

United States District Court  
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

FINISAR CORPORATION,  
Plaintiff,  
v.  
JDS UNIPHASE CORPORATION,  
Defendant

No. C 08-3388 MMC

**ORDER DISMISSING FIRST AMENDED  
COMPLAINT FOR LACK OF SUBJECT  
MATTER JURISDICTION**

Before the Court is defendant JDS Uniphase Corporation's ("JDSU") Motion for Summary Judgment, or in the Alternative, Summary Adjudication, filed December 16, 2008. Plaintiff Finisar Corporation ("Finisar") has filed opposition, to which JDSU replied. The Court, after considering the above-referenced submissions, directed the parties to file supplemental briefs with respect to subject matter jurisdiction, and the parties thereafter filed supplemental briefing. Having and read considered the parties' respective submissions, the Court rules as follows.<sup>1</sup>

**BACKGROUND<sup>2</sup>**

In November 2003, Finisar, through a predecessor, and JDSU, through a predecessor, entered into a written license agreement, under which JDSU granted Finisar a

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<sup>1</sup>By order filed March 24, 2009, the Court took the matter under submission.

<sup>2</sup>The following facts are undisputed, except where otherwise noted.

1 license to use the “Picolight Licensed Patents” (“the November 2003 Agreement”). (See  
2 Jewell Decl. Ex. B.) Finisar is required thereunder to pay JDSU royalties for products that  
3 “would infringe one or more valid and unexpired claims of the Picolight Licensed Patents  
4 but for [the November 2003] Agreement.” (See id. Ex. B at ¶¶ 1.2, 2.2, 3.2.)

5 In January 2007, the Chief Executive Officer of Finisar and the Chief Executive  
6 Officer of JDSU’s predecessor agreed to enter into negotiations to modify Finisar’s  
7 obligations to pay royalties under the November 2003 Agreement in exchange for Finisar’s  
8 licensing some of its patents to JDSU. (See Hall Decl. Ex. C at 54, 61; Hane Decl. ¶ 2.)  
9 The parties disagree, however, as to whether, at that time, Finisar and JDSU’s  
10 predecessor, through their respective Chief Executive Officers, entered into an oral  
11 agreement under which JDSU’s predecessor agreed that Finisar would not have to pay  
12 royalties under the November 2003 Agreement until August 21, 2007. (See Hall Decl. Ex.  
13 C at 54, 61, 63-64; Hane Decl. ¶¶ 2-6.)

14 After the January 2007 meeting, officers of Finisar and JDSU negotiated the terms  
15 of a cross-license, and, in August 2007, exchanged a series of emails discussing the terms  
16 of a cross-license. (See Hall Decl. Exs. E-K; Jewell Decl. Ex. A.) The parties are not in  
17 accord, however, as to whether such emails created an agreement under which each party  
18 had a license to use certain patents of the other party and Finisar no longer had an  
19 obligation to pay royalties under the November 2003 Agreement. (See Hall Decl. Exs. E-K;  
20 Yamalova Decl. ¶ 3; Jewell Decl. ¶¶ 5-7.)

21 On March 26, 2008, Finisar’s Associate General Counsel, in response to a demand  
22 by JDSU for royalties under the November 2003 Agreement,<sup>3</sup> wrote a letter to JDSU’s  
23 General Counsel stating, “Finisar believes that it does not owe any royalties to JDSU under  
24 the November 2003 License Agreement because, at the very least, [JDSU’s predecessor]  
25 and Finisar agreed in January 2007 and JDSU and Finisar agreed in August 2007 to terms  
26 in which JDSU and [JDSU’s predecessor] waived any obligation on the part of Finisar to

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28 <sup>3</sup>Neither party offers any evidence as to when JDSU made such demand or the  
circumstances under which it was made.

1 pay any such royalties.” (See Yamalova Decl. ¶ 7, Ex. A.)

2 On April 29, 2008, JDSU’s General Counsel responded in an email in which he  
3 stated that “a collection action is ready to commence,” and to which he attached a  
4 proposed complaint, captioned “Complaint for Breach of Contract,” that JDSU was  
5 prepared to file in Santa Clara County Superior Court. (See id. Ex. E.) The proposed  
6 complaint was based on an allegation that Finisar breached the November 2003  
7 Agreement by “falsely claiming that [JDSU] entered into an agreement waiving its rights to  
8 royalty payments,” and sought “compensatory damages” and a declaration that JDSU was  
9 entitled to conduct an audit under the terms of the November 2003 Agreement. (See id.)

10 Thereafter, Finisar, while reserving its right to argue that it no longer had the  
11 obligation to pay royalties under the November 2003 Agreement, paid JDSU the royalties  
12 Finisar calculated were due under the November 2003 Agreement for the period January 1,  
13 2007 through March 31, 2008. (See First Amended Compl. (“FAC”) ¶¶ 28-29; Amended  
14 Ans. to FAC (“Ans.”) ¶¶ 28-29; Chan Decl. Ex. F.)<sup>4</sup> JDSU did not dispute, and has not  
15 disputed, Finisar’s calculation as to the amount of royalties due and so paid. (See Chan  
16 Decl. ¶ 12.) Further, JDSU’s “in-house legal counsel” has stated JDSU has “no intent to  
17 terminate the license granted under [the November 2003] [A]greement.” (See id. ¶ 13.)

## 18 DISCUSSION

19 A party who files an action for declaratory relief is seeking, in essence, a judicial  
20 determination that it would have a valid defense to a lawsuit with which it has been  
21 threatened. Consequently, a court “determine[s] whether federal court jurisdiction exists in  
22 a case seeking declaratory relief by applying the well-pleaded complaint rule not to the  
23 declaratory judgment complaint, but to the action that the declaratory defendant would

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25 <sup>4</sup>When Finisar paid the royalties, Finisar also stated that, by making the payments, it  
26 was not “conced[ing] that any or all of the products included in Finisar’s calculation actually  
27 fall within the definition of ‘Honeywell Licensed Products.’” (See Chan Decl. Ex. F.)  
28 Neither at the time Finisar made such payments, however, nor at any future time including  
and up to the present date, has Finisar actually asserted that any product included in its  
calculation is not a product that would infringe but for the license. Thus, there neither was  
nor is a case or controversy based on the above-quoted statement, nor does Finisar argue  
otherwise.

1 have brought.” See Speedco, Inc. v. Estes, 853 F.2d 909, 911 (Fed. Cir. 1988). Here,  
2 because the parties are not diverse,<sup>5</sup> the Court has subject matter jurisdiction over the  
3 instant action only if the Court would have federal question jurisdiction over the action  
4 JDSU threatened to bring.

5 As relevant to that inquiry, the Court first observes that the parties have at all  
6 material times agreed that the November 2003 Agreement remains in effect, such that  
7 Finisar has a license to use the patents referenced therein, but disagree as to whether the  
8 terms of the November 2003 Agreement have been modified, such that Finisar now has a  
9 contractual right to use the license without having to pay royalties. On April 29, 2008,  
10 JDSU, aware of the parties’ respective positions, advised Finisar of its intent to file a  
11 complaint for breach of contract in state court, and, as noted, the complaint sought  
12 recovery of royalties due thereunder and a request for an audit. Such claims would not  
13 appear to arise under federal law. See Air Products and Chemicals, Inc. v. Reichhold  
14 Chemicals, Inc., 755 F. 2d 1559, 1562 (Fed. Cir. 1985) (holding claim by patent licensor  
15 against licensee “seek[ing] recovery of royalties” or for “damages for a breach of a license’s  
16 covenants” is not claim arising under federal law). Finisar argues that this Court  
17 nonetheless has federal question jurisdiction over the instant action based on two separate,  
18 although related, theories.

19 **A. Threat of Infringement Action**

20 Finisar argues that JDSU’s threat to file the proposed Complaint for Breach of  
21 Contract should be interpreted as including a threat to file a federal claim for patent  
22 infringement against Finisar.

23 Where a party files a declaratory relief action seeking a judicial finding that its  
24 product does not infringe a patent, the action arises under federal law if, at the time the  
25 action was filed, said party was “under reasonable apprehension or threat of being sued for  
26 infringement.” See Cordis Corp. v. Medtronic, Inc., 835 F.2d 859, 862 (Fed. Cir. 1987).

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28 <sup>5</sup>Both Finisar and JDSU are Delaware corporations who have their principal place of  
business in California. (See FAC ¶¶ 1-2; Ans. ¶¶ 1-2.)

1 Finisar argues that if it had refused to pay the royalties demanded by JDSU under  
2 the November 2003 Agreement, there existed a “potential” JDSU would have sued Finisar  
3 for patent infringement; consequently, Finisar argues, federal question jurisdiction exists in  
4 light of such potential. In support of this argument, Finisar relies on Medimmune, Inc. v.  
5 Genentech, Inc., 549 U.S. 118 (2007), which Finisar argues involves “nearly identical”  
6 facts.

7 Some of the facts in Medimmune are indeed similar to the facts presented herein,  
8 specifically, a dispute as to the licensee’s obligation to pay royalties under a license  
9 agreement and the licensee’s payment of royalties under protest. Medimmune is  
10 distinguishable, however, because the matter came before the Supreme Court on a motion  
11 to dismiss, and the Supreme Court assumed as true the licensee’s allegation that the  
12 licensor had made a “clear threat” to terminate the license agreement and sue the licensee  
13 for patent infringement. See id. at 121-22.<sup>6</sup> Here, by contrast, the matter is past the  
14 pleading stage, and no evidence has been submitted to suggest JDSU either had or has  
15 any intention of revoking the license rather than enforcing its rights under the license. Nor  
16 has Finisar offered any evidence to support a finding that the parties, either at the time  
17 JDSU threatened to file its proposed Complaint for Breach of Contract or at the time the  
18 instant action was filed, disagreed as to whether the patents were invalid or unenforceable  
19 or as to whether Finisar’s products would not infringe. Cf. id. (stating licensee “did not think  
20 royalties were owing, believing that the [ ] patent was invalid and unenforceable, and that  
21 its claims were in any event not infringed by [the licensee’s product]”). Significantly, neither  
22 party has taken the position that the November 2003 Agreement, under which Finisar has a  
23 license, is not in effect, and, as noted, there is no evidence to support a finding that JDSU  
24 has any intention of repudiating such agreement, much less that such intention was  
25 communicated to Finisar before the instant action was filed. Cf. Cordis, 835 F.2d at 861-63

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27 <sup>6</sup>The issue addressed in Medimmune was whether a case or controversy existed in  
28 light of the licensee’s having paid the royalties, which issue the Supreme Court decided in  
the plaintiff’s favor. See id.

1 (holding licensee had “reasonable apprehension” it would be sued for infringement by  
2 licensor, where licensor stated an “inten[tion] to terminate the license agreement” unless  
3 certain royalties were paid and further stated such payment “would not dispose of [the  
4 licensor’s] claims for . . . past infringement”). Rather, as the evidence offered by each  
5 party in support of their respective positions on the merits of the instant matter establishes,  
6 the sole dispute between the parties is as to whether, under state law, the parties have  
7 modified the terms of the November 2003 Agreement such that Finisar now has the  
8 contractual right to use the license without having to pay any royalties.

9 Accordingly, the Court finds Finisar has failed to establish that, at the time the instant  
10 action was filed, Finisar was under a reasonable apprehension or threat of being sued by  
11 JDSU for patent infringement.

#### 12 **B. Proposed Complaint for Breach of Contract**

13 Finisar argues that JDSU’s proposed Complaint for Breach of Contract necessarily  
14 presents a federal question.

15 “When the complaint in an action for declaratory judgment seeks in essence to  
16 assert a defense to an impending or threatened state court action, it is the character of the  
17 threatened action . . . which will determine whether there is federal-question jurisdiction in  
18 the District Court.” Public Service Commission v. Wycoff, 344 U.S. 237, 248 (1952).

19 Where a party to a license agreement alleges breach of contract claims, federal question  
20 jurisdiction arises only if the plaintiff’s right to relief “necessarily depends on resolution of a  
21 substantial question of federal patent law, in that patent law is a necessary element of one  
22 of the well-pleaded claims.” See U.S. Valves, Inc. v. Dray, 212 F.3d 1368, 1372 (Fed. Cir.  
23 2000) (internal quotation and citation omitted). In U.S. Valves, for example, the plaintiff, an  
24 exclusive patent licensee, alleged the defendant licensor breached the license by selling  
25 patented products and their equivalents; the Federal Circuit held the licensee’s right to  
26 relief under state law necessarily depended on resolution of a substantial question of patent  
27 law, because the licensee was required to establish the licensor sold products that “were  
28 covered by the licensed patents,” and said showing would require the trial court to “interpret

1 the patents.” See id.

2 Here, the proposed complaint alleged: “[Finisar] has breached the Agreement by  
3 falsely claiming that [JDSU] entered into an agreement waiving its rights to royalty  
4 payments.” (See Yamalova Decl. Ex. E ¶ 6.) Consequently, the factual dispute that would  
5 have been presented, had JDSU’s proposed state law complaint been filed, was whether  
6 the November 2003 Agreement had been modified by another agreement such that no  
7 royalties were due under the November 2003 Agreement. Contrary to Finisar’s argument,  
8 resolution of such dispute would not require consideration of any federal patent law; rather,  
9 it would only require consideration of state contract law pertaining to contract formation  
10 and/or modification. See Lockett v. Delpark, 270 U.S. 496, 502 (1926) (citing “general rule”  
11 that “suit by a patentee for royalties under a license . . . , or for any remedy in respect of a  
12 contract permitting use of a patent, is not a suit under the patent laws of the United States,  
13 and cannot be maintained in a federal court as such”); Jim Arnold Corp. v. Hydrotech  
14 Systems, Inc., 109 F.3d 1567, 1575 (Fed. Cir. 1997) (observing where “construction or  
15 enforcement of a contract or license is the issue,” jurisdiction “lies not in federal courts but  
16 in state courts”).

17 Accordingly, the Court finds Finisar has failed to establish that resolution of JDSU’s  
18 proposed state law complaint, had it been filed, would have necessarily depended on  
19 resolution of a substantial question of federal patent law.

20 **CONCLUSION**

21 For the reasons stated above, the Court lacks subject matter jurisdiction over the  
22 instant action, and, accordingly, the First Amended Complaint is hereby DISMISSED  
23 without prejudice.

24 **IT IS SO ORDERED.**

25  
26 Dated: March 25, 2009

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28 MAXINE M. CHESNEY  
United States District Judge