

## SUPREME COURT REMOVES BARRIER TO ATTACK ON LICENSED PATENT

*MedImmune, Inc. v. Genentech, Inc.*  
2007 U.S. LEXIS 1003 (January 9, 2007)

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A recent U.S. Supreme Court decision, *MedImmune, Inc. v. Genentech, Inc.*, may have wide-ranging impact on patent licensing, potentially affecting existing license relationships and driving change in how—and whether—patent owners license their patents. Issues left undecided by the Court create uncertainty that is unlikely to be resolved for years to come.

In a break from prior Federal Circuit precedent, the Supreme Court ruled in *MedImmune* that a licensee in good standing may challenge the validity of the very patent it is licensing, without breaching the license. Prior Federal Circuit precedent required a patent licensee to breach its license by halting royalty payments to the licensor before initiating any such suit.

### MEDIMMUNE, INC. V. GENENTECH, INC.

In *MedImmune*, the United States Supreme Court removed a barrier to a licensee attacking licensed patents and their coverage of products while preserving the licensee's ability to take advantage of the license if the attack is unsuccessful. The Supreme Court decided that *MedImmune*, the licensee, was not required to breach its license with Genentech in order for there to be subject matter jurisdiction over its action to seek a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.

### LICENSEE CONSIDERATIONS

It is imperative that licensees take stock of their licenses by studying the license terms, accounting for the royalties they are paying for each patent they have licensed, and obtaining advice on whether the patent is valid and covers the products as to which royalties are being paid. Armed with that information and an understanding of the scope of the Supreme Court's decision, licensees can make an informed decision regarding whether to bring a declaratory judgment action like the one in *MedImmune*.

Despite the removal of a significant barrier to *MedImmune*'s declaratory judgment action, a licensee considering bringing a declaratory judgment action needs to be aware of additional hurdles. This case points out some of these potential challenges.

- The Supreme Court explicitly raised, but did not decide, potential further grounds that might cause a court to dismiss a similar declaratory judgment action. These grounds include arguments that a party cannot at one and the same time challenge the validity of a contract and reap its benefits, and that the exercise of jurisdiction under the Declaratory Judgment Act is discretionary.

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### *LICENSEE CONSIDERATIONS CONTINUED*

- According to the Supreme Court, the license at issue did not have a provision prohibiting a challenge to the validity of the patents, and the Supreme Court would not imply a prohibition from the mere promise to pay royalties on patents. The decision did not address the enforceability of license terms, that may appear in other licenses, that provide for negative consequences if the licensee brings the challenge.

### LICENSOR CONSIDERATIONS

Future license negotiations need to be guided by the changes brought on by *MedImmune*. Possible provisions are limited only by the imagination; a determination of their enforceability, like many issues raised by *MedImmune*, requires patience while cases arise and work their way through the courts.

- Patentees may need to consider requiring a lump sum payment at the time the license is executed or, if the licensee cannot afford a lump sum payment, providing for a greater up-front payment than in the past, so that continuing validity of the patent becomes irrelevant or less significant.
- If the patentee wants to have the amount paid depend on the success of the licensed product instead of a lump sum payment, rather than have an agreement that depends on a patent's validity, a patentee can take an immediate transfer of an equity interest in the potential licensee in exchange for the license, or can even consider acquiring the licensee.
- Patentees should also consider a provision that the license is terminable by the patentee if the licensee commences a declaratory judgment action that challenges the patent or its coverage, or, alternatively, provide for a greater royalty upon commencing or upon losing such an action.

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