

License to Sue? The Availability of Declaratory Judgment Actions to Patent Licensees After *MedImmune, Inc. v. Genentech, Inc.*

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On January 9, 2007, the U.S. Supreme Court decided a case that will have sweeping implications for patent licensing and technology transfer. In *MedImmune, Inc. v. Genentech, Inc.*, the Court held that a patent licensee could seek in federal court a declaratory judgment that the licensed patent was invalid, unenforceable, or not infringed, without having first to breach the license agreement. In this regard, the patent licensee's continued payment of royalties under the agreement does not negate the existence of an actual controversy for purposes of U.S. Constitution Article III jurisdiction. This follows because of the potential consequence that, absent such payment, the licensor would file suit seeking enhanced damages for willful patent infringement as well as an injunction prohibiting the licensee from making and selling its product.

THE LICENSE AND THE LAWSUIT

Genentech, Inc. and the City of Hope own U.S. Patent No. 4,816,567 (the Cabilly I patent), and U.S. Patent No. 6,331,415 (the Cabilly II patent), a continuation of Cabilly I, that issued on December 18, 2001, after a lengthy interference proceed-

ing. The patented technology related to the use of cell cultures to manufacture human antibodies. Since 1997, MedImmune had been licensed by Genentech under the Cabilly I patent and, by the terms of that agreement, received a license under the Cabilly II patent. After the Cabilly II patent issued, Genentech advised MedImmune that a MedImmune product, marketed as Synagis®, was covered by the Cabilly II patent, and thus, subject to royalties in accordance with the license terms. MedImmune objected, and filed a declaratory judgment action in the U.S. District Court for the Central District of California, seeking a declaration that the Cabilly II patent was invalid or unenforceable. MedImmune continued to pay license royalties (albeit under protest) to Genentech, relying on case law that a licensor may not terminate the license if the royalties are paid to the licensor and the license agreement is not otherwise breached. The district court dismissed MedImmune's suit as non-justiciable under the Declaratory Judgment Act.

On appeal, the U.S. Court of Appeals for the Federal Circuit reiterated that while a licensor and licensee always have adverse legal interests, that relationship alone does not create a justiciable controversy. Citing Supreme Court precedent, the Federal Circuit admonished that the Declaratory Judgment Act requires a definite and concrete controversy of sufficient immediacy and reality to warrant judicial intervention. According to the Federal Circuit, MedImmune avoided, and continued to avoid, such a situation by avoiding breach and avoiding apprehension of suit. The Federal Circuit further reasoned that although courts have discretion in deciding whether to accept a declaratory action when the constitutional and statutory requirements are met, there is no discretion to accept an action when there is no controversy of immediacy or reality because there is no reasonable apprehension of suit. The Federal Circuit therefore held that the dis-

trict court did not err in finding that MedImmune, since under no threat or apprehension of suit, did not have standing to bring a declaratory challenge to the Cabilly II patent.

THE SUPREMES SEACHANGE

The Supreme Court granted certiorari to hear MedImmune's appeal. At oral argument, the justices appeared less than settled about the nature of the applicable case-or-controversy standard. Indeed, in the subsequent opinion, Justice Scalia, writing for the 8-1 majority, acknowledged that the Court had not drawn the brightest of lines between those declaratory-judgment actions that satisfy the case-or-controversy requirement and those that do not. Nevertheless, the precedent established that the dispute be definite and concrete, touching the legal relations of parties having adverse legal interests, and that it be real and substantial and admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts. At bottom, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.

The Court indicated that these standards undoubtedly would have been satisfied if MedImmune had taken the final step of refusing to make royalty payments under the 1997 license agreement. Whereas Genentech claimed a right to royalties under the licensing agreement, MedImmune asserted that no royalties were owed because the Cabilly II patent was invalid and not infringed. Moreover, it was undisputed that Genentech had threatened to enjoin MedImmune's sales if royalties were not forthcoming. In the Court's view, the factual and legal dimensions of the dispute were well defined. But for MedImmune continuing to make royalty payments, nothing about the dispute rendered it unfit for judicial resolution, opined the Court. Assuming (without deciding) that Genentech could not claim an anticipatory breach and repudiate the license, the Court reasoned that the continuation of royalty payments made what would otherwise be an imminent threat at least remote, if not nonexistent. In this regard, MedImmune's own acts eliminated the

imminent threat of harm. The question, therefore, was whether this caused the dispute no longer to be a case or controversy within the meaning of Article III.

The Court analogized the case to others where threatened action by the government was concerned. In such cases, a plaintiff would not be required to expose itself to liability before bringing suit to challenge the basis for the threat, for example, the constitutionality of a law threatened to be enforced. The plaintiff's own action (or inaction) in failing to violate the law eliminates the imminent threat of prosecution, but nonetheless does not eliminate Article III jurisdiction. The Court reasoned that this did not preclude subject-matter jurisdiction because the threat-eliminating behavior was effectively coerced. The dilemma posed by that coercion – putting the challenger to the choice between abandoning its rights or risking prosecution – was the dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.

Furthermore, the Court stated that promising 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. The Court noted that despite Genentech's contention of the common-law rule that a party to a contract cannot at one and the same time challenge its validity and continue to reap its benefits, *MedImmune* was not repudiating or impugning the contract while continuing to reap its benefits. Rather, *MedImmune* was

asserting that the contract, properly interpreted, did not prevent it from challenging the patent, and did not require the payment of royalties because the patent did not cover its product and was invalid. Accordingly, the Court reversed the Federal Circuit's decision, which upheld the district court's dismissal of *MedImmune* declaratory judgment suit, and remanded for a consideration of *MedImmune*'s invalidity and noninfringement arguments.

CHARTING A NEW COURSE?

An initial reaction to the *MedImmune* decision might be to question the effect on innovation and business generally. The answer, however, will likely be mixed and depends upon the particular industry sector and its licensing customs. For example, the biotechnology industry, with a greater reliance upon patent licensing to facilitate collaboration and to obtain access to enabling technology, might suffer more from a fear of licensee challenge.

In any event, with its judgment in *MedImmune*, the Supreme Court has placed licensed U.S. patents in greater jeopardy of challenge by existing licensees, and has instigated the adoption by future licensors of contract provisions expressly designed to thwart such licensee behavior. The procedural ability after *MedImmune* of a licensee to avail itself of a declaratory judgment suit in an advantageous forum will likely result in an increased incidence of licensee challenges on presently licensed patents. Particularly without the risk of injunction

and enhanced infringement damages, a licensee would be emboldened to attempt to step out from under the patent license or at least to pursue leverage to renegotiate the license for more favorable terms. In this regard, the *MedImmune* decision might have the unintended consequence of creating a federal court mechanism for what essentially amounts to a post-grant opposition to an issued patent by a competitor with the benefit of access to the patented technology but without the fear of reprisal for challenging the patent. Whether such an impact on otherwise defined business relationships involving patent rights is acceptable might warrant a legislative consideration and response.

Of course, future licensors in the post-*MedImmune* era might be encouraged to seek lump-sum, paid-up or other front-loaded royalties. In the alternative, licensors will be motivated to exact contract provisions that deter licensees from such challenges, subject to the *Lear v. Adkins* prohibition against estopping patent licensees from raising invalidity contentions. License provisions that might pass *Lear* muster include procedural impediments, such as mandatory arbitration, as well as substantive costs, such as increased royalties, associated with the right to challenge the propriety of the underlying patent. In any event, the feasibility of such contract limitations will likely require yet another consideration by the Supreme Court. **IPT**

Patent Office Asked to Review and Revoke Blackboard Patent Software Freedom Law Center Files Re-Examination Request on Behalf of Clients

The Software Freedom Law Center (SFLC), provider of pro-bono legal services to protect and advance Free and Open Source Software, has filed a formal request with the United States Patent and Trademark Office (USPTO) for re-examination of Blackboard's e-Learning patent. If successful, the request will ultimately lead to the cancellation of all 44 claims of the patent.

Blackboard, Inc., maker of web-based software that allows teachers and students to interact outside of the classroom, was awarded the patent on January 17, 2006. The patent, "Internet-based education support system and methods" (U.S. 6988138), grants Blackboard a monopoly on most educational software that differentiates between the roles of teacher and student until the year 2022.

The Software Freedom Law Center filed the re-examination request on behalf of Sakai, Moodle and ATutor, three open source educational software programs. The request cites documents that predate the filing of the Blackboard patent and describe everything claimed in it. For a patent to be valid, it must contain ideas that were original when it was filed.

"In a free society, there is no room for a monopoly on any part of the educational process," said Eben Moglen, Executive Director of SFLC and Professor of Law and Legal History at Columbia University. "We are confident that there is enough prior art for the Patent Office to open, re-examine, and ultimately revoke all of the patent's claims."

The Software Freedom Law Center filed the request for re-examination on November 17. The Patent Office will decide whether to order re-examination of the patent within three months.