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FEDERAL CIRCUIT SIGNIFICANTLY RELAXES THE REQUIREMENTS
FOR DECLARATORY JUDGMENT ACTIONS IN PATENT CASES

On March 26, 2007, the Court of Appeals for the Federal Circuit, taking its lead from a recent Supreme Court decision, lowered the bar considerably with respect to the requirements for bringing a declaratory judgment action challenging a U.S. patent. *SanDisk Corp. v. STMicroelectronics, Inc.*, Appeal No. 05-1300 (Fed. Cir., March 26, 2007). This ruling will have substantial implications on heretofore routine and “safe” practices regarding the sending of “cease-and-desist” letters by patentees, the offering of licenses and the conduct of license or other pre-suit settlement discussions.

BACKGROUND – DECLARATORY JUDGMENT ACTIONS

In the context of patent law, a declaratory judgment action is the mechanism by which a potential infringer, under apprehension of an infringement suit by the patentee, can preemptively bring a lawsuit against the patentee seeking a declaration from the court that it either does not infringe the patent or that the patent is invalid or unenforceable. The declaratory judgment procedure is designed to avoid the situation where a patentee’s threats hang over the head of the potential infringer, like a Damoclean sword, with the potential infringer facing continued uncertainty about its position which cannot be resolved unless and until the patentee decides to bring an action for infringement. That uncertainty might impact the potential infringer’s decision whether to introduce its product at all, or cause it unnecessarily to incur damages for infringing sales, or even adversely affect the marketplace’s acceptance of the product.

By providing a procedure for a potential infringer to preemptively commence a court action, the declaratory judgment action also enables the potential infringer to choose the district court where the action will be heard, often looking for a “home court” advantage as to geographic convenience or a more sympathetic court or jury. Generally, the declaratory judgment action will be given precedence over a subsequent action for infringement brought by the patentee in a different district court, assuming there are no personal jurisdiction issues or significant inconvenience factors that might cause the court to defer to the later action. Whether there is any true procedural or substantive advantage to be gained based on which district court hears the action is somewhat debatable, but it nevertheless remains a perceived “benefit” of the declaratory judgment procedure beyond the principal uncertainty-removing intent of such actions.

PRIOR FEDERAL CIRCUIT LAW

The fundamental requirement for bringing a declaratory judgment action is that there be a “case or controversy” existing between the potential infringer and the patentee, which arises from Article III of the U.S. Constitution. Since 1982, the Court of Appeals for the

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Federal Circuit has been given exclusive appellate jurisdiction in patent cases (except for ultimate further review by the Supreme Court), and it has developed over those years a “two-part test” for determining if there is a sufficiently ripe case or controversy to trigger declaratory judgment jurisdiction in a patent infringement context. One prong of the test requires that the potential infringer either be already engaged in the possible patent-infringing conduct or at least have made substantial preparation to engage in that conduct. Most important is the other part of the test, namely, that the potential infringer have a “reasonable apprehension” of being sued for patent infringement, which in turn has developed into a requirement that the patentee must have taken some affirmative action that makes it reasonable for the potential infringer to apprehend that a suit for infringement is “imminent.”

Because of this latter requirement, the Federal Circuit has in the past variously held that the following scenarios, for example, do not trigger declaratory judgment jurisdiction: (1) the mere existence of a potentially infringed patent (in other words, some affirmative act of the patentee is required beyond merely obtaining a patent); (2) a patentee’s mere calling the potential infringer’s attention to patents that “may be of interest” to its activities; (3) the mere offer of a fee-bearing license by the patentee; and (4) even an assertion that specific products of the potential infringer infringe (or likely infringe) the patent, so long as that assertion is coupled to an offer for a license or an offer to meet for amicable resolution. In all of these scenarios, there is absent the threat of “imminent” suit by the patentee, and reflect the Federal Circuit’s concern that a patentee should be able to call attention to and try to resolve potentially infringing conduct without necessarily bringing down on its head a declaratory judgment suit.

As a consequence, it has become a bit of an art form for counsel to craft “cease-and-desist” letters of a type which are sufficient to put a potential infringer on notice of infringement (which may be important to starting the clock running on damages) while at the same time keeping things sufficiently fluid, amorphous and amicable so as not to expressly or impliedly threaten or suggest imminent enforcement action which might trigger a declaratory judgment suit, whether in a forum not to the patentee’s liking or simply at a time when the patentee is not fully prepared for litigation. Likewise, license and “settlement” discussions, whether in writing or in person, are often carefully conducted by the patentee and representatives to avoid any overt threats of an imminent infringement suit, particularly by keeping talks ongoing as long as possible and avoiding crystallization of any impasses.

ENTER THE SUPREME COURT – THE *MedImmune* CASE

One area of declaratory judgment jurisprudence that had been developed by the Federal Circuit is that a licensee who continues to make its royalty payments under the license agreement (and is not otherwise in breach of the agreement) cannot file a declaratory judgment action challenging the licensed patent. The reasoning, of course, is that, so long as payments are being made, the licensee is under absolutely no risk of an infringement suit by the licensor-patentee, let alone any imminent threat.

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On January 9, 2007, in the decision of *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), the Supreme Court overruled this Federal Circuit rule and held that a royalty-paying, non-breaching licensee does have the right to seek a declaratory judgment of the invalidity or unenforceability of the licensed patent. The court based its decision on broad principles of the “case or controversy” requirement and the fundamental principles underlying the Declaratory Judgment Act. The court held essentially that, when it is clear that engaging in certain conduct (here, withholding of royalties and losing the protection of the license) would put one at substantial risk of being sued (here, for patent infringement), it should not be necessary for the person to actually undertake that conduct as a prerequisite for seeking a determination whether its conduct would be improper. In articulating and invoking broad principles underlying the rationale for declaratory judgment actions, and even more specifically in a footnote to the opinion, the Supreme Court went beyond the narrow confines of the licensor-licensee issue before it and voiced its plain disagreement with the Federal Circuit’s declaratory judgment jurisprudence. In particular, the Supreme Court observed that the “reasonable apprehension of imminent suit” requirement developed by the Federal Circuit for declaratory judgment jurisdiction in the patent arena was inconsistent with prior Supreme Court decisions.

THE *SanDisk* DECISION OF THE FEDERAL CIRCUIT

Although the facts of the *SanDisk* case are a bit complicated, the bottom line is that the scenario was not much different than the “usual” back and forth that occurs between a patentee and a potential infringer. ST sent a “may be of interest” letter to SanDisk regarding a number of ST patents and inviting discussions about a possible cross-license. A “licensing meeting” was held, with the parties agreeing that their talks would be deemed “settlement discussions.” During the meeting, ST technical experts made a 4-5 hour presentation to SanDisk, with various “claim charts” matching the elements of ST’s patent claims to SanDisk’s products and “liberally” sprinkling the presentation with statements about “infringement.” Hard copies of the presentation materials were given to SanDisk. ST’s vice-president and head of intellectual property and licensing also explicitly told her SanDisk counterpart, “ST has absolutely no plan whatsoever to sue SanDisk.” Following further exchanges of emails about cross-licensing proposals, but notably without any provocative statements or actions by ST, SanDisk filed a declaratory judgment action seeking a declaration of noninfringement and invalidity as to each of the 14 ST patents that had been discussed during license negotiations.

The district court held that declaratory judgment jurisdiction had not been triggered given the “totality of the circumstances.” The court found that ST had never threatened litigation, indeed, it had stated that its intention was just the opposite, and that the claim chart presentation by ST did not constitute an express charge of infringement with the threat of enforcement.

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The Federal Circuit reversed, using the case as the platform to acknowledge and address the Supreme Court's disagreement with its declaratory judgment jurisprudence as expressed in *MedImmune*. The Federal Circuit announced its new law as follows:

In the context of conduct prior to the existence of a license, declaratory judgment jurisdiction generally will not arise merely on the basis that a party learns of the existence of a patent owned by another or even perceives such a patent to pose a risk of infringement, without some affirmative act by the patentee. But Article III jurisdiction may be met where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which it claims a right to do. We need not define the outer boundaries of declaratory judgment jurisdiction, which will depend on the application of the principles of declaratory judgment jurisdiction to the facts and circumstances of each case. We hold only that where a patentee 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.

Based on this holding, the court found that the ST presentation to SanDisk of a thorough infringement analysis, even though as part of “license negotiations,” coupled with SanDisk’s contention that it did not require a license under the patents, created a substantial controversy of sufficient immediacy to warrant declaratory judgment jurisdiction. The court also held that ST’s express “promise” not to sue was not enough to “moot the actual controversy created by its acts,” which evidenced a “preparedness and willingness to enforce its patent rights.”

PRACTICAL IMPLICATIONS

The *SanDisk* court, as noted, stated that it was deliberately not defining the full reach of its new rule and that each case will be unique. However, as the concurring opinion of one of the judges correctly observed, the court’s holding has broad implications on heretofore “safe” practices, i.e., conduct which would normally not trigger declaratory judgment jurisdiction. The mere offer of a fee-bearing license necessarily suggests that the patentee considers the other party’s conduct to be infringing (“[o]ffers to license patents are not requests for gratuitous contributions to the patentee; the rationale underlying a license offer is the patentee’s express or implied suggestion that the other party’s current or planned conduct falls within the scope of the patent”). Thus, “it would appear that under the court’s standard virtually any invitation to take a paid license . . . would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct

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does not fall within the scope of the patent.” So, too, for the patentee providing the other party with a claim chart showing how the elements of the claim are met by the product in question, which often occurs (“In a typical case, we would expect competent counsel who offers a license to another party to be prepared to demonstrate why such a license is required”); such activity will undoubtedly give rise to a ripe case or controversy.

While the court’s jurisprudence no doubt will continue to evolve, it is for now sufficiently predictable that the “safe” practices of the past, such as merely offering a fee-bearing license, or including a license offer with a more direct assertion of infringement, or keeping pre-suit negotiations amicable and fluid, or even expressly stating that the patentee has no intention of filing suit notwithstanding all other indications of infringement being explicitly or impliedly laid out, are not at all safe any longer. To the contrary, they will likely provide the potential infringer with basis for bringing a declaratory judgment action should it so desire, whether to rid itself of the uncertain situation and/or lock in the district court forum considered most favorable to it.

For a patentee, the court’s ruling poses a clear dilemma: How to commence negotiations, how to conduct negotiations, how to assert infringement in a way that starts the damages clock running, all without providing basis for a declaratory judgment suit? The *SanDisk* court suggests that entering into a confidentiality agreement with the potential infringer before any assertions of infringement are made would likely eliminate the risk of declaratory judgment. However, this theoretical safe harbor is likely to be illusory as few potential infringers would be amenable to such an agreement knowing what they would be giving up by doing so. For the patentee who needs or intends to do something more than merely send a party patents “that may be of interest,” there may be little safe choice but to file suit for infringement first (i.e., lock in the forum of choice) before any license offers or infringement assertions are made, lest find itself on the wrong end of a declaratory judgment action in a forum not to its liking. It is unfortunate, to say the least, that the court’s ruling thus seemingly encourages a “sue first, talk later” approach.

For the potential infringer, it is clear that very little is now required in order to put oneself in a position to file a declaratory judgment action when discussions with a patentee have opened in some manner. Indeed, the potential infringer can effectively force the issue with a simple inquiry: “Are you saying we infringe?”

Of course, not every patentee/potential infringer situation will involve a potential infringer who is desirous of looking for the first opportunity to file a declaratory judgment action and spend money prosecuting it, or a patentee or potential infringer who is concerned one way or the other with which district court will eventually hear the action as a reason to file first. Nevertheless, the *SanDisk* decision makes clear that a patentee now needs to think things through very carefully before putting its patents on the table against a potential infringer if it wishes to avoid being on the receiving end of a declaratory judgment action for which it is not yet prepared.

This is a periodic newsletter designed to inform clients and others about recent developments in the field of intellectual property law. Nothing in this advisory constitutes legal advice, which can only be obtained as a result of personal consultation with an attorney.