Stop the Bleeding: Medimmune Ends the Unjustified Erosion of Patent Holders' Rights in Patent Licensing Agreements

Richard Weil Goldstucker

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STOP THE BLEEDING: *MEDIMMUNE* ENDS THE UNJUSTIFIED EROSION OF PATENT HOLDERS’ RIGHTS IN PATENT LICENSING AGREEMENTS

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I. INTRODUCTION

Incrementally, the federal courts have eroded the rights of patent holders wishing to license their patents. They have done so through judicial decisions that have favored the patent licensee in patent license negotiations. Each party seeks the advantage. Even after the licensing agreement is formed and the licensee starts to benefit from the use of the patented invention, the parties often pursue strategies designed to gain further advantage. A licensee who questions the validity of the patent can seek to invalidate the patent to avoid paying license fees. Until 1969, a patent holder could insert a no-challenge clause in the licensing agreement to ensure that the licensee would not sue over the validity of the patent. Such a provision ensured that the patent holder and licensee would avoid the expensive litigation that resulted when a licensee would bring suit. The elimination of these costs would be reflected in lower licensing payments by the licensee.

However, in 1969, the Supreme Court in Lear, Inc. v. Adkins invalidated no-challenge clauses in patent licensing agreements. This decision stripped patent holders of an important weapon in their bargaining arsenals. The decision remains an unprecedented intrusion into a patent holder's ability to license his patent. The decision not only harmed patent holders, but, as this Note will examine, it also harmed both licensees and the public at large. The Lear decision defied the established goals of the patent system.

Yet Lear has remained the law for more than thirty-five years. Despite the erosion of patent holders’ ability to freely contract, courts still offered them some protection against licensees seeking to invalidate patents through the Declaratory Judgment Act. The Declaratory Judgment Act requires that a licensee seeking to invalidate a licensed patent establish that there is a “case of actual controversy” to allow a court to determine the patent’s validity. Before the Supreme Court’s decision in MedImmune, Inc. v. Genentech, Inc., a licensee, in order to establish a case of actual controversy under the Declaratory Judgment Act, had to breach the

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1 See infra Part II.
2 See infra Part VI.
3 See infra Part VI.
4 See infra Part VI.
5 See infra Part II.
6 See infra Part VI.
7 See infra Part VII.
license agreement and subsequently challenge the validity of the patent.\textsuperscript{11} The
Declaratory Judgment Act protected patent holders because an unsuccessful
licensee, one that did not prevail on its invalidity charge, would lose its license to
use the patent.\textsuperscript{12}

However, the Supreme Court’s recent decision in \textit{MedImmune} profoundly
altered the declaratory judgment landscape.\textsuperscript{13} In \textit{MedImmune}, the Supreme Court
held that a patent licensee could seek a declaration on the validity or enforceability
of a patent without breaching the licensing agreement.\textsuperscript{14} As a result of the
\textit{MedImmune} decision, the declaratory judgment action has now become a
dangerous weapon in a licensee’s arsenal. A licensee no longer runs the risk of
losing the license if he fails to invalidate the patent.

The \textit{MedImmune} decision, on its face, has left patent holders defenseless.
Licensees can negotiate a patent license and face no risk in challenging the validity
of the patent. However, as this Note indicates, all is not lost for patent holders
in the post-\textit{MedImmune} licensing landscape. A careful reading of the \textit{MedImmune}
decision reveals implicit support by the Supreme Court for the free negotiation
of patent licensing agreements and the reinstatement of no-challenge clauses in
licensing agreements.

This Note argues that because no-challenge clauses benefit the agreeing parties
and the public at large, and because the \textit{MedImmune} decision implicitly supports
such provisions, no-challenge clauses may be used again in patent licensing
negotiation. Part II of this Note discusses the \textit{Lear} decision and the history of
no-challenge clauses. Parts III and IV review the Declaratory Judgment Act and
how it has been altered by \textit{MedImmune}. Part V examines notable decisions after
\textit{MedImmune} and how the declaratory judgment standard has functionally changed.
Finally, Parts VI and VII discuss the policy and \textit{MedImmune} support of the
reimplementation of no-challenge clauses.

\section*{II. The History of No-challenge Clauses in Patent
Licensing Situations}

Before the Supreme Court’s decision in \textit{Lear, Inc. v. Adkins},\textsuperscript{15} patent holders
and licensees clashing over patent validity struggled to find consistency in the

\textsuperscript{11} See Gen-Probe Inc. v. Vysis, Inc., 359 F.3d 1376 \textit{passim} (Fed. Cir. 2004) (explaining that the
court looks to the conduct of the infringer and finding no controversy where there was not a
material breach).
\textsuperscript{12} See id.
\textsuperscript{13} \textit{MedImmune}, 549 U.S. at 118 (2007).
\textsuperscript{14} Id. at 135–36.
\textsuperscript{15} 395 U.S. 653 (1969).
courts. Thus, licensing contracts addressed the effect of patent validity challenges on the contractual relationship. The courts’ decisions provided responses regarding issues the license failed to address. One such response, called the licensee estoppel rule, provides that if a licensee is operating under a license agreement, the licensee is estopped from contesting whether the patent is valid.

The licensee estoppel rule is founded on the idea that a licensee should not be able to enjoy the benefits derived from use of the patent under the licensing agreement and simultaneously challenge the validity of the patent on which the agreement is based. This rule creates a de facto no-challenge termination clause where the licensee cannot challenge the patent’s validity.

The United States Supreme Court, however, believed that the licensee estoppel rule was flawed for a number of reasons and ultimately struck down the rule. The Supreme Court in Lear vacated a decision of the California Supreme Court that had used the licensee estoppel doctrine to prevent the Lear Airplane Company, the patent licensee, from defending a contract action for royalties. The California Supreme Court held that under the doctrine of licensee estoppel, Lear was not allowed to challenge the validity of Adkins’ patent if Lear did not terminate the agreement. The California court found that Lear had not terminated the agreement properly. The United States Supreme Court reversed the California Supreme Court’s decision, stating that the doctrine of licensee estoppel was “so eroded that it could no longer be considered the ‘general rule.’” In Lear, the Court noted that the rule of licensee estoppel fails to address the “public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.”

16 See generally John W. Schlicher, Patent Licensing, What to do After MedImmune v. Genentech, 89 J. PAT. & TRADEMARK OFF. SOC’Y 364, 369 (2007) (stating that for years patent owners and licensees had to contend with the reality that a patent’s validity was never certain).
17 See id. (discussing the use of a variety of license terms to describe the effect of a patent’s validity on royalty payments).
18 Id.
20 Id.
24 Id. at 325.
25 Lear, 395 U.S. at 664.
26 Id. at 670.
explained that "[l]icensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery[, and] if they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." 27

After Lear, lower courts have struck down no-challenge clauses without exception. 28 For example, in Plastic Contact Lens Co. v. W.R.S. Contact Lens Laboratories, Inc., the court stated that the defendants violated the no-contest clause of their license agreements, but such a clause did not restrict the defendants from challenging the patent’s validity. 29 In Bendix Corp. v. Balax, Inc., where the licensor brought an infringement suit against the licensee to prove the patent valid, the Seventh Circuit commented on the no-challenge clause issue. 30 The court stated that the Lear decision invalidated licensors’ long-held right to prevent licensees from challenging a patent, concluding that such a right is outside the protection afforded by the patent monopoly. 31 Subsequent cases established the Supreme Court’s view that the patent laws are concerned with keeping the granted patent monopoly within its allowed scope. 32 The Court held that no-challenge clauses unduly extend the monopolistic powers granted to the patent owner. 33 Finally, courts have held that licensees are not estopped from challenging the validity of certification marks, despite the presence of an express no-challenge provision in a license. 34 Thus, these above mentioned cases prove the Supreme Court’s decision in Lear has guided courts to strike down no-challenge clauses in license agreements. Although Lear eliminated a patent holder’s ability to ensure that a prospective licensee would not pursue expensive litigation asserting patent

27 Id.
29 330 F. Supp. 441, 443 (S.D.N.Y. 1970) (licensee brought action to recoup royalties under license agreements on grounds that the patent was invalid).
30 421 F.2d at 821.
31 Id. at 820–21. A patent gives one the exclusionary right to keep others from making, using, offering for sale, selling, and importing the claimed invention. 35 U.S.C. 154(a)(1) (2002).
32 See Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313, 343–44 (1971) (discussing the fear that patentees will attempt to extend their monopolies by attaching conditions to the use of a license).
33 Id.
34 See Idaho Potato Comm’n v. M & M Produce Farm & Sales, 335 F.3d 130, 138–39 (2d Cir. 2003) (holding that the public interest in preserving a market for the product outweighed the owner’s enforcement interest).
invalidity, the Declaratory Judgment Act was available to provide protection to patent holders.

III. GENERAL STANDARDS FOR STATING A CLAIM FOR A DECLARATORY JUDGMENT

The Declaratory Judgment Act supports federal court jurisdiction only in the event of an "actual controversy."35 This requirement authorizes the federal judiciary to hear only justiciable cases and controversies.36

The Supreme Court has long recognized that "[t]he difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult," if not impossible, to create and apply an effective test for determining whether there is such a controversy.37 The Court consistently requires that the dispute be "definite and concrete, touching the legal relations of parties having adverse legal interests" and "a real and substantial controversy admitting 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."38 Therefore, under the Declaratory Judgment Act, an alleged infringer could sue a patent owner for a declaratory judgment over a dispute of patent invalidity or noninfringement.39

Prior to the MedImmune decision, an action seeking a declaratory judgment that a patent was not infringed or was unenforceable could be brought by any party, but only if both inquiries of the Federal Circuit’s two-part test to determine whether a controversy existed were satisfied.40 According to the Federal Circuit, in order for a district court to have jurisdiction to hear a declaratory judgment action in patent cases,

There must be both (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement

36 U.S. CONST. art. III.
40 Gen-Probe Inc. v. Vysis, Inc., 359 F.3d 1376, 1379–80 (Fed. Cir. 2004) (stating that the "court has developed a pragmatic inquiry that focuses on not only the conduct of the patentee but also the conduct of the putative infringer").
suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity.\footnote{\textit{Id.}}

However, even if the conditions for declaratory judgment were met, the court still had “unique and substantial discretion” in deciding whether to hear a declaratory judgment action.\footnote{\textit{Wilton v. Seven Falls Co.}, 515 U.S. 277, 286 (1995).}

The first part of the Federal Circuit’s inquiry became known as the “reasonable apprehension of imminent suit” test.\footnote{\textit{Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha}, 57 F.3d 1051, 1053–54 (Fed. Cir. 1995).} According to the court, a plaintiff had to feel more than just nervousness to have a reasonable apprehension of suit for this prong to have been met.\footnote{\textit{Id.}} This apprehension must have arisen from objective circumstances.\footnote{\textit{Id.}} Thus, the reasonable apprehension of imminent suit test needed to be satisfied for a court to have jurisdiction over a declaratory judgment claim. In a patent licensing context, the Federal Circuit had determined that a case or controversy could only be established if the licensee first breached the agreement.\footnote{\textit{Gen-Probe}, 359 F.3d passim.} Thus, a licensee had to breach the agreement to assert invalidity, leaving the licensee with no license should he fail to prove the patent invalid.

The second part of the inquiry, which is beyond the scope of this Note, ensures that there exists a controversy by requiring infringement or intent to infringe by a person if the patent is valid.\footnote{BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993).}

\section*{IV. The \textit{MedImmune v. Genentech} Decision}

\textit{MedImmune} eliminated the Federal Circuit’s reasonable apprehension of imminent suit requirement for jurisdiction in a declaratory judgment action.\footnote{\textit{MedImmune, Inc. v. Genentech, Inc.}, 549 U.S. 118 (2007).} The new standard for determining whether such a declaratory judgment action may be maintained is established in \textit{MedImmune} and the Supreme Court precedent cited in footnote eleven of \textit{MedImmune}.\footnote{\textit{Id.} at 126–34 n.11.} Under \textit{MedImmune}, for a court to properly hear a declaratory action, the court must determine “the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties

\begin{footnotesize}
\footnote{\textit{Id.} (quoting BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993)).}
\footnote{\textit{Wilton v. Seven Falls Co.}, 515 U.S. 277, 286 (1995).}
\footnote{\textit{Phillips Plastics Corp. v. Kato Hatsujou Kabushiki Kaisha}, 57 F.3d 1051, 1053–54 (Fed. Cir. 1995).}
\footnote{\textit{Id.}}
\footnote{\textit{Id.}}
\footnote{\textit{Gen-Probe}, 359 F.3d passim.}
\footnote{BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993). The second inquiry is outside of the scope of this Note because \textit{MedImmune} addresses only the first prong of the inquiry.}
\footnote{\textit{MedImmune, Inc. v. Genentech, Inc.}, 549 U.S. 118 (2007).}
\footnote{\textit{Id.} at 126–34 n.11.}
\end{footnotesize}
having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.' 50 Footnote eleven of MedImmune took exception to the Federal Circuit’s declaratory judgment test. The Supreme Court stated:

[The Supreme Court’s decision in Altvater v. Freeman] contradict[s] the Federal Circuit’s “reasonable apprehension of suit” test (or, in its evolved form, the “reasonable apprehension of imminent suit” test). A licensee who pays royalties under compulsion of an injunction has no more apprehension of imminent harm than a licensee who pays royalties for fear of treble damages and an injunction fatal to his business. The reasonable-apprehension-of-suit test also conflicts with our decisions in Maryland Casualty Co. v. Pacific Coal & Oil Co., where jurisdiction obtained even though the collision-victim defendant could not have sued the declaratory-judgment plaintiff-insurer without first obtaining a judgment against the insured; and Aetna Life Insurance Co. v. Haworth, where jurisdiction obtained even though the very reason the insurer sought declaratory relief was that the insured had given no indication that he would file suit. It is also in tension with Cardinal Chemical Co. v. Morton International, Inc., which held that appellate affirmance of a judgment of noninfringement, eliminating any apprehension of suit, does not moot a declaratory judgment counterclaim of patent invalidity.51

Through MedImmune and the Supreme Court precedent cited in MedImmune’s footnote eleven, the reasonable apprehension of imminent suit test has been eliminated as a required element in determining whether a party can maintain a declaratory judgment action.52 For a party to bring a declaratory judgment action under the MedImmune standard, the controversy must be “‘definite and concrete, touching the legal relations of parties having adverse legal interests’; and that it be ‘real and substantial’ and ‘admit[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon..."

50 Id. at 127 n.11 (quoting Md. Cas. Co. v. Pac. Coal & Oil Co., 312 U.S. 270, 273 (1941)).
51 Id. at 134 n.11 (citations omitted).
52 See SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372, 1380 (Fed. Cir. 2007) (“The Supreme Court’s opinion in MedImmune represents a rejection of our reasonable apprehension of suit test.”); Teva Pharm. USA, Inc. v. Novartis Pharm. Corp., 482 F.3d 1330, 1338 (Fed. Cir. 2007) (“[F]ollowing MedImmune, we recognize that we are not relying on our two-part reasonable-apprehension-of-suit test.”).
a hypothetical state of facts.' The four cases cited in footnote eleven of \textit{MedImmune} discuss the application of such an inquiry.

\textbf{A. SUPREME COURT CASES CITED IN FOOTNOTE ELEVEN OF MEDIMMUNE}

In \textit{Aetna Life Insurance Co. v. Haworth}, Aetna issued multiple insurance policies with different terms and benefits to Haworth. During the term of the policies, the policyholder ceased paying premiums on four of the policies while claiming the disability benefits stipulated in the policies. A dispute ultimately arose as to whether the policies had lapsed. According to the Court, if the policies were still in good standing, the policyholder or, upon his death, his beneficiary, was entitled to collect a sum of money under the policies. The insurance company brought a declaratory judgment action to have the Court determine the true nature of the policyholder's disability. The policyholder had yet to commence any type of action that would have allowed the insurance company an opportunity to prove the non-existence of the alleged disability. The insurance company argued that if no immediate action was taken, certain evidence may be lost and the insurance company would have to maintain a sum of money in reserve for possible future payment under the policy.

The Court held that the Declaratory Judgment Act is procedural only, and that "cases of actual controversy" comports with the Constitutional provision limiting judicial power to cases or controversies. The Court reasoned that a controversy must be "one that is appropriate for judicial determination" where "[a] justiciable controversy is thus distinguished from a difference or dispute of a hypothetical or abstract character; from one that is academic or moot." The Court further stated that the controversy must be real, substantial, concrete, and able to be relieved by a conclusive decree as opposed to an advisory opinion.

In \textit{Aetna}, the Court found the dispute in question, which related to legal rights and obligations arising from the insurance contracts and the dispute, was definite

\begin{itemize}
\item \textit{MedImmune}, 549 U.S. at 127 (quoting Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 240–41 (1937)).
\item \textit{Aetna}, 300 U.S. at 237.
\item Id.
\item Id. at 238.
\item Id. at 238–39.
\item Id. at 239.
\item Id.
\item Id. at 240.
\item Id. at 241.
\end{itemize}
and concrete and not hypothetical or abstract. The Court further noted that before the suit, the parties had taken opposing positions with respect to their obligations. On one hand, the policyholder claimed he was permanently disabled and therefore relieved of his obligation to make premium payments. The policyholder also presented his claim formally to the insurance company as required by the policies. On the other hand, the insurance company claimed that the policyholder’s alleged permanent disability did not exist, and since premium payments continued to be due, the policy had lapsed. Ultimately, the Court viewed the dispute as a case or controversy, and thus conferred the authority to decide the dispute to the district court under the Declaratory Judgment Act. No reasonable apprehension of suit was present in this case—simply a dispute and the potential for a suit existed.

The second case cited in footnote eleven, Maryland Casualty Co. v. Pacific Coal & Oil Co., involved an insurance company-policyholder relationship. A vehicle owned by the policyholder was involved in an accident; subsequently, the third party involved in the accident brought suit against the policyholder. The insurance company disputed whether the vehicle and the employee driver were covered under the policy since the vehicle had been sold to the employee driver by the insured. The insurance company brought a declaratory judgment action to determine its liability under the policy due to actions of the policyholder.

The question before the Court in Maryland Casualty Co. was whether the insurance company’s allegations qualified under the Declaratory Judgment Act as an actual controversy. The Court explained that “[t]he difference between an abstract question and a ‘controversy’ contemplated by the Declaratory Judgment Act is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy.” The Court further determined that the question in each case is whether the facts show that there is a substantial and imminent controversy between adverse parties which warrants the issuance of a declaratory judgment.

64 Id. at 242.  
65 Id.  
66 Id.  
67 Id.  
68 Id.  
69 Id. at 244.  
70 312 U.S. 270 (1941).  
71 Id. at 271.  
72 Id. at 271–72.  
73 Id. at 272.  
74 Id.  
75 Id. at 273.  
76 Id.
The conflict in the third case, *Altvater v. Freeman*, arose when two parties entered into a license agreement that specified territories in which sales of the patented article were permitted. The licensor filed suit for specific performance of the agreement, an injunction to stop article sales, and an accounting. In response, the licensee counterclaimed for a declaratory judgment finding that the reissue patent was invalid and argued that their royalty payments made under the agreement were done so under protest. The licensee alleged that an adjudication of the controversy and dispute between the parties was required in order to protect the business developed properly under the license.

Therefore the controversy in *Altvater* concerned the validity of the reissue patents. Royalties were being paid under protest and under the compulsion of an injunction decree. The Court stated that “[u]nless the injunction decree were modified, the only other course was to defy it, and to risk not only actual but treble damages in infringement suits.” The Court concluded “it was the function of the Declaratory Judgment Act to afford relief against such peril and insecurity.” The district court found that a license agreement did not exist with respect to the reissued patents, the accused devices did not infringe the licensor’s reissued patents, and the reissued patents were invalid. On a petition for rehearing and motion to modify the opinion and revise the decree, the appellate court held that when the district court found no license agreement and no infringement, “the other issues became moot and there was no longer a justiciable controversy between the parties.”

The Supreme Court granted certiorari in this case because it felt the court of appeals had misinterpreted a prior Supreme Court decision. The misinterpreted decision, *Electrical Fittings Corp. v. Thomas & Betts Co.*, concerned a claim for patent infringement with an answer of noninfringement. After the dismissal of the complaint for failure to prove infringement, the district court found that the patent in dispute was valid. The Supreme Court held the finding

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77 319 U.S. 359 (1943).
78 *Id.* at 360.
79 *Id.*
80 *Id.* at 361.
81 *Id.* at 365.
82 *Id.*
83 *Id.*
84 *Id.* at 362.
85 *Id.*
86 *Id.* at 363.
87 307 U.S. 241 (1939).
88 *Id.* at 242.
89 *Id.*
of validity was immaterial to the disposition of the original claim for infringement.\(^9\) However, the Supreme Court found \textit{Altwater} to be distinguishable from \textit{Electrical Fittings} because in \textit{Altwater} a counterclaim of patent invalidity was before the Court, not just a bill and answer.\(^9\) The Supreme Court acknowledged in \textit{Altwater} that a "controversy was raging, even apart from the continued existence of the license agreement."\(^9\) Furthermore, the controversy was sufficiently definite and concrete for declaratory judgment despite no reasonable apprehension of imminent suit.\(^9\)

In the final case cited in footnote eleven, \textit{Cardinal Chemical Co. v. Morton International, Inc.}, the Supreme Court reviewed the Federal Circuit's practice of vacating declaratory judgment holdings regarding validity which were issued in the same case with a finding of noninfringement.\(^9\) The Court ruled that a finding that a patent has not been infringed was not a sufficient reason for vacating a declaratory judgment holding the patent invalid.\(^9\) The Court recognized that "[e]ven if it may be good practice to decide no more than is necessary to determine an appeal, it is clear that the Federal Circuit had jurisdiction to review the declaratory judgment of invalidity."\(^9\)

The Supreme Court noted that while Federal Circuit practice of vacating declaratory actions of patent invalidity when the court found no infringement was consistent with Supreme Court precedent, it was not required.\(^9\) The Court stated that this practice is "neither compelled by our cases nor supported by the ‘case or controversy’ requirement of Article III."\(^9\)

**B. NOTABLE DECISIONS AFTER MEDIMMUNE**

More recently, the Federal Circuit has put a bit of texture into the \textit{MedImmune} decision. The Federal Circuit decided \textit{SanDisk Corp. v. STMicroelectronics, Inc.}\(^9\) and \textit{Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.}\(^10\) within four days of each other. Both holdings established that the reasonable apprehension of

\(^{90}\) \textit{Id.}
\(^{91}\) \textit{Altwater}, 319 U.S. at 363 ("Though the decision of non-infringement disposes of the bill and answer, it does not dispose of the counterclaim which raises the question of validity.").
\(^{92}\) \textit{Id.} at 364.
\(^{93}\) \textit{Id.}
\(^{94}\) 508 U.S. 83 (1993).
\(^{95}\) \textit{Id.} at 98.
\(^{96}\) \textit{Id.}
\(^{97}\) \textit{Id.} at 95.
\(^{98}\) \textit{Id.} at 99.
\(^{99}\) 480 F.3d 1372 (Fed. Cir. 2007).
\(^{100}\) 482 F.3d 1330 (Fed. Cir. 2007).
imminent suit test was no longer applicable. In *SanDisk*, the Federal Circuit established a new test for the existence of declaratory judgment jurisdiction based on preliminary exchanges following the *MedImmune* decision. The test reads:

[W]here a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.

The new test looks for an assertion of patent rights based on an identified activity and a contention of the right to engage in the activity without a license. In the *SanDisk* case, the court held there was a controversy under the new test despite the patentee’s testimony recalling past statements indicating he would not sue the plaintiff. While the court limited its review to the facts and circumstance of the case, the concurring opinion declared that “[i]n practical application, the new test will not be confined to cases with facts similar to this one.” The concurrence continues:

[T]he rule adopted by the court in this case will effect a sweeping change in our law regarding declaratory judgment jurisdiction. Despite the references in the court’s opinion to the particular facts of this case, I see no practical stopping point short of allowing declaratory judgment actions in virtually any case in which the recipient of an invitation to take a patent license elects to dispute the need for a license and then to sue the patentee.

*Teva Pharmaceuticals*, a declaratory judgment action brought by an alleged infringer, involved four of five patents listed by the defendant in the FDA’s Orange Book for its approved pioneer drug. In response to the plaintiff’s filing for approval of a generic version of the drug, the defendant filed an infringement

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101 *SanDisk*, 480 F.3d at 1380; *Teva Pharm.*, 482 F.3d at 1338–39.
102 *SanDisk*, 480 F.3d at 1381.
103 *Id.*
104 *Id.* at 1382–83.
105 *Id.* at 1384 (Bryson, J., concurring).
106 *Id.* at 1385.
107 *Teva Pharm.*, 482 F.3d at 1334–35.
suit on only one of the five listed patents. Applying the new test developed after *MedImmune*, the Court used broad language and rationale to undercut the plaintiff's isolating strategy. The court stated: "*MedImmune* teaches that in a declaratory judgment action, 'all the circumstances' must demonstrate that a justiciable Article III 'controversy' exists. A justiciable Article III controversy requires the party instituting the action to have standing and the issue presented to the court to be ripe." However, "conduct *on its own* may not be sufficient to establish an Article III controversy." Other holdings have also brought clarity to the *MedImmune* decision. In *Cellco Partnership v. Broadcom Corp.*, the Federal Circuit cited *MedImmune*'s reminder that courts have the power to dismiss declaratory judgment actions on discretionary grounds. The opinion stated that "*MedImmune* [ ] reaffirmed that trial courts have 'unique and substantial discretion' in determining whether to decide cases over which they have declaratory judgment jurisdiction." In *MedImmune*, the Supreme Court left "the equitable, prudential, and policy arguments in favor of such a discretionary dismissal for the lower courts' consideration on remand." In following Supreme Court precedent, the Federal Circuit in *Cellco* stated that potential judicial efficiency was a sufficient reason to support the district court's dismissal of the declaratory judgment action. However, despite the Federal Circuit's attempts to clarify the Supreme Court's holding, some courts have declined to adopt *MedImmune*’s sweeping change. In *Sensitron, Inc. v. Wallace*, the court acknowledged the Federal Circuit's interpretation of *MedImmune* had broadened the scope of injuries-in-fact which meet the actual controversy requirements of the Declaratory Judgment Act. Despite the Federal Circuit's interpretation, the court construed *MedImmune*’s holding by declaring:

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108 *Id.*
109 *Id.* at 1340.
110 *Id.* at 1337.
111 *Id.* at 1341 (emphasis added).
112 227 F. App'x 889, 889 (Fed. Cir. 2007) (nonprecedential).
113 *Id.*
115 *Cellco*, 227 F. App'x at 890.
116 See, e.g., Prasco, LLC v. Medicis Pharm. Corp., No. 1:06CV313, 2007 WL 928669, at *2 (S.D. Ohio Mar. 27, 2007) (holding that *MedImmune* does not apply outside its factual scenario); WS Packaging Group, Inc. v. Global Commerce Group, LLC, No. 06-C-674, 2007 WL 205559, at *2 n.3 (E.D. Wis. Jan. 24, 2007) (stating that *MedImmune* should not be read so broadly as to create a new jurisdictional test for declaratory judgment actions).
[I]n the context of declaratory judgment actions seeking invalidity or non-infringement of patents, it appears that neither MedImmune, nor the cases that follow it, have given any indication that an injury-in-fact may exist absent (a) any activity by the seeking party which could be identified as potential current or future infringement, or (b) some form of ongoing injury—such as the compulsory payment of royalties under a license—which, if removed, could result in potential current or future infringement.\(^{118}\)

The court further explained that

absent any suggestion of potential infringement, either current or future, or other identifiable actual or imminent injury caused by Plaintiff (or counterclaim Defendant) there is no injury that can be redressed by judicial relief and that is of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.\(^{119}\)

V. MEDIMMUNE AND ITS BASIC EFFECT ON THE PATENT LICENSING LANDSCAPE

MedImmune's basic legacy has been the liberalization of declaratory judgment standards. A patent holder has little power to prevent a licensee from bringing a declaratory judgment action of noninfringement or invalidity. Most likely, it will take an act of Congress to substantially alter the Supreme Court's new standard for declaratory judgment actions. However, patent holders can take measures to protect themselves from the licensees' new rights. An examination of the cases cited in MedImmune, which will likely govern declaratory judgment jurisprudence for many years, reveals some guidelines for future declaratory judgment suits and adds substance to the standard for declaratory judgment.

In Aetna,\(^{120}\) some communication between the two parties occurred as the policyholder claimed benefits and the insurance company refused to recognize the claims. Adverse positions were taken, and a clear dispute relating to legal rights and obligations under a contract was present.\(^ {121}\) The underlying disputed facts were definite and not hypothetical.\(^ {122}\) Therefore, in applying Aetna to a general declaratory judgment situation, where an agreement is in place and a

\(^{118}\) Id. at 1184.

\(^{119}\) Id. at 1185.

\(^{120}\) Aetna Life Ins. Co. of Hartford, Conn. v. Haworth, 300 U.S. 227 (1937).

\(^{121}\) See supra note 56 and accompanying text.

\(^{122}\) See supra note 64 and accompanying text.
communicated dispute arises regarding the existing and definable legal obligations under the agreement, the MedImmune declaratory judgment standard is likely met. In Maryland Casualty, it was not apparent whether formal communication occurred between the insurance company and the policyholder or the third party involved in the accident. However, a complaint was filed by the insurance company in federal court alleging the company had no liability to defend the action or indemnify the policyholder because the vehicle involved was not hired by the insured. In applying Maryland Casualty to general declaratory judgment situations, an underlying dispute of obligations under an agreement is also sufficient to satisfy Article III controversy requirements. In Altwater, the Supreme Court found a controversy can be “raging,” notwithstanding the existence of the license agreement. Royalties were being demanded and paid under protest and under the compulsion of an injunction decree. Altwater held that a licensee’s failure to cease its payment of royalties did not render non-justiciable a dispute over the validity of the patent. In applying Altwater to general declaratory judgment situations, a dispute under some agreement or injunction that results in a legal obligation likely must be present in order for the court to have jurisdiction in an action for declaratory judgment. In Altwater, the controversy involved an injunction decree. In MedImmune, the controversy was a license agreement. These agreements create a relationship that establishes legal obligations where a dispute arising under them may satisfy Article III requirements. Altwater noted that “[t]he fact that royalties were being paid did not make this a ‘difference or dispute of a hypothetical or abstract character.’” These cases also demonstrate that Article III requirements are likely met in disputes concerning the legal obligations under an agreement or contract.

Where an agreement or prior relationship is in place that creates legal obligations regarding patents that are disputed, jurisdiction is likely present. For future declaratory judgment parties, it would likely be sufficient that some form of a dispute or disagreement be communicated between the parties. As established by the cases discussed above, this communication does not have to arise under threats of imminent suit.

Cases decided after MedImmune further clarify its holding. In SanDisk, the lesson for patentees is clear. In SanDisk, the court declined to hold that the defendant’s statement not to sue SanDisk eliminated the justiciable controversy

123 The personal injury action was in state court.
124 See supra note 72 and accompanying text.
125 See supra note 92 and accompanying text.
126 See supra note 81 and accompanying text.
128 SanDisk Corp. v. STMicroelectronics, Inc., 480 F.3d 1372 (Fed. Cir. 2007).
created by his actions because his conduct indicated a willingness to enforce his patent rights despite the statement. Thus, isolated statements expressing a lack of plans to sue will not neutralize a course of conduct that shows a preparedness and willingness to enforce patent rights. The SanDisk court suggested patentees may avoid the risk of declaratory judgments by conducting licensing negotiations under confidentiality agreements.

These cases establish that the courts have power to hear declaratory judgment actions in almost any scenario. With these holdings as guidelines, a licensee can be assured that it will meet the standards for a court to determine patent validity. The patent holder is left in a difficult situation that will undoubtedly influence his decisions to license his patent. As this Note will show, the influence of the courts in patent licensing has an adverse effect that resonates far beyond the licensing parties.

VI. FEDERAL PATENT POLICY SUPPORTS THE REINSTITUTION OF NO-CHA LLENGE PROVISIONS IN PATENT LICENSING AGREEMENTS

The patent system has been established to stimulate invention, a goal which has been long recognized in the Constitution and federal statutes. The patent system rewards ingenious inventors whose contributions further new ideas and technology, encouraging innovation in all areas of technology. An immovable set of laws on which the inventor can rely is essential for continuing success in developing technology. The erosion of patent holders’ rights in contract negotiation set forth in Lear and MedImmune prevents freedom of contract, undermines the goals of the patent system, and discourages the use of the patent laws to protect inventions. Conversely, reinstating the use of no-challenge clauses in licensing agreements is consistent with the purposes of the patent system.

129 See supra note 104 and accompanying text.
130 SanDisk, 480 F.3d at 1375 n.1 ("To avoid the risk of declaratory judgment action, [the defendant] could have sought SanDisk's agreement to the terms of a suitable confidentiality agreement.")
131 U.S. CONST. art. I, § 8, cl. 8 (Congress shall have the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries").
132 The first patent act was enacted in 1790, during the second session of the first Congress. Patent Act, 1 Stat. 109 (1790) ("Act to promote the progress of useful Arts.").
A. LEAR ERODES PATENT HOLDERS' RIGHTS, WHICH DISCOURAGES FREELY-NEGOTIATED PATENT LICENSES

It has generally been established that certainty in patent agreements, where each negotiated provision is enforced, is achievable by negotiations between private parties. The Supreme Court's decision in Lear prevents such a certainty, for it preempts state contract law by allowing licensees to terminate the contract and contest validity of the licensed patents despite provisions that do not allow such conduct. The Court in Lear based its decision on a "strong federal policy favoring free competition in ideas which do not merit patent protection." Thus, the Lear Court held that federal patent law trumps the common law of contracts because the public interest in permitting full and free competition outweighed the terms of the contract negotiated by the parties. The policy rational, in Lear—that the removal of a restraint on commerce caused by the use of an invalid patent is more important than enforcing a contract between compromising parties—has been cast into serious doubt.

Lear does not recognize private patent licensing agreements between negotiating parties, allowing the licensee to challenge a patent's validity even if the agreement says otherwise. The rule is economically inefficient, decreases the output of licensees and increases the deadweight loss of monopoly. The rule's economic benefits are outweighed by the increased costs associated with increased litigation, decreased licensee productivity, decreased rate of inventing, and inefficient exploitation of inventions. It must be noted that one major goal of patent policy is to ensure that inventors can effectively exploit valid patents and therefore reap the rewards of their innovations. This fundamental incentive to invent is seriously skewed if licenses are under constant siege with no assurance.

133 See generally Rochelle Cooper Dreyfuss, Dethroning Lear: Licensee, Estoppel and the Incentive to Innovate, 72 VA. L. REV. 677, 758 (1986) ("Patentees' protection against patent challenges should come from their own ability to negotiate.").
135 Id. at 670–71.
136 See Lemelson v. Synergistics Research Corp., 669 F. Supp. 642, 646 (S.D.N.Y. 1987) (holding that "the doctrine of estoppel must give way to the federal policy of unencumbered challenges to patents believed to be invalid").
137 John W. Schlicher, Judicial Regulation of Patent Licensing, Litigation and Settlement under Judicial Policies Created in Lear v. Adkins, 3 AIPLA SELECTED LEGAL PAPERS, No. 1 (1985) (imposing its own policy judgment in place of those of the parties, Lear "dramatically limit[s] the value of a patent, interfere[s] with efficient utilization of inventions and lead[s] to major resource allocation losses").
of finality. The two prominent problems with Lear, as noted by a legal scholar, are:

First, the research community as a whole was forced to bear a new risk. Faced with the difficulty of determining ex ante whether an invention would be innovative enough to merit a patent, yet apparently stripped of the option of state law protection, inventors were forced to discount the expected return from their discoveries by the probability that a patent would (rightly or wrongly) fail to issue or subsequently be invalidated, causing the invention to fall into the public domain before the costs of developing it could be recouped. Second, [it] directly discouraged research into obviously unpatentable inventions. Unless inventors could guard and exploit these discoveries in absolute secrecy, they could never count on a period of exclusivity in which to capture any of the social benefits their inventions conferred.  

Essentially, Lear brought uncertainty and new risks adverse to the patent laws’ goal of innovation. In later cases, the United States Supreme Court attempted to establish what the goals are and develop a new test to determine whether an agreement contravenes patent goals.

B. LEAR’S INVALIDATION OF NO-CHALLENGE AGREEMENTS OPPOSES THE GOALS OF THE PATENT SYSTEM

The goals of the patent system were set forth by the Court in Kewanee Oil Co. v. Bicron Corp. The first goal was to encourage invention. "The second goal, "was based on the idea that there will be much more innovation if discoveries are disclosed and patented than there will be when everyone works in secret [thus fostering] a free exchange of technological information at the cost of a limited 17-
These goals resonated in *Aronson v. Quick Point Pencil Co.* The Supreme Court has recognized that the policy of stimulating invention that underlies the patent system "runs no less deep" than the policy of free competition. Many judges have acknowledged that the actual market is superior to judicial mimicry of the market. Rules permitting flexibility in negotiation will result in a greater degree of licensing activity because negotiating parties will not be constrained by restrictions. When allowed to freely negotiate, parties will set the terms of the contract to reflect their perception of the strength of the patent, the likelihood of successful suit brought by the patent holder, the potential use and value of invention, and other business factors not mentioned. Issues of patent validity, of which *Lear* was concerned in protecting the public's rights, can be reflected through negotiations in contracting for the license. Thus, "[p]ermitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention." In sum, *Lear*'s elimination of the use of no-challenge clauses does more harm than good. The patent system is possibly injured when licensees are allowed to bring offensive patent validity challenges. Such injury to the patent system harms the policy of promoting invention and reduces both competition and technological advancement. Unrestricted licensee suits would burden patentees who would have to spend countless resources protecting their property rights. This would certainly result in higher costs as patentees increase their fees to cover anticipated litigation expenses. These costs will undoubtedly be passed along to the public, offsetting public benefit from the patent system.

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142 *Id.* at 496–97 (Douglas, J., concurring); see also Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 230–31 (1964) ("The patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.").
143 *440* U.S. 257, 262 (1979) (explaining that the purposes of the federal patent system are to foster and reward invention, promote disclosure of inventions in order to stimulate further invention, and to assure that ideas in the public domain are freely used by the public).
144 *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) ("The actual market beats judicial attempts to mimic the market every time.").
145 For example, a license agreement can have a set royalty payment, wherein the royalty rate falls to zero dollars if the patent is held invalid.
146 *Aronson*, 440 U.S. at 262.
147 Goodman, supra note 138, at 206.
148 *Id.*
149 *Id.* at 211.
150 *Id.*
C. THE EROSION OF PATENT HOLDERS’ RIGHTS HAS DISCOURAGED THE USE OF THE PATENT LAWS TO PROTECT INVENTIONS

In order to determine whether no-challenge clauses increase disclosure of the invention, one must look at the alternative scenario—the current patent landscape under the law established in *Lear* and *MedImmune*. As stated earlier, a policy denying private parties the ability to negotiate no-challenge clauses in licensing agreements discourages people from applying for patents and makes them reluctant to disclose their inventions. 153 Inventors have begun to look to other areas of the law to protect their rights to their inventions. 154 One such area of law is trade secrets. 155

Under the law of trade secrets, the inventor protects his invention by keeping his discovery secret, ensuring that the invention is never revealed to the public. 156 The inventor may, however, license the use of the invention to another, so long as the licensee promises to keep the information secret. 157 In this way, the inventor may preserve his invention while being rewarded for his discovery. 158 Because the doctrine of trade secrets has not been preempted by federal law, it has become a viable alternative for inventors to protect their patents, without the burden of disclosure or public dedication. 159 Furthermore, unlike the law of patents, trade secrets have no term limits, so the inventor can withhold the technology from the public as long as desired. 160

The Supreme Court’s rejection of no-challenge clauses, eliminating free negotiation of licensing contracts, has made trade secret protection an enticing avenue by which an inventor can protect his invention. However, this turn toward trade secret protection is, in many ways, not in the public’s best interest. Trade secret protection in lieu of patent protection severely limits disclosure and licensing of inventions. 161 Those few who do obtain a license will be bound to secrecy. 162 Patentable ideas marketed as trade secrets are not adequately disclosed, therefore the public cannot improve upon them. 163 This certainly does not achieve one of the enumerated goals of the patent system.

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153 See *supra* Part VI.A.
155 *Id.*
156 *Id.*
157 *Id.*
158 *Id.*
159 *Id.*
160 *Id.* at 213.
161 *Id.*
162 *Id.*
163 *Id.*
Even as inventors turn to trade secret law for stronger protection, they nevertheless suffer. Trade secret protection exacts hidden costs.164 Primarily, an inventor may withhold licensing to a party whom he feels may disclose the invention, despite the existence of the trade secret.165 Thus the inventor will license less, rendering his return on investment smaller.166

With the rejection of no-challenge clauses by the courts, inventors have turned to trade secret protection. However, trade secret protection undermines the patent system's goal that the public should benefit from inventions. For instance, trade secret protection has no term limit, so the public cannot take advantage of a trade secret-protected invention unless the secret is revealed at the inventor's discretion. On the other hand, the patent system protects inventions which ensure that inventions will remain in the public use. Furthermore, the public gains free use of patented inventions in twenty years when the patent expires. Upholding licensing agreements with a no-challenge clause makes it more likely that the patent system will be used, meaning "ideas in the public domain remain there for the free use of the public."167

In sum, no-challenge termination clauses are favorable to the public as opposed to trade secret laws because the clauses empower the licensor through patent law, which requires disclosure and assures that inventions remain in the public domain.

D. THE REINSTITUTION OF NO-CHALLENGE PROVISIONS IS SUPPORTED BY PUBLIC POLICY

The licensee, the patent holder, and the public at large benefit from the use of no-challenge provisions in patent licensing. No-challenge provisions are aligned with federalism and the encouragement of competition and economic growth. Thus, no-challenge provisions should be reinstated.

No-challenge agreements should be governed by state contract law rather than federal judge-made law. Courts must decide whether patent protection is preempted by operation of the federal patent law.168 In preemption situations, Congress, and not the courts, is in the best position to assess how to encourage challenges to a patent's validity and who should raise them. It has been held that

164 Id.
165 Id.
166 Id.
167 See Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) (discussing several purposes behind the patent system).

168 Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479 (1974) ("The only limitation on the States is that in regulating the area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress.").
federal courts should avoid interfering with patent licensing agreements that are reasonable and completely agreed upon because licensees are likely to know best the risks and law involved in making such contracts.\textsuperscript{169}

As a matter of policy, no-challenge clauses foster competition and economic growth and efficiency by making technology and intellectual property more widely available.\textsuperscript{170} Widely available information spurs innovation. Thus, the more a patent is licensed, the more likely it will be used, and the more likely it will incite even further innovation. A patent will be licensed more frequently if parties are allowed to freely contract under patent law. More frequent licensing increases the dissemination of information on a particular patent, a result in line with patent policy.

In today’s global economy, the United States must innovate more and efficiently produce inventions. No-challenge clauses foster this goal by encouraging the inventor to create and license the invention.

VII. \textbf{IN THE CONTEXT OF MEDIMMUNE’S EFFECT ON DECLARATORY JUDGMENT ACTIONS, NO-CHALLENGE PROVISIONS MUST BE ALLOWED}

The restrictive holdings of \textit{Lear} and \textit{MedImmune} abolished three crucial features of the decision to license and the royalty amount charged between contracting parties.\textsuperscript{171}

First, in a licensing landscape without \textit{Lear} and \textit{MedImmune}, a patent owner and potential licensee would agree to a payment reflecting their estimation of the cost of an infringement litigation alternative.\textsuperscript{172} The licensor and licensee would be willing to license for payments discounted based on the probability that the patent is valid.\textsuperscript{173} Thus, if payment corresponds with the probability of patent validity, a patent owner will likely license a valid patent only for a higher payment. The


\textsuperscript{170} Goodman, \textit{supra} note 138, at 206 (“If current licensees are allowed to bring offensive patent validity challenges, the patent system may be injured. Injury to the patent system may in turn harm our long-standing policy of promoting inventors, and may ultimately reduce both competition and technological advance.”).

\textsuperscript{171} \textit{See Schlicher, supra} note 16, at 373 (license payments that reflect views of litigation alternative, licensing to avoid litigation costs, and licensing for lower payments because the license involves less risk of suit).

\textsuperscript{172} \textit{Id.}

\textsuperscript{173} \textit{Id.} The parties would agree to higher payments for stronger patents and lower payments for patents less likely to be valid. \textit{Id.}

\textsuperscript{20081}
licensee may be willing to make the higher payment so long as the royalty payment is less than the expected cost of potential patent validity litigation. 174

Second, without Lear and MedImmune interfering with patent licenses, parties would use licensing agreements to avoid litigation costs.175 Thus, licensing without fear of infringement litigation costs allows a patent owner to license for a lower payment and a current infringer to pay more for a license. This increases the likelihood of licensing. 176

Third, without these decisions, patent owners could contract out of risk. 177 In turn, they would be willing to license for lower payments, so long as risk of suit decreases. Therefore, parties must create license agreements that account for the risk that their predictions of the probability of winning and losing infringement and invalidity suits are wrong.178

In sum, in a free-licensing landscape, a risk-averse patent owner will license for a payment that is lower than the expected value of infringement litigation. On the other hand, a risk-averse infringer will pay more than the expected cost of litigation because he will avoid filing suit and gain use of the invention. It holds true that risk-adverse parties license more often if the license avoids risk.179 However, Lear establishes a rule where the licensee bears less risk than he would in the free-licensing alternative. Further, in the recent MedImmune decision, the licensee bears zero risk. MedImmune has fundamentally disrupted the established harmony of risk-averting license agreements.

As shown above, there are numerous policy reasons why no-challenge clauses should be recognized by courts. Basic constitutional freedoms support the enforcement of such provisions to license agreements. Furthermore, society is better off allowing the people negotiating patent licenses to solve problems in a manner they find mutually advantageous through contract. However, in the post-Lear landscape, negotiated no-challenge provisions in licensing agreements have been abandoned, rejected by courts, and ignored by licensors, despite numerous public policy arguments to the contrary.

There is, however, good news for patent licensors and the public in general. The good news does not come from Capitol Hill. Congress has not passed legislation that explicitly allows patent licensors to include no-challenge provisions in licenses. In fact, in 1986, despite the support of the Department of Justice, a

174 Id.
175 Id.
176 Id. If a license “does not avoid validity litigation costs, a patent owner will license only for a higher payment.” However, a licensee likely will “be willing to pay more, since its infringement litigation costs are saved.” Id.
177 Id.
178 Id.
179 Id.
bill that legalized "no-challenge termination clauses" was terminated in both the House of Representatives and the Senate. This provision, as well as other no-challenge legislation, was part of a much broader bill, and thus its rejection does not necessarily indicate Congress' intent toward the enforceability of such clauses. Because of Congressional inaction, the MedImmune decision can become the rally-call to allow the enforcement of no-challenge clauses and overturn Lear.

While MedImmune did not directly address the enforceability of no-challenge provisions, the MedImmune decision provides the licensee with the advantage of obtaining a license, challenging infringement or the patent's validity, and maintaining protection under the license. Current licensors have no choice but to accept that the MedImmune decision grants licensees remarkable power. Potential licensors are left to sift through the new landscape.

However, closer examination of the Supreme Court's language indicates that the Court may actually enforce no-challenge provisions in patent licensing agreements. The support of no-challenge provisions can be found in the MedImmune Court's support of the freedom to contract.

It is important to note that in MedImmune the Supreme Court found nothing in the patent license itself that barred the licensee from challenging the patent's validity. The absence of a no-challenge clause in the MedImmune license may have been because the patent owners assumed that the clause was unenforceable. However, as one scholar notes, "[p]erhaps those assumptions should be reassessed in MedImmune's wake."

When the action was filed, the license continued to exist and MedImmune satisfied all of its duties under the license. At the time of action, Genentech had no contract claim against MedImmune. Because of this, the district court and

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180 A no-challenge termination clause is a provision that authorizes the licensor to terminate a license if the validity of the patent is challenged by the licensee. Taylor, supra note 169, at n.3.
181 Intellectual Property Rights Improvement Act, S. 2525, 99th Cong. (2d Sess. 1986) ("Any patent license agreement may provide for a party or parties to the agreement to terminate the license if the licensee asserts in a judicial action the invalidity of the licensed patent, and, if the licensee has such a right to terminate, the agreement may further provide that the licensee's obligations under the agreement shall continue until a final and unappealable determination of invalidity is reached or until [the license is terminated]. Such agreement shall not be unenforceable as to such provisions on the grounds that such provisions are contrary to the Federal patent law or policy.").
184 Id.
185 Id.
court of appeals dismissed the action for lack of a justiciable controversy.\textsuperscript{187} The Supreme Court, however, held that there was a contract dispute between the parties about whether the licensee was obligated to make payments if the licensed patent was invalid.\textsuperscript{188} If MedImmune's view of the contract was correct, then MedImmune could prove invalidity to eliminate its royalty obligations in the agreement. However, the Court did not address whether the law requires that royalties under all patent licenses depend on validity, or whether a similar dispute would arise if a license defined royalty obligations without reference to validity.

Nonetheless, the MedImmune decision will have a drastic effect on the licensing landscape. Risk-averse licensors will likely read MedImmune to apply to all patent licenses. Thus, it is likely that licensees will commence declaratory judgment actions to have licensed patents declared invalid, arguing that Lear allows all licensees to defend an action for royalties by proving invalidity, regardless of the language of the license. In what should make any licensor's hair stand on end, licensees can now argue that MedImmune applies no matter how the patent holder defined the obligation.\textsuperscript{189} Licensees will also argue that "if Lear means the patent owner and licensee may not agree that royalties are payable until the date of an invalidity judgment in an action between them, licensees will say they may also not agree to foreclose litigation that might lead to such a judgment."\textsuperscript{190}

However, the Supreme Court in MedImmune addressed the argument that touched on such an issue. Genentech argued that the parties in effect settled the validity dispute when they entered into the license, and that the MedImmune license precluded the licensee from challenging validity. The Court responded by stating:

\begin{quote}
Petitioner is not repudiating or impugning the contract while continuing to reap its benefits. Rather, it is asserting that the contract, properly interpreted, does not prevent it from challenging the patents, and does not require the payment of royalties because the patents do not cover its products and are invalid. Of course even if respondents were correct that the licensing agreement or the common-law rule precludes this suit, the consequence would be that respondents win this case \textit{on the merits} – not that the very
\end{quote}

\begin{footnotes}
\item[187] See MedImmune, Inc. v. Genentech, Inc., 427 F.3d 958, 961–65 (Fed. Cir. 2005), rev'd and remanded, 549 U.S. 118 (2007) (Court of Appeals decision assumed that patent owner had no basis for terminating the license and could not bring any action against the licensee).
\item[188] MedImmune, 549 U.S. at 124–25.
\item[189] It can be argued that Lear only eliminated the default rule of licensee estoppel, which simply forces the parties to address the issue in their license agreements. Under this view, the main decision in Lear does not preclude parties from contracting out of MedImmune.
\item[190] Schlicher, supra note 16, at 372.
\end{footnotes}
genuine contract dispute disappears, so that Article III jurisdiction is somehow defeated. In short, Article III jurisdiction has nothing to do with this “insurance-policy” contention.191

Thus, the Court stated that the argument did not relate to jurisdiction. If the license actually precluded the licensee from challenging validity, Genentech would have won on the merits. This reasoning assumes that an agreement not to contest validity would be enforceable—and Lear did not require otherwise.

Although MedImmune did not decide the enforceability of a no-challenge provision,192 the Court seemed to assume that an agreement not to contest validity would be enforceable. If a patent owner includes a no-challenge provision in its license, it will be met with opposition by the licensee holding the Lear doctrine in hand. However, agreements not to challenge validity should be enforceable.

VIII. CONCLUSION

The situation for patent licensors is not as grim as it once appeared. After a steady erosion of patent holders ability to freely license patents, the Court’s decision in MedImmune must be read to stop the trend.

Before Lear, a patent holder could insert a no-challenge clause in the licensing agreement to ensure that that licensee would not sue over the validity of the patent. The agreements, negotiated with certainty that each provision would be enforced, benefited the parties to the contract and the public. License payments were low, inventors and patent holders were unbothered by the constant threat of suit, and information gathered from inventions was widely disseminated. However, Lear invalidated no-challenge clauses in patent licensing agreements, signaling a new era of court-altered patent contracting. The patent holders’ bargaining power was damaged, and the licensee was empowered to challenge a patent’s validity despite the contract. The licensee still faced the risk that such a challenge would fail, and because of the Declaratory Judgment Act, he would be left with nothing. The MedImmune decision sounded a death knell to the licensee’s fears of losing the patent license. After the decision, not only is a patent holder

191 MedImmune, 549 U.S. at 135–36.
192 Schlicher, supra note 16, at 388–89 (distinguishing no-challenge termination clauses, the author states, “For years, I have recommended that patent owners use a termination provision that permits the patent owner to terminate the license, if the licensee alleges in any action that the licensed patent is invalid. This is the simplest and most direct response to MedImmune, because it puts the situation back to where it was before MedImmune. This also helps with Lear. Patent owner termination rights were not involved in Lear. There is nothing in Lear that says such a termination provision is unenforceable or contrary to any perceived public policy. There is nothing in MedImmune that would suggest such a provision is unenforceable.”).
unable prevent a licensee from challenging the validity of his patent, he is forced
to continue to allow the licensee to license the patent subject to the agreement
even if the challenge failed. A narrow interpretation of MedImmune's holding
disenfranchises patent holders. However, the Supreme Court implicitly supports
no-challenge clauses in its decision.

The Supreme Court recognized the importance of freely negotiated license
agreements. Because of the overwhelmingly strong policy concerns and the
Supreme Court's implicit endorsement, courts across America should recognize
no-challenge clauses in patent licensing agreements.

Richard Weil Goldstucker