Licensor Responses to the MedImmune Decision

Assume can not prevent licensee challenges to licensed patents as violation of spirit of Lear v Adkins

Assume Lear v Adkins does not prevent clauses reducing the incentive to challenge the licensed patents.
Five Approaches for the Licensor

- License with Consent Decree
- Paid Up license
- Termination on Challenge Clause
- Arbitration Clause
- Clause Adjusting Royalty for Challenge
License with Consent Decree

- Precede License with Patent Infringement Suit
  - Bring a Friendly Expected Suit
  - Settle Early into Litigation with Consent Decree
- Not Collusive-Giving Potential Licensee Tools to Investigate Validity
  - Full Access to Discovery
  - Forum to Explore Issues
Paid Up License

- Will Involve Discount from Running Royalty
  - Reflect Net Present Value
  - Reflect Shifting of Risk of Patent Invalidity to Licensee

- Could Involve Adjustment Clauses
  - Licensor Will Reimburse if Sales Less Than Projection
  - Licensee Will Pay if Sales More Than Projection

- Possibly Pay by Negotiable Instruments
  - Allow Less Affluent Licensee to Irrevocably Commit to Payment
  - Provide Maturity Dates Over the Life of the License
Termination on Challenge Clause

Common in European Licensing
- European Licensing has Always had to Recognize License’s Ability to Bring Nullity Suit in Various Countries
- Clause Approved By EU Competition Authority

Unitary License Can Protect Multiple Patents
- All the Members of a Patent Family if Any One Challenged
- Unrelated Patents if All Included in One License

Could be Viewed as Contractual Reversal of MedImmune
Arbitration Clause

- Require Validity and Infringement Disputes be Arbitrated
  - Authorized by 35 USC 294
  - Ameliorates Risk of Blonder Tongue Collateral Estoppel
- Limit Available Discovery
  - Reduce Cost of Proceeding
  - Effectively Eliminate Some Issues Such as On Sale Bar
- Link with Admission of Infringement for Already Identified Products—Particularly Effective for Long Lived Products with Fixed Identities Like Pharmaceuticals
Clause Adjusting Royalty for Challenge

1. Provide for Lower Royalty if Licensee Agrees Not to Challenge
   - Make License Available without Restriction at Reasonable Royalty
   - Provides Incentive for Not Challenging But Not a Bar to Challenging

2. Provide for Higher Royalty After Unsuccessful Challenge
   - Provide Initial Pre-Challenge Royalty Rate
   - Provide for Higher Rate After Unsuccessful Challenge
     - Basis That Tested Patent More Valuable
     - Not a Penalty for Challenge But Recognition of Economic Reality