

Litigation Alert

Supreme Court Knocks Down Federal Circuit Rule and Allows Licensees to Challenge a Licensed Patent

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Yesterday, the Supreme Court ruled in *MedImmune v. Genentech* that a patent licensee does not need to breach its license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed. This 8-1 decision reversed the Federal Circuit and established a new rule. This rule reduces patentees' leverage over existing licensees who have not admitted the validity, enforceability or infringement of the licensed patents, or otherwise waived their right to bring such challenges. It also emphasizes the importance of such terms in future licensing agreements.

In this case, Genentech asserted that a respiratory drug product from MedImmune infringed on its patent. MedImmune ultimately agreed to take a license from Genentech, although it denied liability. Moreover, MedImmune continued to pay royalties pursuant to its license agreement despite later filing a declaratory judgment action arguing that Genentech was not entitled to royalties because the asserted patent was invalid, unenforceable, or not infringed. Genentech moved to dismiss the lawsuit for lack of subject matter jurisdiction.

The issue decided by the Supreme Court was whether there was an "actual controversy" in light of the fact that MedImmune was a licensee in good standing with Genentech. Constitutionally, federal courts only have jurisdiction where there is an actual controversy, and cannot issue advisory opinions. In prior cases with similar facts, the Federal Circuit had found no controversy existed because a licensee in good standing cannot have any reasonable apprehension of being sued for infringement by the patentee. See, e.g., *Gen-Probe, Inc. v. Vysis, Inc.*, 359 F. 3d 1376, 1381 (2004).

The Supreme Court overturned these cases. Justice Scalia, who has authored several of the Court's major decisions on justiciability, wrote for the majority. He emphasized that the actual controversy is the contractual dispute regarding MedImmune's obligations under the licensing agreement. MedImmune argued that it owed no royalties under the license agreement unless the underlying patent was valid and covered MedImmune's drug. While MedImmune had contractually agreed to pay the royalties regardless of the patent's validity, the Court stated that agreeing to pay a royalty "until a patent claim has been held invalid by a

competent body" does not prevent a licensee from questioning the patent's validity. The Court also found that MedImmune's amended complaint sufficiently disputed that the patent covered the respiratory drug. Therefore, even though Genentech could not sue MedImmune for infringement while the license was in place, there was a sufficient controversy over whether MedImmune had to pay royalties.

The Court further decided that MedImmune did not first need to breach the license (which would give rise to a Genentech claim for damages or injunctive relief) before seeking declaratory relief about the parties' rights and duties under the license. In *Altwater v. Freeman*, 319 U.S. 359 (1943), the Court allowed patent licensees who had paid royalties "under protest," to seek a declaratory judgment about the patent's validity. Signing a license agreement under protest creates a controversy "where payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim." The Federal Circuit had distinguished *Altwater* as only applicable where the "involuntary or coercive nature" arises from an injunction or governmental compulsion. The Supreme Court, however, stated that *Altwater*'s facts did not require such a narrow rule. "The rule that a plaintiff must destroy a large building, bet the farm, or (as here) risk treble damages and the loss of 80 percent of its business, before seeking a declaration of its actively contested legal rights finds no support" in the Constitution's jurisdictional requirements for federal courts.

The opinion is at <http://www.supremecourtus.gov/opinions/06pdf/05-608.pdf>.

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