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***SanDisk v. STMicroelectronics*: The Federal Circuit Announces a New Test for Declaratory Judgment Jurisdiction**

March 2007

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On January 9, 2007, the Supreme Court decided *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), holding that a patent licensee need not breach its license agreement in order to file a declaratory judgment action regarding the licensed patent. In addition to resolving the issue directly presented, the Court broadly called the Federal Circuit's entire declaratory judgment jurisprudence into question, stating that the Federal Circuit's "reasonable-apprehension-of-suit test" conflicted with several Supreme Court precedents.^[1]

On March 26, 2007, the Federal Circuit concluded that the Supreme Court had effectively rejected the "reasonable-apprehension-of-suit test." The Federal Circuit then articulated a new legal test. The effect of this significant change in the law is that the threshold "case or controversy" necessary for declaratory judgment jurisdiction in cases of alleged patent infringement has been substantially lowered, making it possible for parties receiving license offers from patent holders to file actions in circumstances where previously they could not.

Before *MedImmune*, the Federal Circuit had developed an extensive body of case law regarding the circumstances that would create declaratory judgment jurisdiction in patent cases. The Federal Circuit had adopted a two part test that required "both (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity." *Sierra Applied Scis., Inc. v. Advanced Energy Indus., Inc.*, 363 F.3d 1361, 1373 (Fed. Cir. 2004) (quoting *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993)).

The Federal Circuit had also developed numerous guidelines for lower courts. For example, it had concluded that declaratory judgment jurisdiction does not exist "when a patentee does nothing more than exercise its lawful commercial prerogatives and, in so doing, puts a competitor in the position of having to choose between abandoning a particular business venture or bringing matters to a head by engaging in arguably infringing activity." *Cygnus Therapeutics Sys. v. ALZA Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996). Similarly, the Court had stated that "[t]he offer of a patent license does not create an actual controversy... When there are proposed or ongoing license negotiations, a litigation controversy normally does not arise until the negotiations have broken down." *Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha*, 57 F.3d 1051, 1053 (Fed. Cir. 1995). Additionally, under Federal Circuit law it was possible for patentees to provide actual notice under 35 U.S.C. § 287(a) without triggering a controversy sufficient to create declaratory judgment jurisdiction. See *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1470 (Fed. Cir. 1997). In *MedImmune*, the Supreme Court called all these holdings into question.^[2]

On March 26, 2007, the Federal Circuit issued its first decision regarding the impact of *MedImmune* on its declaratory judgment jurisprudence in *SanDisk Corp. v. STMicroelectronics, Inc.*, Case No. 05-1300 (Fed. Cir. 2007). The Federal Circuit first reviewed the *MedImmune* decision, noting that the Supreme Court had reiterated its declaratory judgment test from *Maryland Casualty*:

the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.

Id. at 10 (quoting *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

After reviewing *MedImmune*, the Federal Circuit concluded: “The Supreme Court’s opinion in *MedImmune* represents a rejection of our reasonable-apprehension-of-suit test.”^[3] *Id.* at 13. The Federal Circuit noted that, under *MedImmune*, “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.” The court then articulated a new legal rule (emphasis added):

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.*

Id. at 14-15.

The Federal Circuit noted that its holding is consistent with other courts in contexts unrelated to patent licensing, including copyright and trademark. *Id.* at 15-16. Having announced the new rule, the Court then applied it to the facts of *SanDisk*, finding that the evidence supported declaratory judgment jurisdiction:

ST sought a right to a royalty under its patents based on specific, identified activity by SanDisk. For example, at the August 27, 2004 licensing meeting, ST presented, as part of the “license negotiations,” a thorough infringement analysis presented by seasoned litigation experts, detailing that one or more claims of its patents read on one or more of SanDisk’s identified products. At that meeting, ST presented SanDisk with a detailed presentation which identified, on an element-by-element basis, the manner in which ST believed each of SanDisk’s products infringed the specific claims of each of ST’s patents. During discussions, the experts liberally referred to SanDisk’s present, ongoing infringement of ST’s patents and the need for SanDisk to license those patents. ST also gave SanDisk a packet of materials, over 300 pages in length, containing, for each of ST’s fourteen patents under discussion, a copy of the patent, reverse engineering reports for certain of SanDisk’s products, and diagrams showing a detailed infringement analysis of SanDisk’s products. ST communicated to SanDisk that it had made a studied and determined infringement determination and asserted the right to a royalty based on this determination. SanDisk, on the other hand, maintained that it could proceed in its conduct without the payment of royalties to ST.

Id. at 17.

The Court further held that the patentee’s promise that it had no plans to sue the declaratory judgment plaintiff did *not* moot the actual controversy created by its acts.^[4] *Id.* at 18-19. The Court vacated the order of dismissal and remanded for further proceedings. *Id.* at 20. The district court had alternatively based its dismissal on its discretion to decline jurisdiction even if there was a case or controversy. However, because the district court’s analysis employed the wrong legal standard, this alternative ground for dismissal was also vacated. *Id.*

Judge Bryson filed a concurring opinion that stated: “I agree with the court that the footnote [in *MedImmune*] calls our case law into question and would appear to make declaratory judgments more readily available to parties who are approached by patentees seeking to license their patents.” *Id.* at 2 (Bryson, J., concurring). He also noted that the implications of *SanDisk* are broad:

In practical application, the new test will not be confined to cases with facts similar to this one. If a patentee offers a license for a fee, the offer typically will be accompanied by a suggestion that the other party’s conduct is within the scope of the patentee’s patent rights, or it will be apparent that the patentee believes that to be the case. Offers to license a patent 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. 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.

Id. at 3.

Judge Bryson concluded by observing that "the rule adopted by the court in this case will effect a sweeping change in our law regarding declaratory judgment jurisdiction" and that, though he had "reservations" regarding the wisdom of the new course, it was a fair reading of the *MedImmune* footnote. *Id.* at 5.

The *SanDisk* case significantly expands the availability of declaratory judgment actions to parties who have received offers of a patent license. Indeed, as the concurrence notes, under the new test, virtually any licensing discussions may be sufficient to establish declaratory judgment jurisdiction. The precise contours of the new test are unclear and will certainly be refined in the district courts and by the Federal Circuit. However, given the "totality of the circumstances test" articulated by the Supreme Court in *Maryland Casualty*, this issue will likely be decided on a case-by-case basis. Regardless of whether the contours of the new rule are clear, opportunities for companies facing any assertion of infringement, or even a mere offer to license, to file a declaratory judgment case at a time of their choosing in a forum deemed desirable (or less undesirable) appear to have been significantly expanded by *SanDisk*.

Footnotes:

[1] The Supreme Court said the Federal Circuit's test conflicted with its decisions in *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270 (1941), and *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239 (1937), and is "in tension with" *Cardinal Chemical Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 98 (1993).

[2] *SanDisk* negatively cites both *Cygnus* and *Phillips*, indicating that they are no longer good law. Given the reasoning of *SanDisk*, the continuing viability of *SRI* is also highly suspect.

[3] At least two district courts anticipated such a holding. See *Rite-Hite Corp. v. Delta T Corp.*, 2007 U.S. Dist. LEXIS 16312, at *23 (E.D. Wis. March 7, 2007); *WS Packaging Group v. Global Commerce Group, LLC*, 2007 U.S. Dist. LEXIS 5187, at *11 (E.D. Wis. Jan. 24, 2007).

[4] The panel majority also noted, in *dicta*: "To avoid the risk of a declaratory judgment action, ST could have sought *SanDisk*'s agreement to the terms of a suitable confidentiality agreement." *Id.* at 4 n.1. The theory appears to be that a confidentiality agreement would preclude the declaratory judgment plaintiff from pleading any facts covered by the agreement that might be necessary to establish declaratory judgment jurisdiction. Instead, ST sought to condition its discussions and infringement study on Federal Rule of Evidence 408, which relates to evidence of efforts to compromise a claim in litigation, not negotiations prior to litigation. As such, it was not an "offer" to settle a claim then in dispute. *Id.* As the concurrence points out, the incentives for the potential declaratory judgment plaintiff to agree to such terms are low.