned” leads.¹⁹⁵ Medtronic, the patent owner, threatened to terminate the license unless Cordis paid a substantial sum.¹⁹⁶ Cordis *28 then sought to enjoin Medtronic from terminating the contract, pending the outcome of its declaratory judgment suit.¹⁹⁷

In evaluating the merits of Cordis’s request, the court reiterated the standard for granting a preliminary injunction.¹⁹⁸ The court then proceeded to consider the irreparable harm that Cordis would suffer if Medtronic was not enjoined.¹⁹⁹ It approvingly cited the lower court’s finding that “Cordis was not seeking to avoid royalty payments on the valid Medtronic tined leads under the agreement, but only to enjoin Medtronic from terminating the agreement until the issue of whether the finned leads come under the license agreement is resolved.”²⁰⁰ This finding distinguished the instant case from *Cordis I* in the court’s mind.²⁰¹ The court also found that the termination of the license agreement would cause Cordis to lose its market share in the highly competitive pacemaker industry.²⁰² The court concluded that absent an injunction, the loss of market share coupled with the possibility of infringement suits by Medtronic against Cordis and its customers would amount to irreparable injury to Cordis.²⁰³

The court then considered the balance of injury prong and likelihood of success prong of the test.²⁰⁴ The court found that the harm to Cordis if the injunction was not granted outweighed the injury to Medtronic.²⁰⁵ The Federal Circuit also was satisfied that Cordis had met its burden of showing likelihood of success on the grounds that the finned lead devices did not infringe the patent and that the patentee was barred from enforcing the patent against Cordis under the doctrines of laches or estoppel.²⁰⁶ As to the public interest factor, the court concluded first that the patent system would not lose its integrity if it granted the injunctive relief, and second that Cordis’s continuing ability to produce pacemaker leads was an issue of public interest.²⁰⁷ Therefore, Medtronic was preliminarily enjoined from terminating its license agreement with Cordis.²⁰⁸

*29 In evaluating the case, it is apparent that the court was disturbed by Medtronic’s attempt to overreach by demanding a substantial sum as paid-up future royalties.²⁰⁹ Therefore, the court seemed to have justified the grant of the temporary injunction on other grounds, but its displeasure with Medtronic may have been the motivating factor. For instance, in holding that Cordis’s potential loss of market share would satisfy the irreparable harm prong of the test, the court referred to the fact that Medtronic had been the beneficiary of the same finding in an unrelated case where the court had enjoined Medtronic’s competitor from interfering with Medtronic’s manufacture of certain devices.²¹⁰ Therefore, under the narrow facts presented in this case, the Federal Circuit chose to uphold the district court’s decision to enjoin the patentee from terminating the license.²¹¹

3. Approval of Grant of Preliminary Injunction and Creation of Escrow Account

In contrast to the Federal Circuit and the Second Circuit, the Seventh Circuit approved not only the grant of an escrow account for deposit of post-challenge royalties, but also the issuance of a preliminary injunction prohibiting the patentee from terminating the license during the pendency of the underlying declaratory judgment suit.²¹² In *Precision Shooting Equip. Co. v. Allen Archery, Inc.*,²¹³ the Seventh Circuit was influenced by the lower court’s findings.²¹⁴ The trial court had concluded that if the licensee prevailed in its underlying invalidity suit, and interim royalty payments were ordered refundable to the licensee, it would be reasonably likely that the patentee would be unable to repay these royalties, and the licensee would have no remedy at law with respect to recoupment of the interim royalties paid.²¹⁵ Therefore, the licensee would be irreparably damaged absent an injunction prohibiting the licensor from terminating the license. Furthermore, the lower court *30 was satisfied that the licensee had a reasonable likelihood of success for its validity challenge.²¹⁶ The patent owner’s financial

condition was also the basis for granting the licensee's request for an escrow account for deposit of royalties pendente lite, thus ensuring the continued existence of the license agreement.²¹⁷ The circuit court approved of the lower court's findings and affirmed the grant of the injunction and the creation of the escrow account.²¹⁸

4. Summation of the Circuits

When deciding whether to enjoin the patentee from terminating the license, the courts look favorably upon a showing that the patentee is judgment proof or is financially unable to repay the royalties if required. The courts are willing to find irreparable harm to the licensee in these situations. The finding of irreparable harm to the licensee coupled with a strong showing of a likelihood of success on the merits of the underlying validity challenge tends to support the granting of the licensee's request for a preliminary injunction. However, the licensee should tread carefully when requesting a court-ordered escrow account. Clearly, in the Seventh Circuit and in the Federal Circuit, such a request would be an uphill battle. Thus, the licensee should continue paying royalties to the patent owner, even if the preliminary injunction is granted, to ensure that the licensee is not in breach of the agreement. Nevertheless, if the financial condition of the patentee indicates reasonable apprehension that the licensee would not be able to recoup the interim royalties paid, an argument for the establishment of an escrow account should be made. However, the licensee would probably have better success establishing an escrow account for this situation in the Sixth and Seventh Circuits where there is precedent.

III. Recovery of Royalties if the Patent is Found Invalid

A. Back to *Lear v. Adkins*

In order to understand the issue of royalty recovery, it is necessary to reconsider the seminal case of *Lear, Inc. v. Adkins*.²¹⁹ In that case the Supreme *31 Court put to rest the doctrine of licensee estoppel.²²⁰ Once the Court decided that the licensee, Lear, could challenge Adkins's patent, it was faced with the issue of the payment of royalties. The issue was whether Lear was obliged to continue paying royalties until a court held Adkins's patent invalid.²²¹ The Court held that a licensee need not pay royalties *while challenging patent validity*.²²² This holding implies that the licensee will not obtain a refund of all past royalties paid should the patent be proved invalid; if the licensee is entitled to a full refund, the timing of the challenge would be irrelevant. The Court reasoned that to hold otherwise "would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning."²²³ Thus, on the facts of this particular case, the Court held that Lear could avoid the payment of all royalties accrued after Adkins's 1960 patent issued if Lear could prove patent invalidity.²²⁴ Furthermore, the Court remanded to the state court the question of unpaid royalties for the period prior to issuance of the patent.²²⁵

It is important to consider the timing of Lear's challenge to understand this holding. Lear refused to pay royalties before the Patent Office granted Adkins a patent,²²⁶ and, thus, it initially challenged Adkins's patent before the patent issued. Lear challenged the patent's validity in court through its answer to the complaint filed by Adkins on the day the patent issued.²²⁷ Furthermore, Lear argued that the cutoff date for its obligation to pay royalties was the day it sent a letter exercising its rights to terminate the license in 1959.²²⁸ Therefore, the Court did not have to address the issue of whether Lear was entitled to a refund of royalties paid before its attempted termination of the license.²²⁹ The holding indicates that the challenge to patent validity is the critical event in determining the cutoff date for recovery of royalties paid, and not the date of the patent's issuance.²³⁰

***32 B. The Rule in the Sixth Circuit**

In four opinions dating from 1972 to 1976,²³¹ the Sixth Circuit clarified its rule on the amount of and the due date of royalty payments.²³² In these decisions, the Sixth Circuit implemented its interpretation of the policies of *Lear*: The critical cutoff date for payment or refund of royalties is the date the licensee challenges the patent so as to encourage the early determination of the patent's validity.²³³ The rule in this circuit is that royalties paid prior to the patent validity challenge (pre-challenge) are never refundable, but royalties paid subsequent to the patent validity challenge (post-challenge) are always refundable.

In *Lear*, the Court articulated the policy of encouraging licensees to challenge the validity of patents.²³⁴ The Court also

believed that requiring the challenging licensee to pay royalties pendente lite would encourage the licensor to use dilatory tactics to postpone final determination of patent validity.²³⁵ In *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*,²³⁶ the Sixth Circuit rejected a complete royalty refund. It reasoned that extending *Lear* this far could encourage the licensee to delay litigation, enjoy the “fruits of the licensing agreement, and sue for repayment of royalties near the end of the term of the patent.”²³⁷ The licensee could thus chance regaining all royalties without risking an injunction against infringement. The court concluded that such an extension would defeat the spirit of *Lear*.²³⁸

In *Atlas Chemical Industries, Inc. v. Moraine Products*,²³⁹ the Sixth Circuit further refined its rules regarding refund of royalties. In *Atlas*, the licensee sought a declaratory judgment that the licensed patent was invalid.²⁴⁰ The licensee’s request *33 to deposit royalties pendente lite into a court established escrow account was granted.²⁴¹ The district court held the patent invalid and prohibited a refund of pre-challenge royalties and royalties paid pendente lite.²⁴² The Sixth Circuit reversed, holding that the policies of *Lear* compelled the refund of the amounts escrowed while the licensee was challenging the patent.²⁴³ Therefore, under this rule, the cutoff date for royalties owed is the date of the licensee’s challenge, not the date of the judgment. Thus, the licensee is only obligated to pay royalties up to the date of challenge and is entitled to a refund of all royalties paid after that date, including those paid pendente lite.

With regard to pre-challenge royalties, the *Troxel* cases²⁴⁴ and *Atlas* lay down the same rule: pre-challenge royalties are not refundable to the licensee in any event.²⁴⁵ Moreover, the rule does not depend on who had possession of the money. If pre-challenge royalties have been paid to the licensor, they are not refundable. If the pre-challenge royalties have not yet been paid, *Troxel II* holds that they should be paid and recommends that the licensor obtain a judgment to enforce such payment.²⁴⁶

Following *Atlas*, the Sixth Circuit decided *PPG Industries, Inc. v. Westwood Chemical Inc.*²⁴⁷ In this case, the licensee filed suit to have its license declared unenforceable due to patent invalidity after a district court in third party litigation declared the patent invalid but before the court of appeals affirmed.²⁴⁸ Thus, the licensee was a “bystander licensee” who waited to see who would win the invalidity claim before initiating its own validity challenge. However, the licensee filed suit *34 before final judgment by the court of appeals;²⁴⁹ therefore, it had acted before “eviction” of the patent in a third party litigation.²⁵⁰

In *PPG Industries*, the licensee first withheld royalties and then filed its declaratory judgment suit.²⁵¹ The licensee, PPG, argued that its obligation to pay royalties ceased when it first refused to make royalty payments before initiating suit.²⁵² The court rejected this argument regarding the cutoff date for the licensee’s royalty obligation.²⁵³ The Sixth Circuit stressed that PPG’s filing of the declaratory judgment suit was the crucial event in determining the licensee’s liability for royalties.²⁵⁴ The court held that this affirmative action on the part of the licensee was the cutoff date for determining the licensee’s liability for royalties.²⁵⁵ In the event that the patent was held invalid in the third party litigation, such as when the patent was evicted, PPG would not owe royalties past its cutoff date of the filing date *35 of its declaratory judgment action.²⁵⁶ The court also stated in dicta that “ i t is only when the licensee continues to pay royalty, and does not file suit until after the patent has been adjudged invalid in third party litigation , that the cut-off date for liability is the date of eviction of the patent.”²⁵⁷

Consequently, the rule in the Sixth Circuit is clear: No licensee is permitted a refund of pre-challenge royalties,²⁵⁸ but a licensee is allowed a refund of the post-challenge royalties that it has paid,²⁵⁹ and every licensee is released from payment of royalties on the date of eviction under the license, even though that licensee has never challenged patent validity.²⁶⁰

C. The Licensee’s Choice

The rule as set forth in the Sixth Circuit creates a “licensee’s choice.” The licensee’s first choice is to refuse to pay royalties to the patentee.²⁶¹ When the licensee refuses to pay, the patentee has two options for recourse. The first option is that the patentee can terminate the license for nonpayment according to the terms of the license and sue for patent infringement--or counterclaim if the licensee sues for a declaratory judgment-- and requests preliminary and permanent injunctions and infringement damages.²⁶² The second option is that the patentee can sue--or counterclaim if the licensee sues for declaratory judgment--for breach of contract, praying for royalties due as damages.²⁶³ Under the patentee’s first option, if the patent is held valid and infringed, the ex-licensee is permanently enjoined and liable *36 for infringement damages from the date of the last royalty payment made.²⁶⁴ Under the patentee’s second option, if the patent is held valid and covers the licensee’s product, then the ex-licensee is liable for all past due royalties and statutory interest, and a decree of specific performance may be entered ordering the continuation of royalty payments.²⁶⁵ Under both options, if the patent is held invalid, the licensee owes no royalty from the date of the challenge and obtains permanent free use of the patented product or process from that date.²⁶⁶ However, the licensee may not obtain a refund of pre-challenge royalties.²⁶⁷

The licensee's second choice is to continue to pay royalties to the patentee but also file suit seeking a declaratory judgment of patent invalidity and an injunction prohibiting the patentee from terminating the license.²⁶⁸ In this case, the patentee has no options. It may not simply counterclaim for patent infringement or breach of contract. If the patent is held valid, the licensee continues to operate under the license, paying royalty fees under the license.²⁶⁹ Obviously, the patentee in this case retains all royalties, including post-challenge royalties.²⁷⁰ If the patent is held invalid, the licensee owes no royalty from the date of the challenge and obtains permanent free use of the patented product or process from that date.²⁷¹ Furthermore, any post-challenge royalties are refundable to the licensee.²⁷² However, the licensee may not obtain a refund of pre-challenge royalties.²⁷³

*37 In deciding which option to follow, the licensee has to consider the strength of its validity challenge. If the licensee's case for patent invalidity is weak, an injunction against infringement may issue²⁷⁴ and the patentee may be awarded attorney fees²⁷⁵ in addition to treble damages.²⁷⁶ Moreover, the patentee may be able to recover infringement damages at the reasonable royalty rate which may be greater than the royalty rate of the license.²⁷⁷

D. Royalty Refund in the Federal Circuit

1. Payment of Pre-Challenge Royalties When a Patent is Invalid

In a recent decision, the Federal Circuit addressed the issue of whether the licensor may recover pre-challenge royalties when the claims of a patent are held invalid.²⁷⁸ The Federal Circuit, in response to a certified question posed by the district court, held that: "Where the Court has found the relevant patent claims invalid, the ... Licensor may recover damages for breach of contract for past royalties due on processes allegedly covered by such claims, from the date of the alleged breach until the date that the Licensee first challenged validity of the claims ."²⁷⁹

The dispute in *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.* involved U.S. Patent No. 4,125,698 ('698), a member of the family of patents filed by Professor Karl Ziegler, which covered the famed Ziegler catalysts used to polymerize olefins.²⁸⁰ Studiengesellschaft Kohle (SGK) is the licensing arm of the organization which owns the patent rights.²⁸¹ In 1974, before the '698 patent issued, *38 SGK licensed Shell the right to practice the claimed process.²⁸² Later, in 1978, the '698 patent issued.²⁸³

In 1987, SGK and Shell renegotiated the 1974 agreement.²⁸⁴ Under the terms of the new agreement, Shell received "a paid-up license to produce 450 million pounds of polypropylene per year, with a 1.5% running royalty on any polypropylene sales in excess of 450 million pounds."²⁸⁵ Further, Shell was required to give a yearly accounting of its entire polypropylene production.²⁸⁶ This provision obligated Shell to "specify the amount of Polypropylene produced which it considered falling outside the license and ... provide SGK, in confidence, with sufficient information to allow SGK to independently evaluate whether or not said production is, in fact, outside of the scope of the license."²⁸⁷

In 1987, Shell began producing polypropylene using a new process in Seadrift, Texas (the Seadrift Process).²⁸⁸ Contending that the '698 patent did not read upon the Seadrift Process, Shell refused to pay royalties on propylene produced by that process, and did not disclose this production in the agreed upon yearly accountings.²⁸⁹

SGK terminated Shell's license and filed suit: (1) for recovery of unpaid royalties from 1987 through 1993; and (2) for infringement of its '698 patent from 1993 to 1995.²⁹⁰ In response, Shell moved for invalidity of claims 1 through 6 and claim 14 of the '698 patent based on anticipation by the Belgian Patent No. 538,782, which had been issued in December 1955.²⁹¹ SGK retorted that the Belgian patent did not anticipate the '698 patent because the '698 patent was entitled to an earlier filing date than the Belgian patent.²⁹² Shell relied upon the argument that the '698 patent was a combination of Ziegler's 482,412 application filed in January 1955 and its 514,068 application filed in June 1955.²⁹³

*39 The district court granted summary judgment of invalidity for Shell, reasoning that 35 U.S.C. § 120 does not permit the combination of two earlier disclosures to acquire an earlier filing date because "an earlier application must comply with the requirements of [35 U.S.C. § 112] for each claim that seeks the benefit of the filing date of that earlier application."²⁹⁴ Therefore, the court found that the Belgian patent anticipated claims 1 through 6 and claim 14 of the '698 patent.²⁹⁵ The Federal Circuit affirmed this holding.²⁹⁶

With respect to SGK's claim for royalties under the parties' license, the district court held that a licensor could recover

damages for breach of a license agreement where the validity of the underlying patent was not challenged until after the breach occurred.²⁹⁷ The district court certified the question of whether *the invalidity determination* of the patent claims would affect the licensor's claim for unpaid royalties for the period before the licensee challenged the patent's validity.²⁹⁸

The Federal Circuit responded in the negative to the district court's question.²⁹⁹ The court found that according to the record, Shell breached its license with SGK by producing polypropylene under the Seadrift process without either paying royalties or reporting the production as outside the license.³⁰⁰ The court held that contract law governed the enforcement of the license.³⁰¹ It noted that no provision in the license specified that the payment of royalties was conditioned upon the validity of the underlying patent.³⁰² Therefore, regardless of the patent's validity, the contract between Shell and SGK obligated Shell to pay royalties on polypropylene production covered by a now invalid claim.³⁰³ In other words, enforcement of the license terms was not contingent upon validity of the patent which defined the subject matter of the license. Regardless of the claim's invalidity, if the Seadrift process infringed an invalidated claim in accordance with the license terms, Shell breached its license *40 obligation by failing to pay royalties.³⁰⁴ Under contract law, enforcement of the license would require Shell to pay back royalties.³⁰⁵

The Federal Circuit examined its holding "for potential conflicts between state contract law and federal patent law."³⁰⁶ In doing so, the court considered the policy implications of *Lear*.³⁰⁷ The court acknowledged that *Lear* "prevented the enforcement of a valid royalty payment agreement to facilitate a determination of patent validity"³⁰⁸ and allowed the licensee to contest the validity of the underlying patent.³⁰⁹ Judge Rader wrote:

In tones that echo from a past era of skepticism over intellectual property principles, the Court in *Lear* feared that: "[I]licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest"³¹⁰

Nevertheless, the court relied upon its own reasoning in *Diamond Scientific Co. v. Ambico, Inc.*³¹¹ to pave the way for its holding. The court conceded that in *Diamond Scientific*, it carefully considered the *Lear* policy, but it nonetheless estopped the assignor-inventor from challenging the validity of the assigned patent.³¹² The *Kohle* court reiterated *Diamond Scientific*'s reasoning that there are still circumstances in which the equities of the contractual relationships between the parties should deprive one party of the right to challenge validity, despite the public policy of encouraging challenges of potentially invalid patents.³¹³

The Federal Circuit held that the license agreement between Shell and SGK was enforceable to the extent that SGK could recover royalties until the date that Shell first challenged the patent.³¹⁴ The court relied on *Diamond Scientific* to *41 conclude that its holding did not significantly frustrate federal patent policy.³¹⁵ As in *Diamond Scientific*, the licensee, Shell, had entered an agreement which created significant benefits for it, such as producing polypropylene by the '698 patent process "insulated from unlicensed competition, insulated from investigations of infringement, and insulated from payments of royalties."³¹⁶ Furthermore, in bringing the suit, Shell desired to avoid the consequences of its breach of contract.³¹⁷ Like the court in *Diamond Scientific*, however, the court would not permit Shell to exploit the protection of the license agreement by reaping all the benefits provided by it while depriving the licensor of its royalties.³¹⁸

The Federal Circuit also concluded that Shell's breach of its contractual duty to notify SGK was "more likely to frustrate federal patent policy than enforcement of the contract ... [as] *Lear* focused on the 'full and free use of ideas in the public domain."³¹⁹ By avoiding its notification duty, Shell delayed an earlier challenge to the validity of the '698 patent and postponed the public's access to the invention covered by the patent's claims.³²⁰ The court ruled that "a licensee, such as Shell, cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid."³²¹ The court concluded that, in the factual setting of this case, the enforcement of the license according to its terms did not frustrate federal patent policy, even if it required a determination of whether the Seadrift process infringed a now invalidated patent.³²²

2. Impact of *Kohle* on the Licensee's Choice

Although *Kohle* narrows the doctrine presented in *Lear*, it does not eliminate it. Clearly under *Lear* and *Kohle*, the licensee

may continue to challenge the validity of the licensor's patent. However, the Federal Circuit has narrowed the *Lear* doctrine by setting forth certain conditions with which the licensee must comply to fall under the protection afforded by *Lear*.

*42 In *Lear*, the Supreme Court held that contract laws must yield to federal patent law; thus, the licensee could avoid payment of all royalties accrued after issuance of the patent if it could prove the patent invalid.³²³ According to the Federal Circuit, *Lear* "prevented the enforcement of a valid royalty agreement to facilitate a determination of patent validity."³²⁴ The Federal Circuit rejected this broad approach. It specified in dicta that a licensee cannot invoke the protection afforded by *Lear* until it "(i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid."³²⁵ Thus, it appears that the licensee will be liable for royalties on a later invalidated patent from the time it entered the license agreement until it meets these conditions or first challenges the validity of the underlying patent.³²⁶

The *Kohle* holding also comports with the licensee's choice rule that evolved in the Sixth Circuit. Under the licensee's choice rule, if the patent is held invalid as a result of the licensee's challenge to the patent, the licensee owes no royalty from the date of the challenge and obtains permanent free use of the patented product or process from that date.³²⁷ However, the licensee may not obtain a refund of pre-challenge royalties.³²⁸ The Federal Circuit approves this approach and further clarifies that the licensee owes royalties until the date of the challenge, even if the patent is later held invalid.³²⁹

Moreover, *Kohle* defines "the date of the challenge." In dicta, the Federal Circuit indicates the conditions that must be met if the licensee believes a patent is invalid and wishes to end its royalty obligation: either (1) the licensee actually challenges the patent's validity, or (2) it ceases payment of royalties and gives the *43 licensor fair notice that the reason for the nonpayment is the invalidity of the patent.³³⁰ In the court's opinion, this furthers the focus of *Lear*--the "full and free use of ideas in the public domain"--by encouraging the licensee to challenge the validity of the underlying patent promptly.³³¹

3. Refund of Royalties Paid Pendente Lite

Contrary to the Sixth Circuit, the law in the Federal Circuit regarding the refund of royalties paid pendente lite is not clear. In fact, in *Cordis I*,³³² the Federal Circuit expressly declined to decide "which party is entitled to royalties paid or accrued pendente lite" should the licensee succeed in proving the patent invalid.³³³

Under the licensee's choice, the licensee who elects to pay royalties while challenging the patent's validity is in effect "having its cake and eating it too." The payment of royalties assures immunity from an injunction and infringement damages and retains the licensee's right to operate under the license if the patent is held valid.³³⁴ In the event the patent is held invalid, the licensee enjoys the benefit of the license during the litigation and obtains a refund of the royalties paid pendente lite.³³⁵

The Sixth Circuit's rule of refunding royalties accrued pendente lite is an extension of the policies enunciated in *Lear*. *Lear* only stated that the licensee cannot be required to continue to pay royalties during the time she is challenging patent validity in the courts.³³⁶ It did not propose the refund of royalties paid pendente lite.

Similarly, the adoption of such notions as the creation of escrow accounts and preclusion of licensor termination by other circuits is an expansion of the *Lear* reasoning.³³⁷ However, the Federal Circuit has consistently limited the application *44 of these ideas and has thereby narrowed the scope of *Lear*.³³⁸ For instance, the Federal Circuit rejected the establishment of escrow accounts for deposit of royalties pendente lite, except in limited circumstances.³³⁹ Furthermore, the court limits the grant of injunctions prohibiting the licensor's termination the contract to situations where the licensor is overreaching or is judgment proof.³⁴⁰ Therefore, based on the Federal Circuit's track record, the court probably rejects the Sixth Circuit's approach of refunding royalties paid or accrued pendente lite to the licensee. This is buttressed by the Federal Circuit's emphasis on "fairness" to the licensor and its general attitude favoring licensors:

This [*Lear*] policy statement does permit a licensee to cease payments due under a contract while challenging the validity of a patent. It does not permit the licensees to avoid facing the consequences of that such an action would bring. The holding of *Lear* only prevents the affirmative enforcement by the licensor of the royalty payment provisions of the license agreement while the patent's validity is being challenged by the licensee We believe that if the [licensees] wish to continue to invoke the protection of their licensing agreements, they should be required to continue paying their royalties to the [licensors] At present, [licensees] already have the option of withholding royalties and thereby breaching the licensing agreement; of course, they would run the risk of an injunction if they should lose on the merits. It would not be fair for the [licensees] to be allowed simultaneously to reap all the benefits of the

licensing agreement and to deprive the licensor of all his royalties. Patents are presumed valid, ... until invalidity is proven, the patentee should ordinarily be permitted to enjoy the fruits of his invention.³⁴¹

On the other hand, the Federal Circuit did state that “[u]ltimately, all royalties paid after the filing of the complaint *may* have to be returned to the plaintiffs [licensees].”³⁴² However, given the Federal Circuit’s history of narrowing the application of *Lear*,³⁴³ refusing to refund royalties paid *pendente lite* to licensees would be the next logical step towards achieving a balanced risk allocation between licensors and licensees. Such a holding would also comport with the pre-*Lear* eviction rule that allowed a licensee to avoid payment of royalties upon final judgment of invalidity.³⁴⁴ According to this doctrine, the obligation to pay royalties *45 ceases as of the date of the final judgment of invalidity, but all royalties accruing up to that date must be paid.³⁴⁵

IV. Reexamination as an Alternative to Court Action

The existence of a license agreement does not affect the licensee’s right to file for reexamination³⁴⁶ of the licensed patent.³⁴⁷ Thus, the licensee may seek this procedure as one method of challenging the licensed patent. A request for reexamination, which must be accompanied by a \$2,390 fee,³⁴⁸ will be granted if prior art contained in patents or printed publications raises a “substantial new question of patentability.”³⁴⁹ The scope of the proceedings, which is *ex parte* in nature, is limited to a determination of patentability in light of prior patents or publications.³⁵⁰ Issues such as fraud and public use are not considered,³⁵¹ nor are enlargement of the scope of the patent by claims or amendments.³⁵² At the conclusion of the proceeding, the Commissioner issues a certificate canceling, confirming, or amending the various claims of the patent in accordance with the reexamination results.³⁵³ If the request for reexamination is denied, the requesting party may petition the Commissioner for review but may not otherwise appeal that decision.³⁵⁴ The results of a reexamination proceeding are appealable only by the patent owner.³⁵⁵

In a reexamination proceeding, the presumption of validity afforded patent claims during litigation does not apply.³⁵⁶ Therefore, the standard of proof required to reject patent claims in this proceeding is not “clear and convincing,” but only a *46 “preponderance of the evidence.”³⁵⁷ These factors work in the favor of a licensee. Furthermore, a decision by the Patent Office that the reexamined claims of an issued patent are canceled as unpatentable renders the claims unenforceable in any future disputes between the licensee and the patentee.³⁵⁸ Thus, if the Commissioner issues a certificate canceling the various claims of the patent under which the licensee is licensed, the licensee is arguably “evicted” from the license.³⁵⁹ Under the eviction rule, the licensee is relieved of any further royalties under her license starting from the date of eviction.³⁶⁰ The rationale is that there has been complete failure of consideration in the license agreement.³⁶¹ However, cancellation through reexamination is available only when the claims at issue are unpatentable over the prior art.³⁶² Consequently, other issues that may adversely affect patent validity, such as public use or sale, indefiniteness, and priority of invention, must be addressed through litigation.³⁶³

Because the license protects the licensee from patent infringement suits, the financial risk of requesting reexamination of the patent is relatively inexpensive. Costs typically include attorney fees for preparation of the reexamination request³⁶⁴ and possibly a reply,³⁶⁵ and government fees for the reexamination itself.³⁶⁶

There are drawbacks to the reexamination process. First, due to its *ex parte* nature, the requester of the proceedings has limited involvement.³⁶⁷ Second, if litigation at a later date is under consideration, the issuance of a reexamination certificate over the cited art would significantly diminish the usefulness of such art in establishing invalidity in any subsequent court action.³⁶⁸ Consequently, the *47 licensee should limit the use of the reexamination procedure to special circumstances.

Special circumstances that warrant the use of the reexamination proceeding include the situation when a licensee discovers a reference which anticipates the invention claimed in the licensed patent, but the amount of royalties paid to the patentee does not support a court action. This could make the reexamination procedure the economically superior choice. Another example would be if the licensee is not financially capable of maintaining the cost of litigation, then, the relatively inexpensive reexamination proceeding would be the licensee’s only option. Finally, when the chances of prevailing are fair but not sufficient to make the requisite financial commitment to a court instituted action, the licensee should consider seeking reexamination of the patent.

V. Conclusion

As a result of the demise of licensee estoppel in *Lear*, entering a license provides many advantages for the licensee. To avoid continued royalty payments, a licensee may choose to challenge the validity of the patent under which she is licensed. Clearly, under *Lear*, any licensee may assert invalidity of the patent as a defense to a suit filed by the patentee for patent infringement or breach of contract. However, the licensee may also take the initiative and seek a declaratory judgment that the patent is invalid. In doing so, the licensee has the option of federal or state court. If the licensee chooses the federal court to institute her suit, she needs to consider the preferred appeals path. If there is no diversity, federal jurisdiction is limited to cases arising under the patent laws. In these cases, the Federal Circuit has exclusive jurisdiction. The Federal Circuit does not require the termination of the license as a precondition to initiating a federal declaratory judgment suit of patent invalidity; however, it does require that the totality of the circumstances confer jurisdiction to the court. Alternatively, if the parties are diverse, the licensee could predicate federal jurisdiction on diversity and assert a contract dispute over the license due to patent invalidity. In this case, appeals would remain within the regional circuit court of appeals.

The licensee can also request a preliminary injunction against the patentee prohibiting license termination. By so doing, the licensee prevents the patent owner from suing for patent infringement. However, many circuits, including the Federal Circuit, limit the grant of such an injunction to cases where the facts are compelling. In addition to seeking a preliminary injunction, the licensee can also petition for the establishment of a court ordered escrow account for deposit of royalties paid *pendente lite*. The licensee's success in this area may depend on the jurisdiction. Some circuits, including the Federal Circuit, reject court-ordered escrow accounts except in situations where there is proof that the patentee is financially unable to *48 repay those royalties should it be so required. In other circuits, such a showing is unnecessary.

The most important issue to the licensee is, of course, the recovery of royalties. Pre-challenge royalties are not refundable. With regard to post-eviction royalties, the rule is that no payments of royalties are necessary after final adjudication of patent invalidity or eviction. However, a licensee is liable for royalties until the date of challenge, even if the patent is held invalid. The issue of refund of interim royalty payments is still open in the Federal Circuit. Although in the Sixth Circuit, royalties paid *pendente lite* are refundable to the licensee, in light of the Federal Circuit's general attitude favoring licensors, the Federal Circuit may hold the royalties *pendente lite* nonrefundable to the licensee. This would achieve a more balanced risk allocation between licensors and licensees than the rule in the Sixth Circuit that allows the licensee to "have its cake and eat it too".

Finally, for the licensee who chooses not to pursue court action, there is the option of seeking reexamination of the licensed patent. This method, although *ex parte*, is rather inexpensive. However, the cost should be balanced against the drawbacks associated with this type of proceeding.

Nevertheless, the licensee now has many choices. As a result of *Lear* and the end of licensee estoppel, the licensee who wishes to discontinue royalty payments or opt out of her license is confronted with an array of options and decisions. Certainly, in light of the foregoing, entering a license agreement continues to be an attractive prospect for one entering the market with a patented product.

Footnotes

^{a1} Baker & Botts, L.L.P., Houston, Texas.

¹ J. Thomas McCarthy, "Unmuzzling" the Patent Licensee: Chaos in the Wake of *Lear v. Adkins* (Part I), 59 J. PAT. OFF. SOC'Y 475, 475 (1977).

² See, e.g., *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834-36, 85 U.S.P.Q. (BNA) 378, 381-82 (1950).

³ Rochelle Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 678 (1986).

4 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969).

5 The patent application must contain one or more claims that particularly point out and distinctly claim the subject matter that the applicant regards as the invention. 35 U.S.C. § 112 (1994). These claims are adjudicated for the purposes of determining validity, coverage, justiciable controversy, and royalties due. In this Article, the term “patent” used in connection with these issues actually refers to a given claim in issue. There will typically be many claims in issue; some will be decided one way, some another.

6 *Lear*, 395 U.S. at 670-71, 162 U.S.P.Q. at 8.

7 *Id.*

8 Christian C. Taylor, Note, *No-Challenge Termination Clauses: Incorporating Innovation Policy and Risk Allocation into Patent Licensing Law*, 69 IND. L.J. 215, 225 (1993).

9 Stephen Z. Szczepanski, *Licensing or Settlement: Deferring the Fight to Another Day*, 15 AIPLA Q.J. 298, 299 (1977).

10 *Id.*

11 *Id.*

12 *Id.* at 300.

13 *Id.* at 300-01.

14 *Id.* at 301.

15 35 U.S.C. § 284 (1994).

16 *Id.*

17 35 U.S.C. § 285 (1994).

18 Szczepanski, *supra* note 9, at 303. *See, e.g.*, *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657, 217 U.S.P.Q. (BNA) 1185, 1189 (1983) (approving award of prejudgment interest). *See generally*, Note, *General Motors v. Devex Corp.: Prejudgment Interest--The Rule Rather than the Exception in Patent Infringement*, 9 N.C.J. INT'L L. & COM. REG. 495 (1984) (discussing the award of prejudgment interest).

19 Szczepanski, *supra* note 9, at 304.

20 *Id.*

21 *Id.*

22 *Id.*

23 *See id.*

24 *See id.*

25 *Id.* There may also be significant disadvantages associated with entering a license agreement. During the litigation, the licensee may be viewed by the jury or by the court as admitting validity, enforceability, and coverage of the licensed patent. *Id.* at 306. A belated challenge may create bias against the licensee for renegeing on the deal. *See id.* (discussing ways to minimize the adverse impact on the licensee's equities created by the license).

26 This Article only addresses issues arising from a licensing agreement freely entered into by both parties. It does not consider situations arising from a licensing agreement entered into pursuant to a judgment, settlement agreement, stipulated dismissal, or consent decree.

27 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969).

28 *United States v. Harvey Steel Co.*, 196 U.S. 310, 316-17, *cited in Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836, 85 U.S.P.Q. (BNA) 378, 381 (1950).

29 395 U.S. at 670-71, 162 U.S.P.Q. at 8.

30 *Id.* at 655, 162 U.S.P.Q. at 2.

31 *Id.* at 657, 162 U.S.P.Q. at 3.

32 *Id.*

33 *Id.*

34 *Id.*

35 *Id.*

36 *Id.* at 659-60, 162 U.S.P.Q. at 4.

37 *Id.* at 659, 162 U.S.P.Q. at 4.

38 *Id.* at 658, 162 U.S.P.Q. at 3.

39 *Id.* at 660, 162 U.S.P.Q. at 4.

- 40 *Id.*
- 41 *Id.* at 661, 162 U.S.P.Q. at 4.
- 42 *Id.* at 673, 162 U.S.P.Q. at 9.
- 43 *Id.* at 676, 162 U.S.P.Q. at 10.
- 44 *Id.* at 663, 162 U.S.P.Q. at 5.
- 45 *Id.* at 668, 162 U.S.P.Q. at 7.
- 46 *Id.*
- 47 *Id.* at 670, 162 U.S.P.Q. at 8.
- 48 *Id.*
- 49 *Id.*
- 50 *Id.* at 670-71, 162 U.S.P.Q. at 8.
- 51 *Id.* at 674, 162 U.S.P.Q. at 9. *See infra* notes 219-230 and accompanying text (discussing in depth the royalty issues presented in *Lear*).
- 52 *Id.*
- 53 *Id.* *See* *Shearing v. Iolab Corp.*, 975 F.2d 1541, 1542, 24 U.S.P.Q.2d (BNA) 1133, 1134 (Fed. Cir. 1992) (patent holder brought suit for breach of contract and licensee counterclaimed with patent invalidity); *Acoustical Designs v. Control Elecs. Co.*, 932 F.2d 939, 940, 18 U.S.P.Q.2d (BNA) 1707, 1708 (Fed. Cir. 1991) (patentee brought suit for infringement and breach of contract and licensee counterclaimed with patent invalidity); *Kunkel v. Topmaster Int'l Inc.*, 906 F.2d 693, 694, 15 U.S.P.Q.2d (BNA) 1367, 1368 (Fed. Cir. 1990) (patent owner brought suit for infringement and rescission of license agreement and licensee asserted patent invalidity); *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1057-58, 12 U.S.P.Q.2d (BNA) 1449, 1450-51 (Fed. Cir. 1989); *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 935, 219 U.S.P.Q. (BNA) 104, 105 (9th Cir. 1983); *Crane Co. v. Aeroquip Corp.*, 504 F.2d 1086, 1087, 183 U.S.P.Q. (BNA) 577, 577 (7th Cir. 1974); *Geffner v. Linear Rotary Bearings, Inc.*, 936 F. Supp. 1150, 1153 (E.D.N.Y. 1996).
- 54 *Beghin-Say Int'l Inc. v. Ole-Bendt Rasmussen*, 733 F.2d 1568, 1571, 221 U.S.P.Q. (BNA) 1121, 1123 (Fed. Cir. 1984). *Accord* *Wilson v. Sanford*, 51 U.S. 99, 101-02 (1850); *Combs v. Plough, Inc.*, 681 F.2d 469, 471, 216 U.S.P.Q. (BNA) 463, 464-65 (6th Cir. 1982); *Ausherman v. Stump*, 643 F.2d 715, 718, 209 U.S.P.Q. (BNA) 984, 986 (10th Cir. 1981).
- 55 *See Lear Siegler, Inc. v. Sargent Indus.*, 374 A.2d 273, 276-77, 200 U.S.P.Q. (BNA) 828, 830 (Del. Super. Ct. 1977) (stating that in a declaratory judgment suit, “state courts may determine the validity of a patent in ruling on an action for breach of a licensing agreement. Thus, it is clear that a state court has the power to retain jurisdiction over contract cases which may ultimately involve questions of patent validity”) (citations omitted). *See also* *Lear, Inc. v. Adkins*, 395 U.S. 653, 675-76, 162 U.S.P.Q. (BNA) 1, 10 (1969) (recognizing that the state court has jurisdiction to consider the issue of patent validity as a defense to an action in state

court to recover patent royalties required to be paid pursuant to a contract); *American Harley Corp. v. Irvin Indus., Inc.*, 263 N.E.2d 552, 556-57, 167 U.S.P.Q. (BNA) 553, 557 (N.Y. 1970) (“That validity of the patent is involved in an action is not determinative of [federal] jurisdiction State courts may determine the validity of a patent when incidental to an action based on contract or tort.”) (Breitel, J., concurring); *Consolidated Kinetics Corp. v. Marshall, Neil & Pauley, Inc.*, 521 P.2d 1209, 1212-13, 182 U.S.P.Q. (BNA) 434, 436 (Wash. Ct. App. 1974) (holding that the state court has jurisdiction to adjudicate validity of a patent because the primary remedies sought by patent holder were state remedies for breach of contract and injunction, and the claim for infringement of patent was, at most, an alternative contention). *Cf.* *Speedco, Inc. v. Estes*, 853 F.2d 909, 913-14, 7 U.S.P.Q.2d (BNA) 1637, 1641 (Fed. Cir. 1988) (finding no federal subject matter jurisdiction if declaratory adjudication of validity is raised as a defense to assignor’s state law action to recover payments allegedly owed under agreement) (citing *Consolidated Kinetics Corp. v. Marshall, Neil & Pauley, Inc.*, 521 P.2d 1209, 1212, 182 U.S.P.Q.2d (BNA) 434, 435 (Wash. Ct. App. 1974)); *Creative Mfg. v. Unik, Inc.*, 726 S.W.2d 207, 209 (Tx. App.--Fort Worth 1987, writ ref’d n.r.e.) (holding that an action brought in state court by patent holder against licensee that sought declaration of breach of license agreement and accounting was not abated by subsequent federal court action brought by licensee seeking declaration of invalidity of the underlying patent). *See generally*, Donald Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633 (1971).

⁵⁶ *See, e.g.*, *Lear Siegler, Inc. v. Sargent Indus.*, 374 A.2d 273, 276, 200 U.S.P.Q. (BNA) 828, 829 (Del. 1977) (“[T]he complaint controls the [declaratory judgment] action.”). *See also* *Public Serv. Comm’n v. Wycoff Co.*, 344 U.S. 237, 238 (1952). In *Public Service*, the court noted:

Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court.

Id.

⁵⁷ There are potentially five routes available for the disgruntled licensee who desires to challenge the patent’s validity. If there is diversity of citizenship between the parties, and the amount in controversy is greater than \$75,000, 28 U.S.C.A. § 1332 (1993 & Supp. 1997), there are three options. First, the licensee can seek a declaratory judgment in federal court, pleading a contract dispute and asserting patent invalidity as a defense to a counterclaim by the patentee for a full accounting of royalties. The dispute would be governed by state contract law, but the federal court would have jurisdiction due to diversity. Appeals of these cases would be taken to the regional circuit courts. *See* 28 U.S.C. § 1291 (1994). Second, even though there is diversity, the licensee can assert patent invalidity and/or noninfringement and base federal jurisdiction on 28 U.S.C. § 1338(a) as an action arising under the patent laws. 28 U.S.C. § 1338 (1994). In these circumstances, the licensee must satisfy the requirements of “arising under” jurisdiction, and the Federal Circuit would have exclusive appellate jurisdiction. *See* 28 U.S.C. § 1295 (1994). Third, the licensee could forgo federal jurisdiction altogether in favor of state declaratory adjudication, pleading a contract dispute and asserting patent invalidity and/or noninfringement as a defense to the patentee’s counterclaim of breach of contract. However, if the parties are diverse, in certain situations, the defendant patentee may be able to remove the suit to federal court. *See* 28 U.S.C. § 1441(a) (1994) (defendant may remove a civil action to federal district court where the federal district court has original jurisdiction except as otherwise expressly provided by Congress); 28 U.S.C.A. § 1332(a)(1) (district court has original court jurisdiction where parties are diverse and the amount in controversy is met). Alternatively, if the parties are not diverse, there are two avenues available to the licensee. First, the licensee can file a declaratory judgment suit in federal district court claiming subject matter jurisdiction based on 28 U.S.C. § 1338(a) as an action arising under the patent laws. Once again, in these circumstances, the licensee must satisfy the requirements of “arising under” jurisdiction, and the Federal Circuit would have exclusive appellate jurisdiction. *See* 28 U.S.C. § 1295. Second, the licensee can file her suit in state court, seeking declaratory adjudication of a contract dispute arising under state law. This Article only delves into the situations whereby the licensee seeks declaratory adjudication in federal court and predicates federal jurisdiction on actions arising under the patent laws, 28 U.S.C. § 1338(a), or under diversity, as per 28 U.S.C.A. § 1332. In the former situation, Federal Circuit decisions are precedent, and other decisions are only persuasive. In the latter case, decisions of the regional Circuit Courts are precedent. Actions arising under state law are not discussed in depth.

⁵⁸ 28 U.S.C. § 2201 (1994); 8 DONALD S. CHISUM, *PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT* § 21.02[1][d][i], at 21-35 (1994 & Supp. 1995).

⁵⁹ 8 CHISUM, *supra* note 58, § 21.02[1][d][i], at 21-36.

⁶⁰ *Id.*

⁶¹ *Geni-Chlor Int’l, Inc. v. Multisonics Dev. Corp.*, 580 F.2d 981, 984, 200 U.S.P.Q. (BNA) 67, 69-70 (9th Cir. 1978) (stating that the Declaratory Judgment Act does not extend jurisdiction to the federal courts; it “merely provides procedural and remedial

flexibility” to them).

62 Borden v. Katzman, 881 F.2d 1035, 1037, 12 U.S.P.Q.2d (BNA) 1071, 1074 (11th Cir. 1989); *see* 28 U.S.C. § 2201.

63 28 U.S.C. § 1331 (1994).

64 28 U.S.C.A. § 1332 (1993 & Supp. 1997). In addition to diversity between the parties, the amount in controversy must exceed \$75,000. *Id.*

65 28 U.S.C. § 1338(a)(1994).

66 *Id.*

67 Milwaukee Gas Specialty Co. v. Mercoid Corp., 104 F.2d 589, 591-92, 41 U.S.P.Q. (BNA) 522, 523-24 (7th Cir. 1939); *see* 28 U.S.C. § 1338 (1994).

68 *See Milwaukee Gas*, 104 F.2d at 591-92, 41 U.S.P.Q. at 523-34.

69 28 U.S.C. § 1295 (1994).

70 *See Lockett v. Delpark, Inc.*, 270 U.S. 496, 502 (1926); *W.R. Grace & Co. v. Union Carbide Corp.*, 319 F. Supp. 307, 310-12, 167 U.S.P.Q. (BNA) 619, 622-24 (S.D.N.Y. 1970).

71 Diversity of citizenship coupled with an amount in controversy greater than \$75,000 is required to confer subject matter jurisdiction upon a federal district court. 28 U.S.C.A. § 1332 (1993 & Supp. 1997).

72 *See* 28 U.S.C. § 1291 (1994).

73 28 U.S.C. § 2201 (1994) (beginning with the phrase “[i]n a case of actual controversy within its jurisdiction.”). When there is diversity between the licensor and the licensee, the case or controversy requirement for a declaratory judgment is generally easier to satisfy. *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d 418, 422 n.5, 196 U.S.P.Q. (BNA) 147, 150 n.5 (7th Cir. 1977); *Medtronics, Inc. v. American Optical Corp.*, 327 F. Supp. 1327, 1333-34, 170 U.S.P.Q. (BNA) 252, 257-58 (D. Minn. 1971). The licensee can bring a declaratory judgment action under the diversity statute, 28 U.S.C.A. § 1332, even where he cannot establish the existence of a patent controversy. *Altvater v. Freeman*, 319 U.S. 359, 365, 57 U.S.P.Q. (BNA) 285, 289 (1943); *Sears, Roebuck & Co. v. American Mut. Liab. Ins. Co.*, 372 F.2d 435 (7th Cir. 1967). If the federal court has jurisdiction through diversity of citizenship, the question of arising under jurisdiction under Section 1338 is eliminated. The question then becomes whether there is a sufficient “actual controversy” to support jurisdiction when the plaintiff challenges the patent’s validity but has not repudiated the license or stopped paying royalties. The courts generally find that there is a sufficient controversy. *See Precision Shooting Equip. Co. v. Allen Archery, Inc.*, 646 F.2d 313, 316-18, 210 U.S.P.Q. (BNA) 184, 186-88 (7th Cir. 1981); *see also American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 546, 188 U.S.P.Q. (BNA) 97, 99-100 (3d Cir. 1977) (holding that the licensee may challenge the underlying patent via the Declaratory Judgment Act without exercising the contract’s termination provision); *USM Corp. v. Standard Pressed Steel Co.*, 453 F. Supp. 743, 746, 200 U.S.P.Q. (BNA) 788, 791-92 (N.D. Ill. 1978), *aff’d in part, vacated in part*, 694 F.2d 505, 216 U.S.P.Q. (BNA) 959 (7th Cir. 1982).

74 *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 936, 27 U.S.P.Q.2d (BNA) 1241, 1243-44 (Fed. Cir. 1993). The court stated that to meet the requirements of the Declaratory Judgment Act, there must be:
a case of actual controversy Determination of whether there is an actual controversy in patent actions generally entails the two part inquiry of (1) whether the declaratory plaintiff has acted in a way that the patentee asserts infringes the patent, or is preparing

to act in such a way; and (2) whether the patentee has created, in the declaratory plaintiff, a reasonable apprehension of suit for infringement.

Id. (citing *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 735-36, 6 U.S.P.Q.2d (BNA) 1685, 1688-89 (Fed. Cir. 1988)). *Accord* *West Interactive Corp. v. First Data Resources, Inc.*, 972 F.2d 1295, 1298, 23 U.S.P.Q.2d (BNA) 1927, 1929-30 (Fed. Cir. 1992); *Spectronics Corp. v. H.B. Fuller Co.*, 940 F.2d 631, 634, 19 U.S.P.Q.2d (BNA) 1545, 1547-48 (Fed. Cir. 1991).

75 *Genentech*, 998 F.2d at 936, 27 U.S.P.Q.2d at 1243; *West Interactive*, 972 F.2d at 1298, 23 U.S.P.Q.2d at 1929; *Spectronics*, 940 F.2d at 634, 19 U.S.P.Q.2d at 1548; *Arrowhead*, 846 F.2d at 736, 6 U.S.P.Q.2d at 1689.

76 *See* *Broadview Chem. Corp. v. Loctite Corp.*, 417 F.2d 998, 1000, 163 U.S.P.Q. (BNA) 455, 457 (2d Cir. 1969).

77 *See* *Sherwood Med. Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 728, 185 U.S.P.Q. (BNA) 133, 135-36 (8th Cir. 1975); *Sweetheart Plastics, Inc. v. Illinois Tool Works, Inc.*, 439 F.2d 871, 874, 168 U.S.P.Q. (BNA) 737, 739 (1st Cir. 1971).

78 *See, e.g.*, *Precision Shooting Equip. Co. v. Allen Archery, Inc.*, 646 F.2d 313, 314-15, 210 U.S.P.Q. (BNA) 184, 185 (7th Cir. 1981).

79 *See* *Arvin Indus., Inc. v. Berns Air King Corp.*, 510 F.2d 1070, 1073-34, 185 U.S.P.Q. (BNA) 7, 9 (7th Cir. 1975); *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 477 F. Supp. 371, 398, 206 U.S.P.Q. (BNA) 837, 859 (S.D.N.Y. 1979), *aff'd*, 633 F.2d 208 (2d Cir. 1980).

80 *See* *Precision Shooting*, 646 F.2d at 317, 210 U.S.P.Q. at 187.

81 Today, many patent licenses permit the licensee to terminate the contract with relative ease. *See, e.g.*, *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 702, 189 U.S.P.Q. (BNA) 399, 401 (6th Cir. 1976) (allowing licensee to terminate upon 30 day notice); *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 544, 188 U.S.P.Q. (BNA) 97, 98 (3d Cir. 1975) (permitting licensee to terminate upon 30 day notice and payment in full). *Compare* *Lear, Inc. v. Adkins*, 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969), *vacating* 435 P.2d 321 (Cal. 1967) (California Supreme Court construed the license agreement as not permitting the licensee, *Lear*, to terminate prior to the expiration of the underlying patent).

82 *See, e.g.*, *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d 418, 422, 196 U.S.P.Q. (BNA) 147, 150 (7th Cir. 1977) (“[W]here diversity is lacking, a patent licensee’s declaratory complaint which asserts patent invalidity simply to avoid the obligations of the license does not state a claim arising under the patent laws within the meaning of 28 U.S.C. § 1338(a.)”); *Thiokol Chem. Corp. v. Burlington Indus., Inc.*, 448 F.2d 1328, 1331-32, 171 U.S.P.Q. (BNA) 193, 194-95 (3d Cir. 1971) (evaluating two declaratory suits by licensee and holding the first as properly dismissed for want of jurisdiction because license was in effect and licensee faced only a breach of contract suit and finding the second as properly retained because in the interim, the licensor filed state court action and license was terminated under agreed terms within the contract); *W.R. Grace & Co. v. Union Carbide Corp.*, 319 F. Supp. 307, 310, 167 U.S.P.Q. (BNA) 619, 621 (S.D.N.Y. 1970). *See generally* Neil M. Goodman, Note, *Patent License Standing and the Declaratory Judgment Act*, 83 COLUM. L. REV. 186 (1983) (arguing that courts should generally require a patent licensee to terminate the license agreement prior to bringing a declaratory action against the patentee).

83 *See* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 880, 219 U.S.P.Q. (BNA) 197, 202-03 (Fed. Cir. 1983); *Geni-Chlor Int’l, Inc. v. Multisonics Dev. Corp.*, 580 F.2d 981, 984-85, 200 U.S.P.Q. (BNA) 67, 70 (9th Cir. 1978); *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 187-88, 193 U.S.P.Q. (BNA) 753, 756 (2d Cir. 1977); *USM Corp. v. Standard Pressed Steel Co.*, 453 F. Supp. 743, 744-48, 200 U.S.P.Q. (BNA) 788, 792-93 (N.D. Ill. 1978), *aff’d in part, vacated in part*, 694 F.2d 505, 216 U.S.P.Q. (BNA) 959 (7th Cir. 1982), *cert. denied*, 462 U.S. 1107 (1983); *Medtronic, Inc. v. American Optical Corp.*, 327 F. Supp. 1327, 1331, 170 U.S.P.Q. (BNA) 252, 255 (D. Minn. 1971).

84 “The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction ... of an appeal from a final decision of a district court of the United States ... if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title ...” 28 U.S.C. § 1295 (1994).

85 *Bard*, 716 F.2d at 880, 219 U.S.P.Q. at 202-03.

86 The licensee can pursue this course even if there is diversity between the parties, as long as she pleads jurisdiction based upon 28 U.S.C. § 1338(a)(1994), as an action arising under the patent laws. *See supra* note 57 (discussing the five paths available to licensee in filing a declaratory judgment suit).

87 *See Warner-Jenkinson*, 567 F.2d at 188, 193 U.S.P.Q. at 756. For a discussion of this case, *see infra* note 108.

88 *See Geni-Chlor Int'l, Inc. v. Multisonics Dev. Corp.*, 580 F.2d 981, 984-85, 200 U.S.P.Q. (BNA) 67, 70 (9th Cir. 1978).

89 *See Hanes Corp. v. Millard*, 531 F.2d 585, 592, 189 U.S.P.Q. (BNA) 331, 335 (D.C. Cir. 1976) (noting that the patent had already expired when suit for declaratory judgment was brought regarding patent validity and scope).

90 716 F.2d 874, 219 U.S.P.Q. (BNA) 197 (Fed. Cir. 1983).

91 *Id.* at 880, 219 U.S.P.Q. at 202-03.

92 *Id.* at 875, 219 U.S.P.Q. at 199.

93 *Id.*

94 *Id.* at 876, 219 U.S.P.Q. at 199. The licensee, Bard, also requested judgment against Schwartz for all royalties already paid under the agreement and for litigation costs. *Id.* Furthermore, Bard sought to enjoin Schwartz from bringing an infringement suit and from proceeding on his state action against Bard. *Id.* Bard predicated its federal declaratory judgment suit on “arising under” jurisdiction, as per 28 U.S.C. § 1338(a) (1994). *Id.*

95 *Id.* The licensee pleaded that federal jurisdiction was present for a controversy arising under the patent laws, as per 28 U.S.C. § 1338(a). *Id.*

96 *Id.*

97 448 F.2d 1328, 171 U.S.P.Q. (BNA) 193 (3d Cir. 1971). For a discussion of this case, *see infra* note 107.

98 *Bard*, 716 F.2d at 876, 219 U.S.P.Q. at 199. The district court relied upon Schwartz’s affidavit, which stated that he had no intention of voluntarily terminating the license agreement. *Id.*, 219 U.S.P.Q. at 199-200.

99 *Id.* at 880, 219 U.S.P.Q. at 203.

100 *Id.* at 878, 219 U.S.P.Q. at 201.

101 *Id.* at 879, 219 U.S.P.Q. at 201.

102 *Id.*

103 *Id.* In that case, the proper forum is the state court, unless there is diversity between the parties. If the parties are diverse, this type of claim may still be brought in federal court under 28 U.S.C.A. § 1332(a) (1993 & Supp. 1997). *See infra* notes 124-158 and accompanying text (discussing this option in detail). As an alternative tactic, the licensee could forgo federal adjudication altogether in favor of state adjudication. *See supra* note 57 (discussing options in state court).

104 *Bard*, 716 F.2d at 879, 219 U.S.P.Q. at 202.

105 *Id.*

106 *Id.* at 879-80, 219 U.S.P.Q. at 202.

107 448 F.2d 1328, 171 U.S.P.Q. (BNA) 193 (3d Cir. 1971). *Thiokol* was the leading case that demanded that the licensee terminate the license agreement in order to confer federal subject matter jurisdiction sufficient to support the declaratory judgment against the patentee. The *Thiokol* court considered two suits. In the first case, the licensee had refused to pay royalties and sued for a declaratory judgment of invalidity prior to termination of the license. *Id.* at 1330-31, 171 U.S.P.Q. at 194. Meanwhile, the patentee alleged that the licensee had breached the contract for nonpayment of royalties. *Id.* at 1331, 171 U.S.P.Q. at 194-95. The district court dismissed this suit for want of jurisdiction and the licensee appealed. *Id.* at 1330, 171 U.S.P.Q. at 194. On appeal, the Third Circuit affirmed and held that no federal jurisdiction existed, indicating that the state court would have proper jurisdiction. *See id.* at 1330-31, 171 U.S.P.Q. at 194. The court reasoned that the licensee was threatened with no more than a suit by the patent owner for breach of the license agreement--to which patent invalidity would be a defense. Moreover, because the controversy did not arise under the patent laws, the lower court's dismissal of the federal declaratory judgment suit was proper. *Id.* The *Thiokol* court held that while a license agreement is in effect, there can be no threat of an infringement suit. *Id.* The licensee can only be under apprehension of a breach of contract suit for breach of the licensing agreement. *Id.* In that case, the licensee raises the patent validity issue as a defense to a state contract suit, which may be sufficient for a state declaratory judgment suit, but does not give rise to federal jurisdiction. *Id.* at 1331, 171 U.S.P.Q. at 194.

After the district court's dismissal, the license contract was terminated according to the terms of the contract. *Id.* The ex-licensee once again sought to bring a declaratory judgment action. *Id.* The Third Circuit upheld the district court's refusal to dismiss the second case. *Id.* The *Thiokol* court stated that "[t]he termination of the license agreement removed the obstacle to federal jurisdiction that precluded the maintenance of the first suit." *Id.* Consequently, the termination of the license contract was necessary to the creation of a justiciable federal controversy between the ex-licensee and the patentee. *Id.*

In *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d 418, 196 U.S.P.Q. (BNA) 147 (7th Cir. 1977), the Seventh Circuit followed the Third Circuit regarding whether the termination of the license agreement is necessary to find a justiciable federal controversy. *Id.* In that case, the licensee ceased making royalty payments and the patent owner instituted an action for royalties in state court. *Id.* The licensee then filed a complaint in federal court seeking a declaratory judgment that the patent was invalid, that no future royalties were due, and that previously paid royalties were recoupable. *Id.* at 419, 196 U.S.P.Q. at 148. The district court summarily held that federal jurisdiction was proper but nevertheless dismissed the suit due to the pendency of the state court suit. *Id.* at 419-20, 196 U.S.P.Q. at 149-51.

On appeal, the Seventh Circuit reviewed the jurisdiction of the suit sua sponte. *Id.* at 420, 196 U.S.P.Q. at 148. The court affirmed the district court's dismissal of the action but did so on the basis that the licensee sought only to assert a defense to a pending state court action in federal court. *Id.* at 422-23, 196 U.S.P.Q. at 150-51. The *Milprint* court differentiated suits that arise under the patent laws from those that arise under state law:

while a suit for infringement of a patent arises under the patent laws and is therefore cognizable under 28 U.S.C. § 1338(a), a suit to enforce an undertaking to pay royalties for the use of a patent arises under state law and is not within the jurisdiction of the federal courts.

Id. at 420, 196 U.S.P.Q. at 148 (quoting *Arvin Indus., Inc. v. Berns Air King Corp.*, 510 F.2d 1070, 1072-73, 185 U.S.P.Q. (BNA) 7, 8 (7th Cir. 1975)).

The court further observed that the patentee had a choice of forum. *Id.* at 420, 196 U.S.P.Q. at 148. The patentee could have terminated the license that was breached by nonpayment of royalties and sued for infringement. *Id.* In that case, there would have been federal jurisdiction over the infringement suit, and accordingly, a licensee's declaratory judgment suit for invalidity would have been properly brought. *Id.*, 196 U.S.P.Q. at 148-49. But if the patent owner did not terminate the license and instead merely requested contract remedies, "even an allegation of infringement will not create federal jurisdiction, for the existence of the license precludes the possibility of infringement." *Id.*, 196 U.S.P.Q. at 149. Thus, state court would be the only choice available. *Id.*

In *Milprint*, the patent owner sought contract damages that could only be brought in state court. *Id.* Consequently, the licensee's assertion of patent invalidity was merely a defense to a state court action. *Id.* Thus, in the court's opinion, there was no federal jurisdiction over the licensee's declaratory suit. *Id.* The court, in dicta, indicated that had the license been terminated by either party, the licensee's nonpayment of royalties might have given it apprehension of an infringement suit by the patentee, and thus create federal jurisdiction over the declaratory action. *Id.* at 421, 196 U.S.P.Q. at 149 (citing *Thiokol Chem. Corp. v. Burlington*

Indus., Inc., 448 F.2d 1328, 1330 n.2, 171 U.S.P.Q. (BNA) 193 194 n.2 (3d Cir. 1971)). To determine whether there is federal question jurisdiction for a declaratory judgment suit, the Seventh Circuit essentially looked to the character of the pending state court action--in *Milprint*, a contract suit for royalties-- rather than the patent invalidity allegations of the declaratory complainant. *Id.* at 422, 196 U.S.P.Q. at 150. In a similar case, the court made the same considerations:

Since in a declaratory judgment action it is the nature of the impending state action which determines whether federal-question jurisdiction exists, and since it is well established that an action on a patent license agreement for royalties does not arise under the patent laws, this [c]ourt is without jurisdiction of the instant action. That is, since Grace[, the licensee,] has essentially asserted a defense to the pending state action of Carbide [, the patentee,] for royalties due under the license agreement, "federal-question jurisdiction" is obviously lacking.

W.R. Grace & Co. v. Union Carbide Corp., 319 F. Supp. 307, 312, 167 U.S.P.Q. (BNA) 619, 623 (S.D.N.Y. 1970).

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567 F.2d 184, 193 U.S.P.Q. (BNA) 753 (9th Cir. 1977). In *Warner-Jenkinson*, the Second Circuit held that, even absent diversity, the repudiation of a license agreement should not be a precondition to bringing a declaratory judgment action in federal court. *Id.* at 187-88, 193 U.S.P.Q. at 755-56. *See also* *Geni-Chlor Int'l, Inc. v. Multisonics Dev. Corp.*, 580 F.2d 981, 983-84, 200 U.S.P.Q. (BNA) 67, 69-70 (9th Cir. 1978) (following *Lear Siegler, Inc. v. Adkins*, 330 F.2d 595, 598, 141 U.S.P.Q. (BNA) 327, 329 (9th Cir. 1964)). The court in *Geni-Chlor* stated that absent diversity, it had jurisdiction over the declaratory judgment suit

in which the plaintiff's purpose was "to test the validity of the appellee's patent and to establish that what [the licensee] is doing does not infringe the patent if it is valid." The fact that the plaintiff's action might reveal a contract between the parties relating to the patent did not preclude the complaint from setting forth an action "arising under" the patent laws.

Id. at 984, 200 U.S.P.Q. at 70. *Warner-Jenkinson* presented a conflict between a patent owner and licensees who had entered into a license agreement with the patent owner as part of the settlement of an earlier litigation. *Id.* at 185, 186, 193 U.S.P.Q. at 754, 755. The district court had held that the licensees were barred from pursuing federal declaratory relief from royalty obligations based on patent invalidity during a period when the agreement was not terminable by the licensees. *Id.* at 185, 193 U.S.P.Q. at 754. The circuit court reversed and concluded that the nonterminable license was not a barrier to the licensees' federal declaratory judgment suit. *Id.* at 188-89, 193 U.S.P.Q. at 756-57. The agreement in question allowed the licensor to terminate for nonpayment of royalties by the licensee; however, it did not permit the licensee to terminate the contract for the initial two years of the contract term. *Id.* at 186, 193 U.S.P.Q. at 755. The licensee sought to avoid its royalty obligations during the nontermination period by seeking a declaratory judgment of patent invalidity. *Id.* The licensee further sought to deposit its royalty payments in escrow *pendente lite* to avoid a material breach of the license contract. *Id.*

In evaluating whether the court had subject matter jurisdiction over the suit, the court recognized that the plaintiffs sought declaration of invalidity as a preemptive defense to a probable patent infringement suit. *Id.* at 187, 193 U.S.P.Q. at 755. The court reasoned that under the licensing arrangement, if the licensee withheld royalties, then the licensee would materially breach the agreement, which in turn would give the patentee the right to terminate the contract. *See id.*, 193 U.S.P.Q. at 756. Thus, if the licensee ceased royalty payments, the licensee might be subject to two imminent actions: a state claim for contract damages stemming from nonpayment of royalties, and a federal claim for an injunction and damages for infringement. *Id.* According to the court, neither of these suits may be instituted while the licensee makes royalty payments. *Id.* However, once the licensee ceases to make payments, it will be vulnerable to both actions, one of which is a federal action. *Id.* The court held that federal "arising under" jurisdiction would clearly be present in this situation. *Id.* at 187-88, 193 U.S.P.Q. at 756-57.

The court concluded that a valid license is not a bar to a finding of federal "arising under" jurisdiction for a declaratory judgment suit. *Id.* at 188, 193 U.S.P.Q. at 756-57. The court also stated that *Lear, Inc. v. Adkins* governed its conclusion: if licensees are forced to make a choice between the continued payment of royalties or the cessation of payment and the ensuing large potential infringement liability and injunction against future use of the patented invention, many "will choose the less perilous course, and the patents under which they are licensed will remain uncontested. *Lear* established that removing restraints on commerce caused by improperly held patents should be considered more important than enforcing promises between contracting parties." *Id.* at 187-88, 193 U.S.P.Q. at 756. Therefore, the Second Circuit held that the repudiation of the licensing agreement is not a precondition to a licensee's suit under the patent laws for a declaratory judgment of patent invalidity. *See id.* at 187, 193 U.S.P.Q. at 756. The court did indicate, however, that if the licensees were seeking a declaration simply of their right to assert patent invalidity as a defense to a contract action for royalties, the appropriate forum would be the state court. *See id.* at 186-87, 193 U.S.P.Q. at 755 (noting that there is no federal subject matter jurisdiction under these circumstances) (citing *Thiokol Chem. Corp. v. Burlington Indus., Inc.*, 448 F.2d 1328, 1330-31, 171 U.S.P.Q. (BNA) 193, 194 (3d Cir. 1971)).

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C. R. Bard, Inc. v. Schwartz, 716 F.2d 874, 880, 219 U.S.P.Q. (BNA) 197, 202 (Fed. Cir. 1983).

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Id., 219 U.S.P.Q. at 202-03 (quoting *Public Serv. Comm'n v. Wycoff Co.*, 344 U.S. 237, 244, (1952)). Compare this statement to a statement by the Second Circuit:

The fact that ... [the licensee] had a valid license ... is irrelevant. A licensee need not terminate its license agreement in order to maintain a declaratory action for copyright invalidity. We note that the Federal Circuit in [*C. R. Bard*] ... followed the approach of the Second Circuit in *Warner-Jenkinson C. [sic] v. Allied Chemical Corp.*, 567 F.2d 184, 187-88 (2d Cir. 1977), and rejected the

approach taken by the Third Circuit in *Thiokol Chemical Corp. v. Burlington Industries, Inc.*, 448 F.2d 1328 (3d Cir. 1971), *cert. denied*, 404 U.S. 1019 (1972). Although we believe that the Federal Circuit’s rule rests on sounder ground, ... we need not decide that issue here, because jurisdiction can be grounded here on diversity.

Hal Roach Studios, Inc. v. Richard Feiner & Co., 883 F.2d 1429, 1442 n.22, 12 U.S.P.Q.2d (BNA) 1014, 1025 n.22 (9th Cir. 1989) (citations omitted).

Cf. *BASF Corp. v. PPG Indus. Inc.*, 23 U.S.P.Q.2d 1193, 1199 n.10 (D.N.J. 1991). In *BASF*, the court stated:

[I]t is unnecessary to resolve the *Bard/Thiokol* conflict for two reasons. First, *Thiokol*’s holding is relevant only in cases where diversity is absent [In *Thiokol*,] the Third Circuit held that, as between non-diverse parties, the existence of a valid patent license precluded federal jurisdiction over the declaratory action, because the only live controversy concerned a state law contract action Moreover, ... even under *Bard*’ s more liberal standard, ... there is no case or controversy presented here.

Id.

111 *Bard*, 716 F.2d at 880,219 U.S.P.Q. at 203.

112 *Id.*

113 *Id.* at 880-81, 219 U.S.P.Q. at 203.

114 *Id.* at 881, 219 U.S.P.Q. at 203.

115 *Id.*

116 *Id.*

117 *Id.* at 881 n.6, 219 U.S.P.Q. at 203 n.6.

118 *Id.* at 881, 219 U.S.P.Q. at 203.

119 *Id.*

120 *Id.*

121 *Id.* at 882, 219 U.S.P.Q. at 203.

122 *Id.* at 881, 219 U.S.P.Q. at 203. *Cf.* *Schwarzkopf Dev. Corp. v. Ti-Coating Inc.*, 7 U.S.P.Q.2d (BNA) 1557, 1561 (S.D.N.Y. 1988) (stating that “[w]hile ... a patent licensee may bring a federal declaratory judgment action for the patent’s invalidity without prior termination of the license, the determination of the existence of a federal controversy can be made only by an examination of the totality of the circumstances” and dismissing licensee’s request for a declaratory judgment of invalidity based on the licensor’s assertions that *it would never terminate* the license, which would therefore shield the licensee from an infringement suit).

123 *Bard*, 716 F.2d at 882, 219 U.S.P.Q. at 204. *See Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 473-74 n.3, 20 U.S.P.Q.2d (BNA) 1241, 1244 n.3 (Fed. Cir. 1991) (Based on the well-pleaded complaint rule, a licensee’s declaratory judgment suit of patent invalidity and noninfringement against the patent owner arose under the patent laws, 28 U.S.C. § 1338(a) (1994), and therefore federal jurisdiction was proper: “[G]iven [the patentee]’s overtures that it would terminate the license and sue for infringement if the royalties were not paid ... [and] that [the patentee] had not terminated the license agreement at the time [the licensee] brought its declaratory judgment action does not divest this court of jurisdiction.”); *Cordis Corp. v. Medtronic, Inc.*, 835 F.2d 859, 862-63, 5 U.S.P.Q.2d (BNA) 1118, 1120-21 (Fed. Cir. 1987) (holding that a licensee’s suit for a declaratory judgment arose under the patent

law and that under the “totality of the circumstances” the licensee was under a reasonable apprehension of being sued for patent infringement because the patentee (1) demanded a one million dollar royalty up front for future sales and (2) indicated that the payment of that royalty would not relieve the licensee of liability for past infringement). *See also* Grid Sys. Corp. v. Texas Instruments, Inc., 771 F. Supp. 1033, 1042, 20 U.S.P.Q.2d (BNA) 1207, 1213-14 (N.D. Cal. 1991). There, the court stated:

[w]here the “totality of the circumstances” demonstrates a sufficient apprehension of the pendency of a dispute to guarantee the sharp presentation of issues essential to the proper functioning of adversary proceedings, a licensee may bring a declaratory relief action for patent invalidity against a licensor despite the existence of a valid license agreement.

Id. *See also* American Hosp. Supply Corp. v. Damon Corp., 597 F. Supp. 445, 447, 225 U.S.P.Q. (BNA) 719, 721 (N.D. Ill. 1984) (finding a justiciable controversy even though the licensee resumed paying royalties after failing to do so for a period of time: “a licensee need not sit back and continue to wonder if it is justly paying royalties or merely paying a bribe to the patentee not to threaten him with business disruption and a possible damage suit if he terminates royalty payments”); Research Inst. for Medicine and Chemistry, Inc. v. Wisconsin Alumni Research Found., Inc., 647 F. Supp. 761, 763, 1 U.S.P.Q.2d (BNA) 1929, 1930-31 (W.D. Wis. 1986); Hal Roach Studios, Inc. v. Richard Feiner & Co., Inc., 883 F.2d 1429, 1440, 12 U.S.P.Q.2d (BNA) 1014, 1027 (9th Cir. 1989) (copyright).

¹²⁴ *See* Milprint, Inc. v. Curwood, Inc., 562 F.2d 418, 422 n.5, 196 U.S.P.Q. (BNA) 147, 150 n.5 (7th Cir. 1977). There, the court stated:

The existence of diversity jurisdiction ... explains this court’s unquestioning acceptance of jurisdiction in two recent declaratory actions by licensees, USM Corp. v. Standard Pressed Steel Co., 524 F.2d 1097 (7th Cir. 1975); and Beckman Instruments, Inc. v. Technical Development Corporation, 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976.

Id. *See also* Medtronics, Inc. v. American Optical Corp., 327 F. Supp. 1327, 1334, 170 U.S.P.Q. (BNA) 252, 257 (D. Minn. 1971).

¹²⁵ Warner-Jenkinson Co. v. Allied Chem. Corp., 567 F.2d 184, 186, 193 U.S.P.Q. (BNA) 753, 755 (2d Cir. 1977); *see* 28 U.S.C. §§ 1338, 2201, 2202 (1994); 28 U.S.C.A. § 1332 (1993 & Supp. 1997).

¹²⁶ The licensee can demonstrate “arising under” federal law jurisdiction by establishing the existence of a patent controversy. *Altwater v. Freeman*, 319 U.S. 359, 365, 57 U.S.P.Q. (BNA) 285, 288-89 (1943); *see* *Sears, Roebuck & Co. v. American Mut. Liab., Inc.*, 372 F.2d 435, 438-39 (7th Cir. 1967) (insurance coverage).

¹²⁷ “The Declaratory Judgment Act is procedural and does not grant jurisdiction to Federal courts; it simply allows adjudication of select cases where courts already have jurisdiction.” *Medtronics*, 327 F. Supp. at 1330, 170 U.S.P.Q. at 254. *See* 28 U.S.C. §§ 1338, 2201, 2202; 28 U.S.C.A. § 1332.

¹²⁸ 28 U.S.C. §§ 1338, 2201, 2202; 28 U.S.C.A. § 1332.

¹²⁹ In this situation, the regional circuit courts have appellate jurisdiction, not the Federal Circuit. *See* 28 U.S.C. § 1291 (1994). Of course, if there is diversity but the licensee predicates federal jurisdiction solely on 28 U.S.C. § 1338(a) as “arising under” the patent laws, then the Federal Circuit would have exclusive jurisdiction. *See* 28 U.S.C. § 1295(a)(1994).

¹³⁰ “The Declaratory Judgment Act limits declaratory judgments to *actual controversies* in conformity with Article III, Section 2 of the United States’ Constitution, restricting jurisdiction to ‘cases’ and ‘controversies.’” *Precision Shooting Equip. Co. v. Allen Archery, Inc.*, 646 F.2d 313, 314 n.4, 210 U.S.P.Q. (BNA) 184, 185 n.4 (7th Cir. 1981) (citing 28 U.S.C. § 2201 (1994)); *see* 28 U.S.C. § 2201.

¹³¹ 646 F.2d 313, 210 U.S.P.Q. (BNA) 184 (7th Cir. 1981).

¹³² *Id.* at 316, 210 U.S.P.Q. at 186 (reaffirming the Third Circuit’s decision in *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 188 U.S.P.Q. (BNA) 97 (3d Cir. 1975)).

¹³³ *Id.* at 316, 210 U.S.P.Q. at 186.

134 *Id.* at 318, 210 U.S.P.Q. at 188.

135 *Id.* at 318, 210 U.S.P.Q. at 188.

136 *Id.* at 318-19, 210 U.S.P.Q. at 188.

137 *See* 28 U.S.C. § 1291 (1994) (describing the appellate jurisdiction of the circuit court of appeals).

138 526 F.2d 542, 188 U.S.P.Q. (BNA) 97 (3d Cir. 1975).

139 *Id.* at 544, 188 U.S.P.Q. at 98.

140 *Id.*

141 *Id.*

142 *Id.* at 544 n.3, 188 U.S.P.Q. at 98 n.3.

143 *Id.* at 544, 188 U.S.P.Q. at 98.

144 *Id.* at 544 n.3, 188 U.S.P.Q. at 98 n.3. *See* 28 U.S.C.A. § 1332 (1993 & Supp. 1997) (most current version).

145 526 F.2d at 544, 188 U.S.P.Q. at 98.

146 *Id.*

147 *Id.*

148 *Id.*

149 *Id.* at 544-45, 188 U.S.P.Q. at 98-99.

150 *Id.* at 545, 188 U.S.P.Q. at 99.

151 *Id.* at 545, 188 U.S.P.Q. at 99 (citing *Lear, Inc. v. Adkins*, 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969)). Section 1291 states that “[t]he courts of appeals ... shall have jurisdiction of appeals from all final decisions of the district courts” and distinguishes the appellate jurisdiction of the Federal Circuit. 28 U.S.C. § 1291 (1994). The Federal Circuit has exclusive appellate jurisdiction of cases arising under the patent laws. *See* 28 U.S.C. § 1295(a)(1) (1994) (referring to cases arising under 28 U.S.C. § 1338 (1994)).

152 *American Sterilizer*, 526 F.2d at 546, 188 U.S.P.Q. at 99.

153 *Id.* at 546 & n.6, 188 U.S.P.Q. at 99 & n.5.

154 *Id.* at 545, 188 U.S.P.Q. at 99.

155 *Id.* at 546, 188 U.S.P.Q. at 100.

156 *Id.*

157 *Id.* at 547, 188 U.S.P.Q. at 100-01.

158 *See* Public Serv. Comm'n v. Wycoff Co., 344 U.S. 237, 238 (1952) (“Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action, and not of the defense, which determines whether there is federalquestion jurisdiction in the District Court.”).

159 *See* Cordis Corp. v. Medtronic, Inc., 835 F.2d 859, 863, 5 U.S.P.Q.2d (BNA) 1118, 1121 (Fed. Cir. 1987); Precision Shooting Equip. Co. v. Allen Archery, Inc., 646 F.2d 313, 320, 210 U.S.P.Q. (BNA) 184, 189 (7th Cir. 1981); Nebraska Eng'g Corp. v. Shivvers, 557 F.2d 1257, 1258, 195 U.S.P.Q. (BNA) 227, 227 (8th Cir. 1977); Cascade Pac. Lumber Co. v. Interplay Design Ltd., 16 U.S.P.Q.2d (BNA) 1870, 1873 (D. Or. 1990); Phillips Petroleum Co. v. United States Steel Corp., 616 F. Supp. 335, 337-38, 227 U.S.P.Q. (BNA) 164, 165-66 (D. Del. 1985); Phillips Petroleum Co. v. United States Steel Corp., 597 F. Supp. 443, 444, 225 U.S.P.Q. (BNA) 712, 713 (D. Del. 1984); Teletronics Pty Ltd. v. Cordis Corp., 533 F. Supp. 453, 455, 217 U.S.P.Q. (BNA) 1374, 1375 (D. Minn. 1982). The Federal Circuit has held in *Bard* that termination of the license agreement is not a precondition to establishing “arising under” jurisdiction for a federal declaratory judgment suit because a licensee can be under reasonable apprehension of an infringement suit even though the license agreement is still in effect. *See supra* notes 85-123 and accompanying text that discusses this holding. Thus, seeking such an injunction should not affect “arising under” jurisdiction for federal courts. *See Cordis*, 835 F.2d at 862, 5 U.S.P.Q.2d at 1120 (finding “arising under” patent law jurisdiction even though license agreement was still in effect and enjoining patentee from terminating the license agreement).

160 *See Precision Shooting*, 646 F.2d at 320, 210 U.S.P.Q. at 189.

161 *Id.* at 314, 210 U.S.P.Q. at 185.

162 *See, e.g., Cordis*, 835 F.2d at 861, 5 U.S.P.Q.2d at 1119 (granting licensee’s request to enjoin the patent owner from terminating the license agreement while licensee continued paying royalties pendente lite into an escrow account).

163 *Id.* at 846, 5 U.S.P.Q.2d at 1121.

164 *See, e.g., Nebraska Eng'g Corp. v. Shivvers*, 557 F.2d 1257, 1259-60, 195 U.S.P.Q. (BNA) 227, 228-29 (8th Cir. 1977) (rejecting the use of escrow accounts for deposit of royalties pendente lite).

165 567 F.2d 184, 193 U.S.P.Q. (BNA) 753 (2d Cir. 1977).

166 *Id.* at 188, 193 U.S.P.Q. at 756-57.

167 *Id.*

168 *Id.*

169 *Id.* 193 U.S.P.Q. at 757.

170 *Id.* at 188-89, 193 U.S.P.Q. at 757.

171 *Id.* at 189, 193 U.S.P.Q. at 757. However, the court did indicate that it might hold differently if the patent owner is shown to be “judgment-proof at the end of the litigation.” *Id.* Several district courts are also in accord with the Second Circuit’s rejection of an escrow account for deposit of royalties *pendente lite*. *Cf.* Phillips Petroleum Co. v. United States Steel Corp., 616 F. Supp. 335, 338 n.6, 227 U.S.P.Q. (BNA) 164, 166 n.6 (D. Del. 1985) (“In this district, it is settled that a licensee may not, absent special circumstances, recover royalties paid during the pendency of a successful attack on a patent’s *validity* Other jurisdictions have, however, expressly or impliedly approved of payment of royalties into an escrow account pending litigation.”). *See, e.g.*, Precision Shooting Equip. Co. v. Allen Archery, Inc., 646 F.2d 313, 321, 210 U.S.P.Q. (BNA) 184, 190-91 (7th Cir. 1981); Atlas Chem. Indus., Inc. v. Moraine Prods., 509 F.2d 1, 7, 184 U.S.P.Q. (BNA) 281, 285 (6th Cir. 1974); Phillips Petroleum Co. v. United States Steel Corp., 597 F. Supp. 443, 444, 225 U.S.P.Q. (BNA) 712, 713 (D. Del. 1984); Telectronics Pty Ltd. v. Cordis Corp., 533 F. Supp. 453, 456, 217 U.S.P.Q. (BNA) 1374, 1376 (D. Minn. 1982).

172 *See* Cascade Pac. Lumber Co. v. Interplay Design Ltd., 16 U.S.P.Q.2d (BNA) 1870, 1872-73 (D. Or. 1990) (rejecting the licensee’s request for a preliminary injunction prohibiting defendant from terminating licensing agreement and an order establishing escrow account for receipt of royalties on disputed patent because licensee had failed to show (1) its likelihood of success on the merits and the possibility of irreparable harm; or (2) that the balance of hardships tips sharply in the licensee’s favor, and further contending that the licensee’s inability to recover royalties paid to the patentee if the patent is found invalid would be insufficient to establish that the balance of hardships tips in the licensee’s favor); Phillips Petroleum Co. v. United States Steel Corp., 597 F. Supp. 443, 444, 225 U.S.P.Q. (BNA) 712, 713 (D. Del. 1984); Telectronics Pty Ltd. v. Cordis Corp., 533 F. Supp. 453, 455, 217 U.S.P.Q. (BNA) 1374, 1375 (D. Minn. 1982); Nebraska Eng’g Corp. v. Shivvers, 557 F.2d 1257, 1259, 195 U.S.P.Q. (BNA) 227, 228-29 (8th Cir. 1977).

For example, in *Phillips Petroleum*, the district court rejected the licensee’s motion to authorize payment of royalties into escrow and to prohibit defendant from terminating the license agreement. 616 F. Supp. 335, 338-39, 227 U.S.P.Q. (BNA) 164, 166 (D. Del. 1985). The court reasoned that although couched otherwise, the licensee was in effect requesting a preliminary injunction. *Id.* at 336 & n.1, 227 U.S.P.Q. at 164-65 & n.1. In order for the court to grant such a relief, it was necessary that the licensee satisfy the requirements for a preliminary injunction. *Id.* at 337, 227 U.S.P.Q. at 165. To obtain a preliminary injunction, the licensee must show a strong probability of success on the merits of the litigation, and that irreparable harm will result if the injunction is not granted. *Id.* Furthermore, “the court should consider the possibility of harm to other interested persons from the grant or denial of relief, as well as the public interest.” *Id.* The licensee in this case was unable to establish irreparable harm. *Id.* at 338, 227 U.S.P.Q. at 166. The licensee had alleged that it would suffer irrevocable monetary loss if it continued to make royalty payments during the pendency of the litigation because its ability to recoup the royalties paid *pendente lite* if it prevailed in the patent validity suit was uncertain in that district. *Id.* at 337-38, 227 U.S.P.Q. at 165-66. Even irrecoverable monetary loss without some form of onerous hardship would not satisfy the irreparable harm prong of the test. *Id.* Therefore, because the licensee failed to meet its burden, the court denied the request for an escrow account. *Id.* at 338-39, 227 U.S.P.Q. at 166.

173 780 F.2d 991, 228 U.S.P.Q. (BNA) 189 (Fed. Cir. 1985).

174 *Id.* at 993, 228 U.S.P.Q. at 190.

175 *Id.*

176 *Id.*

177 *Id.* at 996-97, 228 U.S.P.Q. at 192-93.

178 *Id.* at 994, 228 U.S.P.Q. at 191. *See* Cordis Corp. v. Medtronic, Inc., 835 F.2d 859, 863, 5 U.S.P.Q.2d (BNA) 1118, 1121 (Fed. Cir. 1987).

179 *Cordis I*, 780 F.2d at 995, 228 U.S.P.Q. at 191.

180 *Id.*

181 *Id.* at 996, 228 U.S.P.Q. at 192.

182 *Id.*

183 *Id.*

184 *Id.*

185 *Id.*

186 *Id.*

187 *Id.* at 997, 228 U.S.P.Q. at 193.

188 *Id.* at 995, 228 U.S.P.Q. at 192 (citing with approval *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 188-89, 193 U.S.P.Q. (BNA) 753, 756-57 (2d Cir. 1977)).

189 *Id.* at 996, 228 U.S.P.Q. at 192. *Cf. Warner-Jenkinson*, 567 F.2d at 188, 193 U.S.P.Q. at 756-57 (holding that the licensee may file a declaratory judgment action without repudiating the license and still recover royalties paid pendente lite upon establishing invalidity; however, the licensee may not pay royalties into escrow during the litigation, thereby preventing the patent owner from terminating the agreement).

190 *Cordis I*, 780 F.2d at 996, 228 U.S.P.Q. at 192.

191 *Id.* at 995, 228 U.S.P.Q. at 191.

192 835 F.2d 859, 5 U.S.P.Q.2d (BNA) 1118 (Fed. Cir. 1987).

193 *Id.* at 864, 5 U.S.P.Q.2d at 1122.

194 *Id.* at 861, 5 U.S.P.Q.2d at 1119.

195 *Id.*

196 *Id.*, 5 U.S.P.Q.2d at 1119-20. *See infra* note 209 and accompanying text (discussing the implication of this request).

197 835 F.2d at 861-62, 5 U.S.P.Q.2d at 1120.

198 *Id.* at 863, 5 U.S.P.Q.2d at 1121. *See infra* note 203 and accompanying text (stating the standard).

199 835 F.2d at 863, 5 U.S.P.Q.2d at 1121.

200 *Id.* (citing *Cordis Corp. v. Medtronic, Inc.*, 2 U.S.P.Q.2d (BNA) 1845, 1849 (D. Minn. 1986)).

201 *Id.*

202 *Id.* at 864, 5 U.S.P.Q.2d at 1121.

203 *Id.* 5 U.S.P.Q.2d at 1121-22.

204 *Id.* 5 U.S.P.Q.2d at 1121.

205 *Id.* 5 U.S.P.Q.2d at 1122.

206 *Id.*

207 *Id.*

208 *Id.*

209 *See id.* at 864, 5 U.S.P.Q.2d at 1121-22. The court noted that Medtronic threatened license termination unless Cordis paid one million dollars for a paid-up non-exclusive license for the finned leads. *Id.* at 861, 5 U.S.P.Q.2d at 1120. Medtronic also indicated that this payment would be for post-payment royalties only, and would not dispose of its claims against Cordis for past royalties or past infringement. *Id.*

210 *Id.* at 864, 5 U.S.P.Q.2d at 1121 (citing *Medtronic, Inc. v. Catalyst Research Corp.*, 518 F. Supp. 946, 954, 215 U.S.P.Q. (BNA) 912, 917 (D. Minn.), *aff'd*, 664 F.2d 660 (8th Cir. 1981)).

211 *Id.* at 864, 5 U.S.P.Q.2d at 1121-22.

212 *Precision Shooting Equip. Co. v. Allen Archery, Inc.*, 646 F.2d 313, 210 U.S.P.Q. (BNA) 184 (7th Cir. 1981). *See Atlas Chem. Co. v. Moraine Prods.*, 509 F.2d 1, 4-7, 184 U.S.P.Q. (BNA) 281, 283-85 (6th Cir. 1974) (permitting post-challenge interim royalties to be paid into escrow during the licensee's declaratory judgment suit and further holding that these royalties are refundable to the licensee upon judgment of invalidity).

213 646 F.2d 313, 210 U.S.P.Q. (BNA) 184 (7th Cir. 1981). *See supra* notes 131-136 and accompanying text (discussing this case).

214 *See* 646 F.2d at 319-21, 210 U.S.P.Q. at 188-91.

215 *Id.* at 319, 210 U.S.P.Q. at 189.

216 “In view of the fact that some of the claims of the patent in suit have been disclaimed and since the validity of the patent is being challenged by other ... manufacturers [of the patented product] ..., there is a reasonable likelihood of success by [the licensee] in its declaratory judgment action” *Precision Shooting Equip. Co. v. Allen*, 199 U.S.P.Q. (BNA) 459, 460 (E.D. Ill. 1978), *order modified by* 205 U.S.P.Q. (BNA) 149 (C.D. Ill. 1979), *order modified by* 492 F. Supp. 79, 205 U.S.P.Q. (BNA) 1142 (C.D. Ill. 1980), *aff’d*, 646 F.2d 313, 210 U.S.P.Q. (BNA) 184 (7th Cir. 1981).

217 *Id.*

218 *Precision Shooting*, 646 F.2d at 321, 210 U.S.P.Q. at 184.

219 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969).

220 *See supra* notes 29-51 and accompanying text (discussing the demise of licensee estoppel).

221 395 U.S. at 673, 162 U.S.P.Q. at 9.

222 *Id.* at 673-74, 162 U.S.P.Q. at 9.

223 *Id.* at 673, 162 U.S.P.Q. at 9.

224 *Id.* at 674, 162 U.S.P.Q. at 9.

225 *Id.* at 674-75, 162 U.S.P.Q. at 9-10.

226 *Id.* at 659-60, 162 U.S.P.Q. at 4.

227 *McCarthy*, *supra* note 1, at 486.

228 *Id.*

229 *Id.*

230 *Id.* at 487.

231 *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 189 U.S.P.Q. (BNA) 399 (6th Cir. 1976); *Atlas Chem. Indus., Inc. v. Moraine Prods.*, 509 F.2d 1, 184 U.S.P.Q. (BNA) 281 (6th Cir. 1974); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968, 180 U.S.P.Q. (BNA) 290 (6th Cir. 1973); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 175 U.S.P.Q. (BNA) 65 (6th Cir. 1972).

232 It is important to note that the rule in the Sixth Circuit no longer has precedential value in cases that arise under the patent laws, as the Federal Circuit has exclusive appellate jurisdiction in those cases. *See supra* note 57. However, if the complaint is couched in

terms of a contract dispute and the parties are diverse, the rule in the Sixth Circuit has precedential value in that circuit.

233 *See infra* note 243 and accompanying text.

234 *See Lear, Inc. v. Adkins*, 395 U.S. 653, 671-74, 162 U.S.P.Q. (BNA) 1, 8-9 (1969).

235 *Id.* at 673-74, 162 U.S.P.Q. at 9. *See supra* note 223 and accompanying text.

236 465 F.2d 1253, 175 U.S.P.Q. (BNA) 65 (6th Cir. 1972).

237 *Id.* at 1257, 175 U.S.P.Q. at 68.

238 *Id.* “A rule that licensee can recover all royalties paid on a patent which is later held to be invalid would do far more than ‘unmuzzle’ licensees. It would give the licensee the advantage of ‘heads-I-win, tails-you-lose’ option.” *Id.*

239 509 F.2d 1, 184 U.S.P.Q. (BNA) 281 (6th Cir. 1974).

240 *Id.* at 2, 184 U.S.P.Q. at 282.

241 *Atlas Chem. Indus., Inc. v. Moraine Prods., Inc.*, 350 F. Supp. 353, 359, 175 U.S.P.Q. (BNA) 693, 697-98 (E.D. Mich. 1972), *rev’d in relevant part*, 509 F.2d 1, 7, 184 U.S.P.Q. (BNA) 285, 285 (6th Cir. 1974).

242 *Atlas*, 509 F.2d at 2, 184 U.S.P.Q.2d at 282.

243 *Id.* at 6-7, 184 U.S.P.Q. at 285.

244 *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968, 180 U.S.P.Q. (BNA) 290 (6th Cir. 1973) [hereinafter *Troxel II*]; *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 175 U.S.P.Q. (BNA) 65 (6th Cir. 1972) [hereinafter *Troxel I*].

245 *Atlas*, 509 F.2d at 7 n.3, 184 U.S.P.Q. at 285 n.3.

246 489 F.2d at 973, 180 U.S.P.Q. at 293.

247 530 F.2d 700, 189 U.S.P.Q. (BNA) 399 (6th Cir. 1976).

248 *Id.* at 701-03, 189 U.S.P.Q. at 402.

249 *Id.* *Cf. Troxel I*, 465 F.2d at 1255, 175 U.S.P.Q. at 66. The licensee in *Troxel I* was also a bystander who sought a refund of royalties only as a result of a validity challenge made by an unrelated third party. *Id.* However, the licensee’s challenge--the filing of the declaratory judgment suit--came after the patent had already been invalidated by a final judgment of a court of appeals in the third party litigation and, according to the court, had contributed nothing to holding that patent invalid. *Id.*

250 The doctrine of patent eviction is one of several pre-*Lear* exceptions to the licensee estoppel rule. McCarthy, *supra* note 1, at 493.

Although the licensee was estopped from challenging the validity of the patent prior to *Lear*, under the eviction exception, the licensee could resist the payment of royalties if she had been “evicted” from the license by a final decision of patent invalidity by a court of competent jurisdiction. *Id.* The eviction was, however, a defense to the recovery of only those royalties accruing after the eviction had occurred. *Id.* Hence, under the eviction rule, the licensee must pay all pre-eviction royalties even though the patent has been held invalid, which is an event causing total collapse of consideration. *Id.*

251 *PPG Industries*, 530 F.2d at 703, 189 U.S.P.Q. at 402.

252 *Id.* at 704, 189 U.S.P.Q. at 402.

253 *Id.* at 706-07, 189 U.S.P.Q. at 404-05.

254 *Id.* at 708, 189 U.S.P.Q. at 405-06.

255 *Id.* The court pointed to two circumstances, either of which end the royalty obligation when coupled with a cessation of royalty payments. First, the licensee could notify the licensor that it believed the patent was invalid and that it would no longer pay royalties. *Id.* at 706, 189 U.S.P.Q. at 402-04 (noting that *Lear* involved this type of notice). Second, the licensee could challenge patent validity in the courts. *Id.* See *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 936-37, 219 U.S.P.Q. (BNA) 104, 106-07 (9th Cir. 1983) (stating that “[a]lthough a licensee need not institute suit challenging the validity of the patent, mere nonpayment of royalties is not enough Since Berryfast did not give such notice until September 18, 1970, it remained liable to Rite-Nail for royalties that accrued” up to and including September 18, 1970, but not more despite contract provisions that require royalties be paid until final declaration of invalidity). See also *Schwarzkopf Dev. Corp. v. Ti-Coating, Inc.*, 7 U.S.P.Q.2d (BNA) 1557, 1558-59 (S.D.N.Y. 1988), where the court stated:

More than mere nonpayment of royalties is required to facilitate early adjudication of a challenge to a patent’s validity An affirmative act is necessary, such as filing a suit, raising the issue in an answer, or some other form of notice to the licensor The requisite notice--need not be in the form of litigation only [T]his requirement may be met by any clear communication from the party contesting the patent’s validity.

Id. (citations omitted).

256 *PPG Industries*, 530 F.2d at 708, 189 U.S.P.Q. at 405-06.

257 *Id.*, 189 U.S.P.Q. at 406 (referring to the paying bystander situation presented in *Troxel I*).

258 *Foster v. Hallco Mfg. Co.*, 27 U.S.P.Q.2d (BNA) 1639, 1640 (D. Or. 1993) (“Since Foster first contested the validity of the ... patent upon the filing of this action, it is not entitled to a return of royalties accrued prior to the filing of this action.”).

259 *Precision Shooting Equip. Co. v. Allen Archery, Inc.*, 646 F.2d 313, 319-21, 210 U.S.P.Q. (BNA) 184, 188-91 (7th Cir. 1981); *St. Regis Paper Co. v. Royal, Indus.*, 552 F.2d 309, 314, 194 U.S.P.Q. (BNA) 52, 57 (9th Cir. 1977); *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 188-89, 193 U.S.P.Q. (BNA) 753, 757 (2d Cir. 1977); *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099, 188 U.S.P.Q. (BNA) 52, 54 (7th Cir. 1975) (dicta); *Nebraska Eng’g Corp. v. Shivers*, 557 F.2d 1257, 1260, 195 U.S.P.Q. (BNA) 227, 229 (8th Cir. 1977) (dicta).

260 *McCarthy*, *supra* note 1, at 521-22.

261 *Id.* Payment of royalties into escrow may be regarded as nonpayment. See *PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 705, 189 U.S.P.Q. (BNA) 399, 403 (6th Cir. 1976); *USM Corp.*, 524 F.2d at 1099, 188 U.S.P.Q. at 54.

262 *McCarthy*, *supra* note 1, at 521-22. See *Morton-Norwich Prods., Inc. v. Int’l Salt Co.*, 183 U.S.P.Q. (BNA) 748, 748 (N.D.N.Y. 1974); *St. Regis Paper Co. v. Royal, Indus.*, 186 U.S.P.Q. (BNA) 83, 90 (C.D. Cal. 1974).

- 263 McCarthy, *supra* note 1, at 521-22; American Sterilizer Co. v. Sybron Corp., 526 F.2d 542, 544-45, 188 U.S.P.Q. (BNA) 97, 98 (3d Cir. 1975) (counterclaim to action for declaratory judgment of invalidity); *see* Adkins v. Lear, Inc., 435 P.2d 321, 324, 341-44, 156 U.S.P.Q. (BNA) 258, 260, 274-75 (Cal. 1967), *rev'd on other grounds*, 395 U.S. 653, 162 U.S.P.Q. (BNA) 1 (1969) (affirmative suit for breach of contract).
- 264 McCarthy, *supra* note 1, at 522.
- 265 *Id.* *See* American Sterilizer, 526 F.2d at 548, 188 U.S.P.Q. at 101; Crane Co. v. Aeroquip Corp., 356 F. Supp. 733, 740-41, 177 U.S.P.Q. (BNA) 666, 671-72 (N.D. Ill. 1973) (motions for summary judgment denied), 364 F. Supp. 547, 558-62, 179 U.S.P.Q. (BNA) 596, 605-07 (N.D. Ill. 1973), *rev'd on other grounds*, 504 F.2d 1086, 183 U.S.P.Q. (BNA) 577 (7th Cir. 1974).
- 266 McCarthy, *supra* note 1, at 522. *See* PPG Indus., Inc. v. Westwood Chem., Inc., 530 F.2d 700, 705, 189 U.S.P.Q. (BNA) 399, 403 (6th Cir. 1976) (denying licensee's request for pre-challenge refund and patentee's claim for post-challenge royalties); St. Regis Paper Co. v. Royal, Inc., 186 U.S.P.Q. (BNA) 83, 90 (C.D. Cal. 1974). *But see* Cordis Corp. v. Medtronic, Inc. (Cordis I), 780 F.2d 991, 996, 228 U.S.P.Q. (BNA) 189, 192 (Fed. Cir. 1985) (declining to decide "which party is entitled to royalties paid or accrued pendente lite" should the licensee succeed in proving the patent invalid).
- 267 McCarthy, *supra* note 1, at 522-23.
- 268 *Id.*
- 269 *Id.* *See also* Crane, 364 F. Supp. at 558-61, 179 U.S.P.Q. at 605-07.
- 270 McCarthy, *supra* note 1, at 523.
- 271 *Id.* *See also* Atlas Chem. Indus., Inc. v. Moraine Prods., Inc., 509 F.2d 1, 7, 184 U.S.P.Q. (BNA) 281, 285 (6th Cir. 1974) (refunding post-challenge royalties paid into escrow). *But see* Cordis I, 780 F.2d at 996, 228 U.S.P.Q. at 192 (declining to decide "which party is entitled to royalties paid or accrued pendente lite" should the licensee succeed in proving the patent invalid).
- 272 *Atlas*, 509 F.2d at 6, 184 U.S.P.Q. at 284-85. *But see* Cordis I, 780 F.2d at 996, 228 U.S.P.Q. at 192.
- 273 McCarthy, *supra* note 1, at 523. *Cf.* PPG Indus., Inc. v. Westwood Chem., Inc., 530 F.2d 700, 705, 189 U.S.P.Q. (BNA) 399, 403 (6th Cir. 1976) (denying licensee's request for a refund of pre-challenge royalties and patentee's claim for post-challenge royalties).
- 274 35 U.S.C. § 284 (1994).
- 275 35 U.S.C. § 285 (1994).
- 276 35 U.S.C. §§ 284.
- 277 *Id.* Reasonable royalty damages may be greater than the license's royalty rate if the patentee has granted other licenses at higher rates, or if, because of market factors, actual royalties have been lower than the "reasonable royalty." McCarthy, *supra* note 1, at 529-30 n.264.

278 Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co., 112 F.3d 1561, 1562, 42 U.S.P.Q.2d (BNA) 1674, 1676 (Fed. Cir. 1997),
petition for cert. filed, (U.S. Sept. 25, 1997) (No. 97-533). In contrast, the license at issue in *Cordis Corp. v. Medtronic, Inc.*
(*Cordis I*), 780 F.2d 991, 228 U.S.P.Q. (BNA) 189 (Fed. Cir. 1985), was still in force during the licensee's suit that challenged the
validity of the underlying patent. *Id.* at 993, 228 U.S.P.Q. at 190. Therefore, the *Kohle* issue of recovery of pre-challenge royalties
was not presented in *Cordis I*. See *supra* notes 173-191 and accompanying text (discussing *Cordis I*).

279 *Kohle*, 112 F.3d at 1562, 42 U.S.P.Q.2d at 1676.

280 *Id.* at 1562-63, 42 U.S.P.Q.2d at 1676.

281 *Id.* at 1562, 42 U.S.P.Q.2d at 1676.

282 *Id.*

283 *Id.* at 1563, 42 U.S.P.Q.2d at 1676.

284 *Id.*

285 *Id.*

286 *Id.*

287 *Id.*

288 *Id.*

289 *Id.*

290 *Id.*

291 *Id.*

292 *Id.* 42 U.S.P.Q.2d at 1676-77.

293 *Id.*, 42 U.S.P.Q.2d at 1677.

294 *Id.* at 1563, 42 U.S.P.Q.2d at 1677 (citing 35 U.S.C. § 112 (1994)).

295 *Id.*

296 *Id.* at 1565, 42 U.S.P.Q.2d at 1678.

297 *Id.* at 1563, 42 U.S.P.Q.2d at 1677.

298 *Id.* at 1566, 42 U.S.P.Q.2d at 1679.

299 *Id.* at 1567, 42 U.S.P.Q.2d at 1680.

300 *Id.* at 1567-68, 42 U.S.P.Q.2d at 1679-80.

301 *Id.* at 1567, 42 U.S.P.Q.2d at 1679-80.

302 *Id.*

303 *Id.* at 1568, 42 U.S.P.Q.2d at 1680.

304 *Id.* at 1567, 42 U.S.P.Q.2d at 1680.

305 *Id.*

306 *Id.*

307 *Id.*

308 *Id.*

309 *Id.*

310 *Id.* (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 670, 162 U.S.P.Q. (BNA) 1, 8 (1969)).

311 848 F.2d 1220, 6 U.S.P.Q.2d (BNA) 2028 (Fed. Cir. 1988).

312 *Kohle*, 112 F.3d at 1567, 42 U.S.P.Q.2d at 1680.

313 *Id.*

314 *Id.* at 1568, 42 U.S.P.Q.2d at 1680-81.

315 *Id.*, 42 U.S.P.Q.2d at 1680.

316 *Id.*

317 *Id.*

318 *Id.*, 42 U.S.P.Q.2d at 1681.

319 *Id.*, 42 U.S.P.Q.2d at 1680-81.

320 *Id.*

321 *Id.*

322 *Id.*

323 *Lear, Inc. v. Adkins*, 395 U.S. 653, 674, 676, 162 U.S.P.Q. (BNA) 1, 9-10 (1969).

324 *Kohle*, 12 F.3d at 1567, 42 U.S.P.Q.2d at 1680.

325 *Id.* at 1568, 42 U.S.P.Q.2d at 1681. The court further stated that “[o]ther circuits addressing this issue arrived at the same conclusion.” *Id.* (citing *Rite-Nail Packaging Corp. v. Berryfast, Inc.*, 706 F.2d 933, 936-37, 219 U.S.P.Q. (BNA) 104, 106 (9th Cir. 1983); *Hull v. Brunswick Corp.*, 704 F.2d 1195, 1203, 218 U.S.P.Q. (BNA) 24, 30 (10th Cir. 1983); *American Sterilizer Co. v. Sybron Corp.*, 614 F.2d 890, 897, 205 U.S.P.Q. (BNA) 97, 104 (3d Cir. 1980); *PPG Indus. v. Westwood Chem., Inc.*, 530 F.2d 700, 706, 708, 189 U.S.P.Q. (BNA) 399, 404 (6th Cir. 1976)).

326 This may result in a determination of whether the licensee’s product or process infringes an invalid patent. *See Kohle*, 112 F.3d at 1568, 42 U.S.P.Q.2d at 1681 (remanding the case for a determination of infringement of the invalidated claims of the ‘698 patent to determine whether back royalties would be necessary).

327 *McCarthy*, *supra* note 1, at 521. *See PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 705, 189 U.S.P.Q. (BNA) 389, 403 (6th Cir. 1976) (denying licensee’s request for pre-challenge refund and patentee’s claim for post-challenge royalties); *St. Regis Paper Co. v. Royal Indus., Inc.*, 186 U.S.P.Q. (BNA) 83, 90 (C.D. Cal. 1974). *But see Cordis Corp. v. Medtronic, Inc.*, 780 F.2d 991, 996, 228 U.S.P.Q. (BNA) 189, 192 (Fed. Cir. 1985) (declining to decide “which party is entitled to royalties paid or accrued pendente lite” should the licensee succeed in proving the patent invalid).

328 *McCarthy*, *supra* note 1, at 522-23.

329 *Kohle*, 112 F.2d at 1568, 42 U.S.P.Q.2d at 1680.

330 *Id.* at 1568, 42 U.S.P.Q.2d at 1681.

331 *Id.*

332 *Cordis Corp. v. Medtronic, Inc.*, 780 F.2d 991, 228 U.S.P.Q. (BNA) 189 (Fed. Cir. 1985). *See supra* notes 173-191 and accompanying text (discussing this case).

333 780 F.2d at 996, 228 U.S.P.Q. at 192.

334 Atlas Chem. Indus., Inc. v. Moraine Prods., Inc., 509 F.2d 1, 7, 184 U.S.P.Q. (BNA) 281, 284-85 (6th Cir. 1974).

335 *Id.*

336 Lear, Inc. v. Adkins, 395 U.S. 653, 673, 162 U.S.P.Q. (BNA) 1, 9 (1969).

337 William C. Rooklidge, *Licensee Validity Challenges and the Obligation to Pay Accrued Royalties: Lear v. Adkins Revisited (Part II)*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 5, 14 (1987).

338 *See, e.g.*, Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 6 U.S.P.Q.2d (BNA) 2028 (Fed. Cir. 1988); Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co., 112 F.3d 1561, 1562, 42 U.S.P.Q.2d (BNA) 1674, 1676 (Fed. Cir. 1997), *petition for cert. filed*, (U.S. Sept. 25, 1997) (No. 97-533).

339 *See supra* notes 173-188 and accompanying text (discussing the Federal Circuits rejection of escrow accounts).

340 *See supra* notes 189-211 and accompanying text (discussing the circumstances under which a licensor may be preliminarily enjoined).

341 Cordis Corp. v. Medtronic, Inc., 780 F.2d 991, 995, 228 U.S.P.Q. (BNA) 189, 192 (Fed. Cir. 1985).

342 *Id.*, 228 U.S.P.Q. at 192 (quoting Warner-Jenkinson Co. v. Allied Chem. Corp., 567 F.2d 184, 188, 193 U.S.P.Q. (BNA) 753, 757 (2d Cir. 1977)).

343 This conclusion is further solidified by the recent ruling of the Federal Circuit in *Kohle*, 112 F.3d at 1568, 42 U.S.P.Q.2d at 1681. *See supra* notes 278-322 and accompanying text.

344 *See supra* notes 247-250 and accompanying text (discussing the eviction rule).

345 Dracket Chem. Co. v. Chamberlain Co., 63 F.2d 853, 855, 17 U.S.P.Q. (BNA) 114, 115-16 (6th Cir. 1933) (clearly recognizing this distinction); Barber Asphalt Paving Co. v. Headley Good Rds. Co., 284 F. 177, 179 (D. Del. 1922), *aff'd*, 292 F. 119 (3d Cir. 1923). *See also Kohle*, 112 F.3d at 1567-68, 42 U.S.P.Q.2d at 1679-80.

346 35 U.S.C. §§ 301-306 (1994); 35 U.S.C.A. § 307 (1993 & Supp. 1997).

347 *See* 35 U.S.C. § 302 (anyone can request a reexamination).

348 *Id.*; 37 C.F.R. § 1.20(c) (1997).

349 35 U.S.C. § 303(a).

350 *See* 35 U.S.C. § 301; 37 C.F.R. § 1.552(a) (1997).

351 37 C.F.R. § 1.552(c) (1997).

352 35 U.S.C. § 305 (1994); 37 C.F.R. § 1.552(b) (1997).

353 35 U.S.C.A. § 307 (1993 & Supp. 1997).

354 35 U.S.C. § 303; 37 C.F.R. § 1.515(c) (1997).

355 35 U.S.C. § 306 (1994).

356 *In re Etter*, 756 F.2d 852, 858, 225 U.S.P.Q. (BNA) 1, 5 (Fed. Cir. 1985).

357 Steven M. Auvil, Note, *Staying Patent Validity Litigation Pending Reexamination: When Should Courts Endeavor to Do So?*, 41 CLEV. ST. L. REV. 315, 325 (1993).

358 *See Output Tech. Corp. v. Dataproducts Corp.*, 22 U.S.P.Q.2d (BNA) 1072, 1073 (W.D. Wash. 1991).

359 *See supra* note 250 and accompanying text (describing the doctrine of patent eviction).

360 *See PPG Indus., Inc. v. Westwood Chem., Inc.*, 530 F.2d 700, 708, 189 U.S.P.Q. (BNA) 399, 406 (6th Cir. 1976) (“It is only when the licensee continues to pay royalties, and does not file suit until after the patent has been adjudged invalid, that the cutoff date for [royalty] liability is the date of eviction of the patent.”).

361 *See e.g.*, *Lear, Inc. v. Adkins*, 395 U.S. 653, 674-75, 162 U.S.P.Q. (BNA) 1, 10 (1969).

362 35 U.S.C. § 303(a) (1994).

363 Auvil, *supra* note 357, at 326-27 (citing *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1428-29, 7 U.S.P.Q.2d (BNA) 1152, 1157 (Fed. Cir. 1988)).

364 35 U.S.C. § 302 (1994).

365 35 U.S.C. § 304 (1994).

366 37 C.F.R. § 1.20(c) (1997).

367 *See* 35 U.S.C. § 305 (1994) (reexamination is conducted *ex parte*).

368 *See Patlex Corp. v. Mossinghoff*, 758 F.2d 595, 603, 225 U.S.P.Q. (BNA) 243, 249-50 (Fed. Cir. 1985) (approving jury instructions in validity challenge regarding successful reexamination in light of additional art submitted by requester). *See also* *Fromson v. Advance Offset Plate, Inc.*, 755 F.2d 1549, 1555, 225 U.S.P.Q. (BNA) 26, 31 (Fed. Cir. 1985).