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Patent Licensing Post *MedImmune*: Proceed with Caution

Best Practices for Adapting to Sweeping Change in Licensing

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Thursday
June 28, 2007

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Declaratory Judgments

- Declaratory Judgment Statute
  - First Passed in 1934
  - 28 U.S.C. § 2201(a):
    - In a case of actual controversy within its jurisdiction… any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

Declaratory Judgments

- Federal Circuit Formulation Pre-*MedImmune*
- There must be both
  - (1) an explicit threat or other action by the patentee which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an imminent infringement suit; and
  - (2) present activity by the declaratory judgment plaintiff which could constitute infringement, or concrete steps taken with the intent to conduct such activity.
  - *Teva Pharms. USA, Inc. v. Pfizer Inc.*, 395 F.3d 1324 (Fed. Cir. 2005).

MedImmune v. Genentech

- *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007)
- *MedImmune* Facts
  - In 1997, MedImmune entered into a patent license agreement with Genentech for an existing patent and one application.
  - The application issued in 2001.
  - Genentech alleged that the new patent read on a MedImmune product and demanded royalties.
  - MedImmune asserted that the patent was invalid and that their product did not infringe.

MedImmune Facts (cont'd)

- Product accounted for 80% of MedImmune's sales.
- MedImmune paid royalties under protest and brought a declaratory judgment action.
- If MedImmune did not pay the royalties and Genentech prevailed in a patent infringement action, MedImmune could have been ordered to pay treble damages and attorneys' fees, and could be enjoined from selling a product that accounts for more than 80% of their sales.
- The District Court granted Genentech's motion to dismiss the declaratory judgment claims for lack of subject-matter jurisdiction, and the Federal Circuit affirmed.

MedImmune Facts (cont'd)

- *MedImmune* License
  - The agreement defined "Licensed Products" as a specified antibody, "the manufacture, use or sale of which . . . would, if not licensed under the Agreement, infringe one or more claims of either or both of [the covered patents,] which have neither expired nor been held invalid by a court or other body of competent jurisdiction from which no appeal has been or may be taken."

MedImmune Footnote 11

- The Supreme Court specifically addressed and rejected the Federal Circuit's "reasonable apprehension test."
- Footnote 11 of *MedImmune* cites a number of Supreme Court cases where the court granted DJ jurisdiction to plaintiffs that had no "reasonable apprehension of suit."

MedImmune Footnote 11 (cont')

Footnote 11:

Even if Altvater could be distinguished as an "injunction" case, it would still contradict the Federal Circuit's "reasonable apprehension of suit" test (or, in its evolved form, the "reasonable apprehension of imminent suit" test, *Teva Pharm. USA, Inc. v. Pfizer, Inc.*, 395 F.3d 1324, 1333 (2005)). A licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a licensee who pays royalties for fear of treble damages and an injunction fatal to his business. The reasonable-apprehension-of-suit test also conflicts with our decisions in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941), where jurisdiction obtained even though the collision-victim defendant could not have sued the declaratory-judgment plaintiff-insurer without first obtaining a judgment against the insured; and *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239 (1937), where jurisdiction obtained even though the very reason the insurer sought declaratory relief was that the insured had given no indication that he would file suit. It is also in tension with *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83 (1993), which held that appellate affirmance of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.

MedImmune Holding

- *MedImmune* Holding
  - "We hold that petitioner was not required, insofar as U.S. Const. art. III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed."
  - In determining whether a declaratory-judgment action satisfies the case-or-controversy requirement, U.S. Supreme Court decisions require that the dispute be:
    - definite and concrete
    - touching the legal relations of parties having adverse legal interests
    - real and substantial and admit specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.

MedImmune Holding (cont'd)

- "The rule that a plaintiff must destroy a large building, bet the farm, or (as here) risk treble damages and the loss of 80 percent of its business, before seeking a declaration of its actively contested legal rights finds no support in Article III."

SanDisk v. STMicroelectronics

- Following *MedImmune*
- *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372 (Fed. Cir. 2007)
- *Sandisk* Facts
  - ST initiated negotiations by sending a letter to SanDisk, listing several ST patents that "may be of interest" to SanDisk.
  - ST "listed SanDisk's various 'unlicensed activities,'" and gave "a four- to five-hour presentation by ST's technical experts, during which they identified and discussed the specific claims of each patent and alleged that they were infringed by SanDisk."

SanDisk Facts (cont'd)

- ST told SanDisk that "ST has absolutely no plan whatsoever to sue SanDisk."
- SanDisk responded by sending ST a confidential cross-licensing offer.
- ST requested a non-confidential version.
- SanDisk refused.
- SanDisk filed suit seeking a declaratory judgment of noninfringement and invalidity of ST's patents.

SanDisk Facts (cont'd)

- The district court dismissed SanDisk's declaratory judgment suit, reasoning that:
  - (1) SanDisk presented no evidence that ST threatened it with litigation, nor has SanDisk shown other conduct indicating an intent on the part of ST to initiate an infringement action;
  - (2) ST's studied and determined infringement analysis "did not constitute the requisite 'express charges [of infringement] carrying with them the threat of enforcement;'" and
  - (3) "the totality of the circumstances did not evince an actual controversy because ST told SanDisk that it did not intend to sue SanDisk for infringement."

Sandisk Holding

- "[W]here 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."

Sandisk Holding (cont'd)

- "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 he claims a right to do." (emphasis added)

Sandisk Holding (cont'd)

- "Under the facts alleged in this case, SanDisk has established an Article III case or controversy that gives rise to declaratory judgment jurisdiction. ST sought a right to a royalty under its patents based on specific, identified activity by SanDisk."
- "These facts evince that the conditions of creating 'a substantial controversy, between parties having adverse legal interest, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment' were fulfilled. Md. Cas., 312 U.S. at 273. SanDisk need not 'bet the farm,' so to speak, and risk a suit for infringement by cutting off licensing discussions and continuing in the identified activity before seeking a declaration of its legal rights."

Sandisk Holding (cont'd)

- Moreover:
  - "We decline to hold that [ST's] statement that ST would not sue SanDisk eliminates the justiciable controversy created by ST's actions, because ST has engaged in a course of conduct that shows a preparedness and willingness to enforce its patent rights despite [ST's] statement."
  - "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 is engaging in the kinds of 'extra-judicial patent enforcement with scare-the-customer-and-run tactics' that the Declaratory Judgment Act was intended to obviate."
  - "ST's statement that it does not intend to sue does not moot the actual controversy created by its acts."

Sandisk and Rule 408

- Hiding behind rule 408 will not defeat DJ jurisdiction.
- "That rule expressly relates to evidence of efforts toward compromising or attempting to compromise a claim in litigation and does not prevent SanDisk from relying on the licensing discussions and infringement study to support its claims."
- "Furthermore, ST's presentation was made outside the context of litigation, and there is nothing on the record to indicate that it could be properly considered an 'offer' to settle a claim which was then in dispute."

Sandisk and NDAs

- The Court suggests that the patentee may avoid the risk of a declaratory judgment by conducting licensing negotiations under a confidentiality agreement.
- Footnote 1:
  - "To avoid the risk of declaratory judgment action, ST could have sought SanDisk's agreement to the terms of a suitable confidentiality agreement."
- Bryson notes in his concurrence:
  - "[O]nly a party that was not interested in bringing a declaratory judgment action would enter into such an agreement."

Bryson's Concurrence

- "Therefore, it would appear that under the court's standard virtually any invitation to take a paid license relating to the prospective licensee's activities would give rise to an Article III case or controversy if the prospective licensee elects to assert that its conduct does not fall within the scope of the patent."

Bryson's Concurrence (cont'd)

- The court makes clear, even "a representation by the patentee that it does not propose to file suit against the prospective licensee will not suffice to avoid the risk that the patentee will face a declaratory judgment action."
- "And if there is any uncertainty on that score, all the prospective licensee has to do in order to dispel any doubt is to inquire of the patentee whether the patentee believes its activities are within the scope of the patent."
- "If the patentee says 'no,' it will have made a damaging admission that will make it very hard ever to litigate the issue, and thus will effectively end its licensing efforts."
- "If it says 'yes' or equivocates, it will have satisfied the court's test and will have set itself up for a declaratory judgment lawsuit."

SanDisk v. STMicroelectronics

- Impact on patent holders
  - Higher royalties
  - Greater risk of litigation – more declaratory judgment actions
- Impact on prospective licensees
  - Greater freedom to challenge patents while keeping license intact
  - Greater bargaining power to renegotiate existing licenses
  - Negotiate first, sue second