Federal Circuit opens the door to patent challenges by prospective patent licensees

On March 26, the Federal Circuit substantially changed the licensing-negotiating dynamic between patent holders and prospective patent licensees. Taking its cue from the U.S. Supreme Court's recent ruling in *MedImmune v. Genentech*, the U.S. Court of Appeals for the Federal Circuit all but eliminated a patent holder's ability to engage in patent-licensing negotiations without creating grounds for prospective licensees to challenge the patents themselves. Patent holders and prospective licensees should reevaluate their patent licensing and litigation strategies in the wake of the Federal Circuit's ruling in the case, *SanDisk Corp. v. STMicroelectronics, Inc.*

Before *MedImmune*, significant hurdles stood in the path of a prospective licensee seeking to challenge a patent it was being asked to license. A prospective licensee could seek the assistance of a court and request a "declaratory judgment" regarding whether the asserted patent was valid, enforceable and infringed absent a license, but only if the prospective licensee could show it had a "reasonable apprehension" that the patentee would sue for infringement. In practice, the "reasonable apprehension" test was so difficult to meet that the patentee ended up controlling whether, when and where to litigate.

In *MedImmune*, the Supreme Court cast doubt on the "reasonable apprehension" test, albeit in the context of a dispute in which a license agreement already was in place. Building on *MedImmune*, the *SanDisk* decision not only confirms that the "reasonable apprehension of suit" test is no longer viable, but also that whatever test evolves to replace it will give substantially more freedom to prospective licensees to challenge patents. The decision could be read to suggest, moreover, that in typical patent licensing scenarios such as those in *SanDisk*, district courts ordinarily should not exercise their discretion to refuse to hear the prospective licensee's patent challenge. As a concurring Federal Circuit judge put it, the court's holding "will effect a sweeping change in our law regarding declaratory judgment jurisdiction."

That "sweeping change" must now enter into the calculations of parties to licensing negotiations, as well as parties considering whether and how to engage in negotiations. Now that it may be easier for a prospective licensee to pull the trigger on litigation, expect both prospective licensees and licensors to change their approaches to licensing negotiations and initiating litigation. The intellectual property attorneys at Ropes & Gray regularly counsel clients on structuring and negotiating licensing transactions, and they represent clients in patent litigation arising out of the assertion of patent infringement claims made in licensing negotiations.

Contact Information

James E. Hopenfeld
202-508-4695
james.hopenfeld@ropesgray.com

James S. DeGraw
617-951-7539
james.degraw@ropesgray.com