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IP FLASH

PATENT LICENSEE IN GOOD STANDING SEEKS DECLARATORY JUDGMENT

On January 9, 2007, the United States Supreme Court issued a decision finding that a patent licensee, MedImmune, Inc., was not required to break or terminate its license agreement with a licensor, Genentech, Inc., before seeking a declaratory judgment in federal court that the underlying patent of the license agreement was invalid, unenforceable, or not infringed. (*MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. ____, 81 USPQ2d 1225 (2007)). This decision appears to create an opportunity for a licensee to extricate itself from a license in a way that was previously considered unavailable and thus will cause licensing parties to rethink the options available for terminating licenses.

The license agreement that was the subject of the case granted MedImmune the right to make, use and sell licensed products covered by Genentech's patent claims in return for the payment of royalties on the sales of the licensed products. At the time of entering the license agreement, Genentech had only a pending patent application. A few years later, Genentech's patent application issued as a patent and MedImmune subsequently came to believe that the patent was invalid. MedImmune sought a declaratory judgment that the patent was invalid or that MedImmune's products did not infringe, even though it continued to pay royalties under the license agreement to avoid the risk of treble damages and attorney's fees for willful infringement. The issue decided by the Court in *MedImmune* was whether the "actual controversy" requirement to seek a declaratory judgment of patent invalidity or non-infringement under the Declaratory Judgment Act (28 U.S.C. §2201(a)) is met in the case of a patent licensee in good standing who has not breached or terminated a license agreement and thus is not at risk of being sued for patent infringement.

The ruling in *MedImmune* provides a choice for a patent licensee who comes to believe that a licensed patent is invalid or does not cover the licensed products. Now, in addition to the previously-available option of breaching the license agreement at the risk of imposition of treble damages and attorney's fees, the patent licensee may continue to pay royalties while, at the same time, seeking a declaratory judgment that the licensed patent is invalid and/or not infringed.

It is worth noting that the Court indicated that it delivered no opinion on the issue of whether a licensee in good standing may be estopped from challenging the validity of a patent if the terms of the license agreement specifically prohibit such a challenge. However, the Court did suggest that this issue is applicable to the merits of a case and is not relevant to a consideration of whether there is suitable jurisdiction under the Declaratory Judgment Act for the licensee to seek a declaratory judgment. Consequently, even if a license agreement contains a clause that purportedly prohibits a licensee from challenging a licensed patent, the licensee may still have standing to bring a declaratory judgment action.

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