

On January 9, 2007, the U.S. Supreme Court dramatically changed the rules governing the relationship between patent licensors and their licensees when the licensees are faithfully paying their royalties and are otherwise licensees in good standing. Reversing the Federal Circuit and overturning Federal Circuit precedent, the Supreme Court (*opinion by Justice Scalia*) held in *MedImmune, Inc. v. Genentech, Inc.*, Case 05-608, that the licensee in good standing, MedImmune, did have standing to bring a Declaratory Judgment Action to challenge the infringement and the validity of the licensed patent.

The Court expressed sympathy with the plight of the licensee under the Federal Circuit rule which required the licensee to put its business at risk by repudiating the license before getting a hearing in court. The Court analogized the licensee's situation to that of one who wants to challenge a criminal statute without having to actually violate the law, noting that MedImmune, petitioner in this case, derived 80% of its revenue from the product, Synagis®, allegedly covered by the licensed patent.

The Court expressly reserved judgment on the question of whether *Lear v. Adkins*, 395 U.S. 653 (1969), has any impact on a licensee's ability to challenge a licensed patent while still benefiting from the license by being immune from suit for infringement. In *Lear*, the licensee repudiated the license before suit; however, the licensor contended that the licensee was still obligated to pay royalties because royalties were due "until such time as the patent...is held invalid." The Court rejected that position. In *MedImmune*, the Court determined that the licensee's promise to pay royalties did not amount to a promise not to challenge the licensed patents, but that even if it had so promised, declaratory judgment jurisdiction would not be affected. Rather, the nature of the license provisions would be issues on which the licensor or the licensee might prevail on the merits at trial. Therefore, the Court avoided a determination of whether the rationale of *Lear* extended to negating any inhibition on a non-repudiating licensee challenging the licensed patents.

The *MedImmune* decision leaves unclear what steps a licensor may take to avoid challenges to the licensed patents by its licensees who remain in good standing. It has become generally accepted that a license clause in which the licensee promises not to challenge the licensed patents is of dubious validity in view of *Lear*. On the other hand, some licensors have used clauses which provide authority to terminate the license if the licensee challenges the validity of any of the underlying patents and some licensors give royalty discounts to licensees who give an advance promise not to challenge the licensed patents.

The issue made more urgent by this decision is the reach of the public policy argument which underlies the *Lear* case. In the *Lear* case itself, a state law policy prohibiting licensees from challenging patents under which they were licensed, even if they repudiated their licenses, was overturned on the public policy basis that licensees had to be left the opportunity to challenge potentially invalid patents as the class of persons most likely to have the incentive to do so. But does the Court's solicitous attitude toward licensees in this case presage an extension of public policy to any disincentive to licensee challenges of patent validity? There are, of course, some areas of the law which, to date, do not include patent licensing, in which a party may not make an advanced surrender of his rights.

A particularly interesting question in this regard is how such a public policy extension would be applied to licenses which, by their terms, are to be interpreted in accordance with the law of another country. And would such an extension be applied to prohibit the termination of a license to foreign patents upon a challenge to the validity of a licensed U.S. patent? It is not uncommon in many areas of technology for a single license agreement to cover a worldwide patent estate.

The extreme solution for the licensor is to only grant licenses in settlement of litigation. The license could then be coupled with a consent judgment with regard to the validity of the li-

censed patents which has to date been effective in preventing further challenges by the bound party and his privities.

There is, no doubt, a middle ground but at the moment its location is unclear. In the meantime, *MedImmune* might be read to suggest that patent licensors put in clauses which give their licensees incentives not to challenge the licensed patents. The most logical but perhaps the most objectionable would be one allowing license termination upon challenge. It would leave the parties in the same legal situation as they were in before the license was granted although, from a practical point of view, the licensee would have a harder time being persuasive on his allegations of invalidity because in previously taking a license it had acquiesced in the validity of the licensed patent. In addition, the licensee may be in a more difficult economic position than when it took the license because of the growth of licensed activities in this period.

For more information on this topic, please contact any of the attorneys listed below, or any other member of our Intellectual Property Practice. If you would like to be on our mailing list for IP distributions and are not now, please send your e-mail address to mnoonan@mayerbrownrowe.com.

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