



## Medimmune Licensing Wars



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Patents play an increasingly important role in the American economy, protecting the technological innovations that spur economic growth, attracting investment, and, in particular, generating licensing revenues for large and small businesses, universities, research institutions, and even weekend inventors. For example, one survey reported that academic and nonprofit research institutions realized \$1.385 billion in licensing revenues in 2004 alone. Those licensing revenues, in turn, fund further research and development efforts. All of this activity benefits consumers, who thus enjoy new products, new medicines, and increased shareholder value of companies in which they invest. Indeed, share prices commonly rise on reports that a company has won a key ruling or verdict in patent infringement cases.

Perhaps recognizing the increased role of patents in today's economy, the United States Supreme Court has heard a greater number of appeals from patent cases over the last few years. It was once common for the Supreme Court to go years between hearing even a single patent case. Now, the Court has several patent cases pending on its docket at any given time.

The Supreme Court's announced its latest decision of a patent case this past January. The case, *MedImmune, Inc. v. Genentech, Inc., et al.*, asks the question whether a patent licensee may file a lawsuit to challenge the validity of a licensed patent (or to challenge whether the patent covers a new product) without first breaching the license agreement (e.g., by withholding royalties). The Supreme Court held that the licensee in this case, a pharmaceutical company known as MedImmune, did not need to breach the license before filing a suit to challenge the patent. The obvious benefit to MedImmune was that it could challenge the patent, and thus its obligation to pay roy-

alties, while preserving the royalty rate and protections of the existing license. In other words, by filing suit, MedImmune did not risk losing its license to sell the patented product should it fail to invalidate the patent. Adding to the controversy, the United States Patent and Trademark Office, in a preliminary ruling, has cancelled claims to Genentech's patent. Genentech plans to appeal the ruling.

While on the surface the case involves an arcane and technical point of federal court procedure, it actually will have a broader impact on patent licensing. First, encouraged by the decision, other licensees may be motivated to challenge licensed patents. Second, patent owners may be less inclined to license their inventions or otherwise will change the way they license patents. For example, patent owners may insist on safeguards that will make it more difficult for licensees to challenge the licensed patents or that will impose penalties for doing so. These safeguards, in turn, may themselves spur further litigation challenging their enforceability.

Patent professionals and scholars believe that the Court's decision was motivated in part by a concern over so-called "patent trolls" and cries from some circles that there are too many improvidently granted patents currently in force. In other words, the Supreme Court may have been influenced by a perception that it should allow more patent challenges to rinse the economy of bad patents. But statistics show that the United States Patent & Trademark Office is actually doing a careful job of screening patent applications. Only about 50% of patent applications mature into patents, meaning that the Patent Office is exercising selectivity. Contrary to the alarmists, the quality of patents has actually risen. Thus, the *MedImmune* decision may be solving a problem that does not exist. ✦