

**RATNERPRESTIA IP TRANSACTIONS UPDATE:
THE CAFC INTERPRETS *MEDIMMUNE* AND PATENTEES
FACE NEW PROBLEMS IN PATENT LICENSING NEGOTIATIONS**

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The Court of Appeals for the Federal Circuit (CAFC) wasted no time in extending declaratory judgment jurisdiction beyond the *Medimmune* licensor/licensee context to the negotiations between a patentee and a prospective licensee alleged to be infringing a patent. As a result, patentees need to rethink their approach to license negotiations.

On March 26, 2007, less than three months after the *Medimmune* decision, the CAFC decided *SanDisk v. STMicroelectronics* and reasoned that "conduct prior to the existence of the license" is subject to the *Medimmune* teachings (for an update of *Medimmune* see our previous IP Transactions Update, titled "US Supreme Court Unleashes Patent Licensees" at www.ratnerprestia.com).

In *SanDisk*, the parties were involved in cross-licensing negotiations and each presented a detailed infringement analysis to the other. During the negotiations, STMicroelectronics (ST) told SanDisk that they (ST) had "no plan whatsoever to sue." After the negotiations ceased, SanDisk brought a declaratory judgment action to have ST's patents declared invalid and not infringed. The District Court dismissed the action for lack of subject matter jurisdiction.

On appeal, the CAFC majority held: "...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."

The majority makes clear that presenting an infringement analysis, no matter how carefully hedged, triggers the alleged infringers ability to bring a declaratory judgment action. The concurring opinion cautions that merely offering a license "would appear" to be an assertion of rights that would trigger the offeree's ability to bring a declaratory judgment action. In either case, if a declaratory judgment action is filed, the patentee's choice is to pay for the litigation and defend the patent or lose it by not defending.

Patentees need to evaluate their tolerance for litigation before asserting their patents. It may be in the patentee's interest to file an infringement action and negotiate a license during the pendency of the suit. Any settlement could be embodied in a consent order entered by the court to provide the advantages such an order provides to a licensor after *Medimmune*.

In footnote 1, the *SanDisk* majority suggests that a suitable confidentiality agreement between the parties could have avoided the risk of a declaratory judgment action. Footnote 1 of the concurring opinion notes the problem with the majority's suggestion: "...it would normally work only when it is not needed - only a party that was not interested in bringing a declaratory judgment action would enter into such an agreement."

Patentees should thus consider negotiating a suitable "standstill agreement" before starting licensing discussions with an alleged infringer. Such an agreement could include provisions for confidentiality, tolling the statute of limitations, and covenants by each party to forgo litigation during the licensing negotiations. It could also invest exclusive jurisdiction with a specified court for actions filed after the licensing negotiations terminate, as well as other terms appropriate for the circumstances.

If the licensing negotiations fail and if the patentee has concluded that it will not sue, the patentee may consider terminating the negotiation with a clear statement that they will not assert the patent against the alleged infringer for the alleged infringing activity. Such a statement may ultimately be a damaging admission that will make it very hard for the patentee to bring suit against the other party on the patent in issue. In reality, however, the patentee may have given up little except the ability to change its mind and later decide to do what it would not now do - sue for infringement. On the other hand, the patent is preserved and legal expense is avoided.

If the language of the non-assertion statement is confined to the then alleged infringing activity, it may not preclude an infringement suit against the same party for a different activity.

This paper is not to be construed as providing legal advice. For legal advice or more information on how *SanDisk* may affect your current or future license negotiations, please contact Bob Seitter or Chris Lewis at RatnerPrestia's Valley Forge office.