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U.S. SUPREME COURT DECISION PERMITS PATENT CHALLENGES BY LICENSEES

On January 9, 2007, the U.S. Supreme Court opened the door to allowing a party to challenge the validity of a patent that it has licensed from the patent's owner. *MedImmune, Inc. v. Genentech, Inc.*, No. 05-608, slip op. (Jan. 9, 2007). Specifically, the Court ruled that MedImmune need not cease payment of royalties called for in its license agreement with Genentech before it can bring a declaratory judgment action challenging the validity of the licensed patent. The Court, however, limited its holding to the question of whether or not the case had been properly dismissed for lack of subject-matter jurisdiction, and did not address the effect of various prior decisions and the common-law of contracts on the substantive issues in the case. The net effect of the Court's decision will be to facilitate challenges to patent validity by permitting licensees to seek judgments of invalidity.

MedImmune has a license to Genentech's "Cabilly II" patent. MedImmune and Genentech disagree as to whether or not the Cabilly II patent's claims cover Synagis, the product that accounts for more than 80 percent of MedImmune's sales revenue. Rather than risk an injunction and enhanced damages for willful infringement, MedImmune paid Genentech royalties under the license. MedImmune then filed suit, seeking a declaratory judgment that the Cabilly II patent was invalid, unenforceable, and not infringed. The district court dismissed MedImmune's suit because it was a licensee in good standing and, therefore, had no basis to fear being sued by Genentech. The U.S. Court of Appeals for the Federal Circuit affirmed.

In reversing the lower courts, the U.S. Supreme Court extended its precedent holding that a person need not break the law and risk incurring a penalty in order to have standing to challenge the law's constitutionality or application. The Court held that a licensee need not breach the license and infringe the patent to have standing to seek a declaratory judgment and that it should not have to pay royalties.

The Court, however, did not address the substantive contract law questions

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that might preclude MedImmune for prevailing on its challenge. While the Court did note that "[p]romising to pay royalties on patents that have not been held invalid does not amount to a promise not to seek a holding of their invalidity," it expressly noted that Genentech's arguments regarding the common-law of contracts and the scope of the U.S. Supreme Court's earlier decision in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), concerned the substance of the case and not whether or not Article III jurisdiction exists. The Court's language, however, strongly suggested that it would find in MedImmune's favor on these issues. More significantly, the Court suggested that the Federal Circuit's basic test for determining whether a declaratory judgment action is appropriate is flawed. The Court stated the Federal Circuit's reasonable apprehension of suit standard conflicts with several earlier U.S. Supreme Court decisions.

Those who view the patent system with skepticism are likely to applaud this result. The Court's decision, however, creates the possibility that disputes that had been settled by licensing arrangements will be reopened in litigation. Thus, this decision potentially raises more issues than it resolves.