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Supreme Court Makes it Easier for Licensees to Challenge Patents

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In the past, licensees have faced a difficult quandary when they wanted to challenge the application of a patent license agreement, either by arguing that a particular licensed patent was not valid or that specific products were not covered by the licensed patents. They could not assert the claims so long as they continued to pay royalties. But if they discontinued paying royalties, they risked losing the license and potentially becoming a knowing infringer, subject to triple damages and attorneys' fees. The Supreme Court recently issued a decision that changes these rules in a way favorable to licensees.

In its January 9, 2007 decision in *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court reversed an established lower court rule and held that a patent licensee does not have to breach its license and withhold royalties before bringing a lawsuit to challenge the validity of the patent. The case dealt with a familiar scenario. MedImmune was licensed to use Genentech's medical technology and was required to pay royalties on any relevant patents "which have neither expired nor been held invalid." When a new patent issued in 2001, Genentech demanded in writing that MedImmune pay royalties under it. MedImmune protested on the grounds that the 2001 patent was likely to be held invalid and unenforceable, but went ahead and paid the royalties. It then filed suit, requesting a declaratory judgment that the patent was invalid.

Because federal courts are constitutionally prohibited from rendering "advisory opinions," the federal Declaratory Judgment Act requires the presence of an "actual case or controversy." The preexisting rule, applied by the Federal Circuit (the specialized patent

appeals court) in this case, held that a case or controversy does not arise in a patent licensing dispute until the licensee has breached the license and withheld royalties. The Supreme Court reversed that rule and held that the payment of royalties does not render an otherwise clear cut dispute "non-justiciable." The Court did not reach the merits of the patent validity issue, instead sending the case back to the lower courts.

This case represents a significant shift in the balance between patent holders and licensees. Since the validity and scope of patents are often unclear, it is not uncommon for there to be disagreements about how license agreements should be applied. In the past, patent holders have used the threat of license termination to enforce their views about the application of the license. Now licensees will be more willing to challenge those views.

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