INTELLECTUAL PROPERTY LEGAL ALERT

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Federal Circuit Expands Right to Seek Declaratory Judgment of Patent Invalidity

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As we reported in our last newsletter, in MedImmune v. Genentech, decided earlier this year, the Supreme Court held that a patent licensee need not breach its license in order to seek a declaratory judgment that the licensed patent is invalid. Instead, the licensee need only show that there is a "definite and concrete" dispute between the parties. This decision radically changed the prior law and eliminated most of the risk that licensees faced in challenging patents.

The Federal Circuit, which hears all patent appeals, has now taken this doctrine a step further. In SanDisk Corp. v. STMicroelectronics, Inc., decided on March 26, 2007, the court repudiated its former requirement that a declaratory judgment plaintiff had to have a "reasonable apprehension of suit" by the patent owner. Here, the two parties were engaged in negotiations about cross-licensing each other's patents. ST gave SanDisk a detailed analysis of the ways in which its patents covered SanDisk's products, but ST's vice-president told SanDisk that it had no intention of suing for infringement. Nonetheless, the Federal Circuit held that there was enough of a present "case or controversy" to permit SanDisk to sue for a declaratory judgment that ST's patents were invalid. In reaching this conclusion, the court emphasized the extent to which MedImmune had changed the legal landscape.

This change is significant for companies seeking to enforce their patents. In the past, patent owners typically tried to avoid the risk of a declaratory judgment in an unfavorable jurisdiction by carefully drafting their demand letters to state their substantive claim of infringement, and then often offering to license their patents, while avoiding any express threat of litigation. This strategy may no longer work, and the accused infringer will apparently be able to bring an action for a declaratory judgment if the parties have a detailed disagreement over the possibility of infringement, even if the patent owner promises not to sue in order to promote negotiation. As a concurring judge's opinion points out, it now seems to be the law that if a patent owner makes an offer to license accompanied by a showing of why it believes a license

is required, that alone entitles the prospective licensee to bring suit for a declaratory judgment.

The practical consequence of this opinion is that any party seeking to enforce its patents will need to consider filing suit at a much earlier stage in the process. If the patent holder believes that the validity or enforceability of the patent is likely to be litigated, and it would be materially prejudiced by having to litigate those issues in a declaratory judgment action in an unfavorable jurisdiction, it may elect to bring suit before even sending a demand letter, and then use the suit as the means of pushing the negotiations. At a minimum, parties will need to be ready to file suit at an earlier stage in the negotiations, as soon as it becomes clear that there is a substantive dispute over the patents that is unlikely to be peacefully resolved.
