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# Intellectual Property Law Section

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## Surviving *MedImmune*: Strategies for Licensors in the Aftermath of *MedImmune*

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In early 2007, the Supreme Court decided *MedImmune Inc. v. Genentech, Inc.*, 127 S. Ct. 764, a decision having widespread effect on the relationship between patent licensors and licensees. Patent licenses drafted prior to January 2007 are subject to potential challenges their drafters could never have anticipated. Licenses that would have provided protection for licensors prior to *MedImmune* leave licensors in a position of vulnerability. In light of the decision in *MedImmune*, licensors must revisit their patent licensing terms, strategies and policies to ensure they are protecting their interests.

In short, *MedImmune* held that a licensee can bring an action seeking a declaration of its rights as to the licensor's patent without first breaching the license. In other words, as long as a licensee continues to make its royalty payments under a license agreement, a licensee may now bring an action for invalidity, unenforceability or noninfringement as to the licensed patents while being shielded from the typical consequences (i.e., loss of the license, treble damages, injunction). *MedImmune* overruled well-settled Federal Circuit law regarding declaratory judgment jurisdiction and, as a result, has shifted the balance of power between licensor and licensee. However, the holding of *MedImmune*, at least as it relates to patent licensing, was perhaps just as notable for topics upon which it did not opine.

First, this article discusses the *MedImmune* case and its holding as it relates to the relationship between licensors and licensees. Second, this article delves beyond the jurisdictional aspects of the case and considers its broader implications on the licensor-licensee relationship. Third, it briefly discusses the post-*MedImmune* case law to date. Fourth, it highlights the questions *MedImmune* left unanswered. Finally, the article concludes with suggested drafting techniques for licensors post-*MedImmune*.

### The Facts of *MedImmune*

Petitioner *MedImmune* is a biotechnology company that

develops medicines to treat infectious diseases, cancer and inflammatory diseases. Its most successful product is a drug called Synagis, which is used to prevent lower respiratory tract disease in children. Respondent *Genentech*<sup>1</sup> is a biotechnology company widely considered to be the founder of the biotechnology industry. *Genentech* uses human genetic information to discover, develop, commercialize and manufacture biotherapeutics that address a variety of human ailments.

In 1997, *MedImmune* entered into a licensing agreement with *Genentech* whereby *MedImmune* had rights to use technology covered by *Genentech*'s Cabilly I patent, along with a then pending patent application (which later matured into Cabilly II).<sup>2</sup> At the time, *MedImmune* did not actually incorporate the technology in any product, so it obtained favorable licensing terms.<sup>3</sup>

*Genentech* immediately sought royalty payments from *MedImmune* under a new licensing agreement, citing Cabilly II as progeny of Cabilly I, and claiming that *MedImmune*'s blockbuster Synagis, a drug used to prevent serious respiratory diseases in infants, was covered by Cabilly II. *MedImmune* balked, claiming that Synagis did not infringe the Cabilly II patent, and alternatively, that Cabilly II was invalid and unenforceable. However, *MedImmune* eventually agreed "under protest" to pay royalties to *Genentech* for Cabilly II under the original licensing agreement. Synagis represented 80 percent of *MedImmune*'s total revenues, and *MedImmune* did not want to jeopardize that revenue stream. Shortly thereafter, *MedImmune* brought an action seeking a declaratory judgment of, *inter alia*, patent invalidity, unenforceability and non-infringement of the Cabilly II patent.

### *MedImmune*'s Holding

The district court granted *Genentech*'s motion to dismiss for lack of subject matter jurisdiction, stating that there was no Article III justiciable controversy. With obvious misgiv-

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way, three different [sets] of lawyers can get involved in a case.” Judge Pannell notes with a chuckle.

Judge Pannell muses about the practice of law and the need for specialization. “You can’t keep up with everything. There may be a few [who can], but there aren’t enough of those guys to go around, so the rest of us have to specialize.” For this reason, he has encouraged his son, also a lawyer, to pursue the practice of patent law.

Modern life not only creates specialists like IP lawyers, but it also has the potential to raise the cost of access to the courts for the average worker. Yet this is an age-old problem. “[The system has] always been unfair. When we were

at the Superior Court we were worried about little people not being able to use the court system. .... [But] there were complaints back in the Middle Ages about the cost of going to court in England. So it hasn’t changed.”

Nevertheless, the Northern District of Georgia, and Judge Pannell, work to reduce the burden on juries and the parties to a suit through such measures as time limits on the presentation of a case. This forces advocates to put on a concise case with their best evidence, whereas without time limits a lawyer might be “so conscientious,” to use the Judge’s euphemism, that he will raise more arguments and offer more evidence than are really necessary. □

## Patent Sales—A New Marketplace

By William A. Hartselle

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Patent attorneys know that the value provided by a patent can take many forms. A patent can be used offensively against a competitor selling an infringing product, defensively against an aggressor to fend off a patent infringement allegation, as evidence of a company’s innovative culture, or as proof to investors and venture capitalists of appropriate protection of key innovative assets. All these value types are critically important to a business, yet they are primarily intangible and illiquid. Short of suing an infringer (which brings with it high monetary and time commitments, risk of retaliation, uncertainty as to outcome, and possible bad publicity), there typically was no efficient way for a company to monetize its patent portfolio.

### The Power Of Patents

Over the past few years, the market for patent sales has evolved, thereby providing an efficient way for patent owners to monetize their portfolio. Why has the market grown so quickly? A big reason is the increased awareness of the power and importance of patents. Several high-profile patent lawsuits have been in the news recently (the BlackBerry case, for example) with high damages awarded or large settlements being reached. Seldom does a week go by where a patent-related article isn’t seen in the *Wall Street Journal* or *New York Times*.

The U.S. Supreme Court has also decided to jump into the patent arena. Several recent decisions by the Supreme Court, as well as the Federal Circuit, have broken new ground in patent law. Additionally, Congress is presently working on patent reform legislation and the PTO is attempting to implement new rules. Consequently, the subject of patents, which years ago may have only rarely been broached in corporate boardrooms, now is routinely addressed. Patents have gone mainstream.

### All Patents Are Not Created Equal

Many companies believe they can never let go of any of their patents. This is simply not true. A patent is certainly a unique type of asset, but at its core it is a piece of property, and property has different levels of value to its owner. All patents are not created equal.

“Crown-jewel” patents are those covering fundamental technology that is core to a company’s business, but these patents are typically rare. Instead, most patents cover particular aspects of a product or service rather than fundamental core technology. Reasons for this may include significant prior art cited by the PTO that restricted the scope of the claims, and shifting company strategy over time to different technologies or products, thereby rendering patents for old technology “non-core.” Therefore, there may be many patents in a portfolio covering technology that isn’t being used by the owner. Or there may be patents for technology that is currently being used, but which may actually have more value on the open market. Consequently, valuable patents may be unused or under-used, lying in a drawer gathering dust, but yet still be extremely valuable (i.e., veritable “Rembrandts in the Attic”, to borrow the title of a renowned book on the subject).

### The Market For Patent Sales

In addition to the importance of patents being emphasized in recent years, or perhaps because of it, the market has witnessed a dramatic increase in patent sales activity. One of the first transactions that generated interest was the auction several years ago of Internet commerce patents out of bankruptcy proceedings in California. Those patents sold for \$15.5 million, and the market has been growing since.

Patent buyers come in many forms. In recent years, patent

holding companies have been formed to acquire patents to license for royalties. Other buyers include consortiums created to acquire patents for defensive purposes (i.e., to take patents “off the street” to protect their investors). Some buyers seek to do both. But it is not only patent holding companies that seek to acquire patents. Publicly-traded operating companies are also in the market to buy patents for reasons such as bolstering existing portfolios, instantly obtaining a portfolio in a line of business they are seeking to enter or for litigation they are embroiled in, or to keep a portfolio out of the hands of competitors or other companies. Several large publicly-traded operating companies have created business units, the sole purpose of which is to acquire patents.

### **IPinvestments Group: Atlanta-Based Intellectual Property Business Advisors**

Different entities have sprung up to serve this market, including companies that hold live patent auctions, Internet services that seek to match buyers and sellers, and patent brokers that directly market patents for sale on behalf of patent owners.

An Atlanta company, IPinvestments Group, is helping patent owners participate in this growing market by helping them sell or license their patents. They are a business advisory firm that operates on a success fee (i.e., contingent fee) basis, with a large percentage of their business devoted to brokering the sale of patents on behalf of patent owners. They have represented a wide range of clients, from individual inventors to publicly traded companies, both large and small. They work closely with patent attorneys, both local and national, who refer interested clients with patents to sell.

The three principals of IPinvestments Group are Atlanta-based intellectual property veterans. The two founders, Mike McLaughlin and Ryan Strong, are from the financial side of the patent landscape, having been patent valuation and damages consultants with InteCap (now part of CRA International). The third principal, Bill Hartselle, is a patent attorney who was with Jones & Askew and was in-house at ANTEC Corp. (now Arris Group) prior to making the transition to the business side of patents, most recently as Managing Director of Patent Licensing at BellSouth. Together, they are bringing patent assets to market on behalf of patent owners from Atlanta and throughout the nation. There’s real money involved—over the last two years, IPinvestments Group has closed more than 30 transactions that generated more than \$50 million in upfront cash payments. Numerous deals also include future payments from licensing revenue-sharing arrangements.

As with any other asset, patent sale transactions occur between a willing seller and buyer. This eliminates the adversarial nature of patent litigation and allows transactions to close quickly, typically within a matter of months, demonstrating that patent sales can be a terrific cash source and provide significant near-term revenue for patent owners.

### **Conclusion**

With no signs of slowing down, the market for patent sales should continue to grow and provide patent owners with the opportunity to sell their patent assets on the open market to generate revenue that several years ago would have been difficult to imagine. □

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