

Supreme Court Ruling Bolsters Licensee Rights

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Tuesday, January 09, 2007 --- In an 8-1 decision that may lead more licensees to challenge patents, the Supreme Court on Tuesday sided with biotech company MedImmune Inc. in a royalty dispute with Genentech Inc. over an infant respiratory drug.

The ruling came amid wrangling between business and government over whether patents are too easily approved, preventing rather than inspiring inventions.

The biotech rivals have been battling over a Genentech patent covering Synagis, one of MedImmune's blockbuster drugs, which brings in more than \$1 billion in sales each year.

The High Court decided Tuesday that MedImmune can proceed with its claim in the lower courts that it does not owe Genentech royalties and that Genentech's patent is invalid.

MedImmune had requested a declaratory judgment for owing royalties against its will, which induced Genentech to contend that MedImmune's complaint should be tossed.

Justice Antonin Scalia wrote for the majority, finding that MedImmune had adequately proven that a controversy existed even though MedImmune did not explicitly reject paying royalties as part of a licensing deal.

Scalia wrote that MedImmune convinced the court that it was under no obligation in the license to make royalty payments on an invalid patent.

Justice Clarence Thomas was the only member of the High Court to disagree with the majority.

MedImmune welcomed the ruling for bringing clarity to the use of declaratory judgments by licensees of questionable patents.

"The court's decision means MedImmune is free to pursue its complaint regarding noninfringement, invalidity and unenforceability of the Cabilly II patent. We intend to do so vigorously and are confident that our position will prevail," the company said in a statement Tuesday.

Companies that hold significant patents took Genentech's side in the royalty fight, arguing that giving a unilateral right to a licensee, such as MedImmune,

to dispute a licensed patent could threaten thousands of existing patent settlements and license deals.

The decision could have a chilling effect on patent licensing and technology transfers worth billions of dollars each year, claimed 3M Co., E.I. DuPont de Nemours and Co., General Electric Co. and Proctor & Gamble in court documents filed in support of Genentech.

The court's decision transfers the strength within a license agreement from the licensor to the licensee, according to Joshua Rich, a partner at McDonnell Boehnen Hulbert & Berghoff LLP's Chicago office.

Rich said that prior to this decision, under the Federal Circuit's interpretation of *Lear v. Adkins*, a licensee that believed a licensed patent was invalid or unenforceable would have had to make a difficult choice between breaching the license and foregoing its challenge to the patent.

"Now, the licensee can have its cake and eat it too – it can avoid the jeopardy of patent infringement damages by continuing to pay royalties, limiting its liability to only past royalties paid," Rich said.

Charles Barquist, a patent litigator at Morrison & Foerster LLP, said the court's decision upsets the risk/benefit calculation that underlies virtually every patent license.

"MedImmune turns all fundamental assumptions about the stability and finality of a patent license completely on their head," Barquist said.

Other attorneys noted that the Supreme Court was continuing its recent trend of disagreeing with almost everything the Federal Circuit decides in the MedImmune case.

"The Court reversed not only the decision below but also the Court of Appeals for the Federal Circuit's GenProbe line of cases that prevented a licensee from seeking declaratory relief that a licensed patent was invalid," said Kevin Noonan, also a partner at McDonnell's Chicago office.

Noonan added that the trend does not bode well for supporters of the Federal Circuit's teaching-suggestion-motivation test of obviousness in *KSR v. Teleflex*.

However, some attorneys said the MedImmune decision would help companies facing lawsuits from patent licensing organizations that do not develop any products of their own, often known as patent trolls.

"So-called 'patent trolls' must now be concerned that infringers will quickly agree to license a patent in order to minimize the immediate legal risk from a possible injunction, only to come back later and sue for invalidity or unenforceability of the very same patents when those licensing agreements become burdensome," said William F. Heinze, of counsel at Thomas Kayden

Horstemeyer & Risley LLP's Atlanta office.

For the tech industry, the court's decision is a mixed bag, according to Dr. George Best, patent attorney with Foley & Lardner LLP's Washington D.C. office.

"The court's action might be viewed as good because it makes it easier to challenge the validity of questionable patents. The decision, however, opens the door to additional patent litigation, including litigation between parties that thought they had resolved their disputes by entering into license agreements. That is a result that is not likely to be popular with many in the industry," Best said.

In March, the High Court agreed to hear the case of the patent-license dispute over the drug designed to prevent respiratory tract infections that afflict about 125,000 children in the United States each year.

The case is MedImmune Inc. v. Genentech Inc., case number 05-608, in the U.S. Supreme Court.