

# CLIENT ALERT

## Federal Circuit Decision Creates New Risks for Patentees But is Boon to Prospective Licensees

April 2007

### *SanDisk v. STMicroelectronics*

In its March 26<sup>th</sup> holding in *SanDisk v. STMicroelectronics*, the Federal Circuit made it considerably easier for parties receiving license offers declaratory judgment actions in patent cases. Declaratory judgments allow alleged infringers to get a binding decision as to whether or not what they are doing (e.g., selling a particular product) infringes any valid and enforceable claims held by a patent holder. For patentees, declaratory judgment cases entail an unwelcome shifting of roles: the suspected infringer is the plaintiff and has the advantage of deciding when and where to bring suit.

*SanDisk* impacts licensees who either receive licensing overtures from patent holders or are involved in patent licensing negotiations. It is a direct fallout from the recent decision in *MedImmune v. Genentech* in which the Supreme Court held that licensees in good standing need not discontinue royalty payments or other requirements under a license to have the ability to file a declaratory judgment action.

### Declaratory judgment before *MedImmune*

The Federal Circuit's old test for bringing a declaratory judgment action required the challenger to demonstrate: (1) it was engaging in allegedly infringing activity or had taken steps towards such activity, and (2) the patentee's actions caused the challenger to believe it would face an infringement suit. Under this test, patentees could feel secure that, so long as they did not threaten to sue prospective licensees while licensing negotiations were ongoing, their opponents could not successfully file a declaratory judgment suit. At the same time, patentees enjoyed the tactical advantage of being able to bring a suit for patent infringement at any time.

### The new landscape for licensing

The *SanDisk* holding effectively eliminates the previous "reasonable apprehension of suit" test and replaces it with a new two-part test. Under this test, declaratory judgment jurisdiction applies if: (1) a patent holder asserts rights under a patent based on the allegedly infringing activity or planned activity of the challenger, and (2) the challenger contends it has the right to engage in such activity without a license – a situation implicit in nearly all licensing transactions. Importantly, no specific threat of a lawsuit by the patent holder is required. All that is required is a difference of opinion between the patent holder and challenger as to whether a license is needed.

*SanDisk* drastically alters the risk landscape for patent holders involved in or contemplating licensing activity. It is no longer sufficient to avoid explicit threats to sue as a negotiation tactic, nor is the patent

holder secure during good faith business negotiations. In the *SanDisk* case, the fact that licensing negotiations were ongoing and that the patent holder had given assurance it had no plans to sue was of no effect. By contrast, for parties considering or in the process of negotiating a license to a patent, and for recipients of unwanted licensing solicitations, the *SanDisk* ruling provides a powerful new strategic tool to level the negotiating playing field and increase bargaining strength.

### **How will this decision affect you?**

The *SanDisk* ruling needs to be considered in almost any licensing situation. The impact of the case is particularly important to the patent holder looking to license patents but avoid declaratory judgment actions. Working with your attorney at Wolf Greenfield should help mitigate those risks. Similarly, for those who have received notices of infringement or license offers, or who are considering or currently negotiating to take a license to a patent, be sure to consult your attorney to leverage the *SanDisk* ruling to your advantage. It is always best to work with your attorney early in license negotiations, but *SanDisk* demonstrates a clear need to start the consultation as early as possible.

### **Where can I get more information?**

Please contact your Wolf Greenfield attorney if you are interested in exploring how this decision affects your existing or future licensing transactions.

© 2007 Wolf, Greenfield & Sacks, P.C.