MUIRHEAD AND SATURNELLI, LLC

Specializing in Intellectual Property Law

IP FLASH

RECENT FEDERAL CIRCUIT CASE CREATES NEW RISKS FOR PATENT LICENSE NEGOTIATIONS

On March 26, 2007, the U.S. Court of Appeals for the Federal Circuit issued a decision in the case of *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 82 USPQ2d 1173 (Fed. Cir. 2007) that is sure to have a significant impact on patent license negotiations. Prior to *SanDisk*, the Federal Circuit had applied a reasonable apprehension of suit test when determining whether a prospective patent licensee had standing to bring a declaratory judgment action under the actual controversy requirement of Article III of the U.S. Constitution and embodied in the Declaratory Judgment Act (28 U.S.C. §2201(a)). However, this test appears to have been eliminated by *SanDisk*, where the Federal Circuit held that, in the context of patent license negotiations in which a patent holder has demonstrated a preparedness and willingness to enforce its patent rights, even an unequivocal statement by the patent holder that it will not sue a potential infringer does not prevent the potential infringer from seeking a declaratory judgment.

In 2004, STMicroelectronics, Inc. ("ST") sent a letter to SanDisk requesting a meeting to discuss a possible patent cross-license agreement. After an exchange of communications over the next few months, a licensing meeting took place in which ST presented to SanDisk a detailed infringement analysis of certain SanDisk products in relation to fourteen ST patents. At the conclusion of the meeting, ST's vice president of intellectual property and licensing handed to SanDisk's chief intellectual property counsel a packet of materials containing the results of ST's infringement analysis, but stated that ST "has absolutely no plan whatsoever to sue SanDisk." Thereafter, SanDisk filed suit alleging infringement of one of its patents and seeking a declaratory judgment of non-infringement and invalidity of the fourteen ST patents. ST responded with a motion to dismiss SanDisk's declaratory judgment claims for lack of subject matter jurisdiction maintaining that there was no actual controversy at the time SanDisk filed its complaint. The district court sided with ST and dismissed the declaratory judgment claims.

The Federal Circuit vacated the dismissal and remanded the case back to the district court. In its ruling, the Federal Circuit, citing to *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), held that where a patent holder asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights. The Federal Circuit also indicated that, by having approached SanDisk, having made a studied and considered determination of infringement by SanDisk, having communicated that determination to SanDisk, and then saying that it does not intend to sue, ST engaged in the kinds of conduct that the Declaratory Judgment Act was intended to obviate.

Following this case, it appears that prospective licensees will now have the option of seeking a declaratory judgment early on in a patent license negotiation. A patent holder needs to consider this possibility and perhaps act more cautiously. In this regard, it is interesting to note that the Federal Circuit commented, in footnote 1 of *SanDisk*, that the risk of a declaratory judgment may have been avoided if ST had sought SanDisk's agreement to the terms of a confidentiality agreement during the licensing negotiations. Accordingly, it appears that a patent holder who wants to avoid a declaratory judgment action should consider obtaining an appropriate confidentiality agreement with the prospective licensee.

This IP Flash is being provided for general information only and should not be construed as legal advice or legal opinion.

200 Friberg Parkway, Suite 1001
Westborough, MA 01581
(508) 898-8601 • Fax (508) 898-8602 • www.westboro-ip.com