

## Supreme Court Throws Patent Owners a Curveball

by *Michael T. Siekman and Charles Steenburg*

Reversing a long-standing rule, the Supreme Court recently decided that a patent license holder could pursue a lawsuit seeking to declare the licensed patent invalid even while retaining the protection of the license. Previously, courts had required that the license holder first repudiate the license, generally by ceasing royalty payments. Repudiating the license, however, would expose a license holder to a patent infringement suit, which ultimately could lead to a permanent injunction banning it from selling its products. Thus, a license holder that later determined that a patent it had licensed was invalid could only challenge the validity of the patent if it was willing to risk the possibility of being precluded from marketing its product.

Attempts to reach a middle ground, such as by paying royalties into escrow during a validity challenge, were rejected by the courts. Not surprisingly, therefore, many license holders held their noses and continued to pay royalties for what they thought were invalid patents.

This decision in *MedImmune Inc. v. Genentech Inc.* means that Maryland-based MedImmune is now free to pursue its challenge to California-based Genentech's "Cabilly" patent concerning the basic technology for making recombinant antibodies. Recombinant antibodies constitute a large and rapidly growing segment of the biotech market. Genentech is estimated to reap annual royalties of well over \$100 million already from such blockbuster drugs as Humira, Remicade, Synagis, and Erbitux, and myriad recombinant antibodies are in development by biotech and pharma companies of all sizes.

The Cabilly technology was invented in 1983 and was originally going to pass into the public domain in March 2006, but Genentech cut an allegedly collusive deal with another company, securing a patent that will not expire until 2018. Unsurprisingly, many

companies questioned whether the Cabilly patent is valid. Until now, however, Genentech did not have to worry about "declaratory judgment" suits challenging the validity of the Cabilly patent because the products were too important for companies to risk infringement suits and possible injunctions. For instance, Synagis accounts for around 80 percent of MedImmune's business, so MedImmune was not about to repudiate its license. The Supreme Court's decision now allows MedImmune's challenge to the patent's validity to proceed without losing the protection of its license.

The effect of the MedImmune decision extends far beyond companies selling or developing recombinant antibodies. For license holders, it resolves the long-standing dilemma of how to challenge a suspect patent without exposing yourself to the risk of infringement. By contrast, major licensors read the decision as undermining what they considered the quid pro quo of a license -- immunity from patent infringement lawsuits in exchange for both royalties and an undertaking not to challenge the patent's validity.

In the short term, the court's decision will undoubtedly spur many license holders to try to invalidate patents that they license. Why not? The worst-case scenario is shouldering litigation costs while also continuing to pay royalties. That is a far cry from facing an injunction forbidding you from selling the product in question, or the undoubtedly far higher royalties the patent owner would demand if armed with such an injunction.

The longer term outlook is less clear. Some people believe MedImmune will dampen technology transfers by chilling future licensing activity. With less to gain, many patent owners may be reluctant to grant licenses in the first place. On the other hand, potential license holders might be more willing to enter a license if they can



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later challenge the patent's validity without risking infringement. Also, it may be possible to "contract around" the Supreme Court's decision by including a provision that revokes the license in the event that the license holder challenges the patent's validity. Patent owners might also seek a liquidated damages provision to compensate

them for the expenses of negotiating the license in the first place. Licensing negotiations themselves are likely to become more complicated as parties grapple with these issues.

The Supreme Court's decision raises more questions than it answers. Even the Cabilly patent itself remains up in the air.