



INTELLECTUAL PROPERTY LAW
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CASE ALERT

MedImmune, Inc. v. Genentech, Inc.

The United States Supreme Court will hear oral arguments in the case of *MedImmune, Inc. v. Genentech, Inc.*, on appeal from the Federal Circuit, on October 4, 2006. The Court will decide the issue of whether a patent licensee is required to breach the license agreement by ceasing to pay royalties before initiating a declaratory judgment action to challenge the validity or enforceability of the patents underlying the license. The constitutional question is one of Article III standing – whether there is a case or controversy in the absence of a material breach of a patent license agreement.

In *Lear v. Adkins*,¹ the Supreme Court held that a licensee is not estopped from challenging the validity of a licensed patent on the grounds that public policy favors the challenging of the validity of patent claims. In 2004, the Federal Circuit limited the scope of this “Lear Doctrine,” holding that a patent licensee cannot initiate a challenge to the patent’s validity until and unless the licensee first breaches the license agreement by at least ceasing royalty payments.² According to the Federal Circuit, absent such a breach, a licensee lacks the reasonable apprehension of suit necessary to sustain subject matter jurisdiction. In the *MedImmune* case,³ the CAFC further explained that the *Gen-Probe* decision balances an inequity that arises when a patentee contracts away its right to sue, yet is subject to attack by the licensee at any time without consequence to the license if the attack should fail.

At the heart of the case before the Court are competing issues of patent policy. On one hand, public policy favors ridding the economy of invalid patents. On the other hand, public policy encourages patent licensing as a tool of compromise and settlement, and favors upholding traditional notions of equity – that a party ought not be able to enjoy the protections of a license while at the same time attacking the subject matter of the license.

A decision in *MedImmune*’s favor may leave current licensors vulnerable to attack from their licensees, with a corresponding increase in the number of litigations and litigation expenses generally. Potential licensees will likely face higher royalty rates, particularly upfront royalties, to compensate the licensor for the increased risk of an invalidity challenge to the patent. In this scenario, some entities may be effectively priced out of the market or may have to increase the price of the goods produced to retain profitability.

A decision in *Genentech*’s favor essentially maintains the status quo, although such may negatively affect free competition. Licensors may be encouraged to bundle unrelated or invalid patents with valid patents secure from a challenge to the invalid patents. As a result, licensees may pay unnecessary royalties. Various amici have argued that affirming the Federal Circuit’s decision may stymie innovation, particularly in rapidly developing technologies.

¹ 395 U.S. 653 (1969)

² *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004)

³ 427 F.3d 958 (Fed. Cir. 2005)