

COMMENT

BARRING VALIDITY CHALLENGES THROUGH NO-CHALLENGE CLAUSES AND CONSENT JUDGMENTS: *MEDIMMUNE'S* REVIVAL OF THE *LEAR* PROGENY*

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“Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.”¹

I. INTRODUCTION

When a patentee and a licensee enter into a license agreement,² the licensee frequently agrees to pay royalties to the patentee in exchange for the right to exploit certain technology.³ However, if a licensee was to question the licensed patent’s validity, or if a court was to actually invalidate the licensed patent, the patentee would have no right to bar others from exploiting the licensed product.⁴ Consequently, because the

1. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

2. Patent licensing is very prevalent in today’s technological society as a method of avoiding litigation challenging patent validity. *See MedImmune v. Genentech: A Dilemma Removed for Patent Licensees*, COOLEYALERT! (Cooley Godward Kronish LLP, Palo Alto, Cal.), Feb. 2007, at 1, available at http://www.cooley.com/files/tbl_s24News/PDFUpload152/2554/ALERT_MedImmuneVGenentech.pdf [hereinafter *Cooley*] (“Patent litigation is a high-stakes game.”). Instead of challenging the validity of a patent, companies enter into royalty-bearing license agreements with the patent holders (patentee/licensor). *Id.* These license agreements allow a patentee and licensee to negotiate the scope, duration, territorial parameters, associated royalties, and exclusivity of the license. *See Christopher Denn & Stephen G. Charkoudian, Patent and Technology Licensing*, 891 PLI/PAT 29, 35 (2007) (discussing key issues to consider when entering into a patent license agreement). License agreements are beneficial to both the patentee and the licensee because “the licensee is free to use the patent without fearing an infringement suit, while the patentee profits from his invention without having to market it himself.” Stephanie Chu, iBrief, Note, *Operation Restoration: How Can Patent Holders Protect Themselves From MedImmune?*, 8 DUKE L. & TECH. REV. ¶ 3 (2007).

3. *See Denn & Charkoudian, supra* note 2, at 55 (addressing two models used to compensate patentees).

4. Julie S. Turner, *The Nonmanufacturing Patent Owner: Toward a Theory of Efficient Infringement*, 86 CAL. L. REV. 179, 206 (1998) (noting that once a patent is ruled invalid, “[t]he gates open for any potential competitor to use the technology disclosed in

patent's invalidity would allow every competitor to operate within the patent's claims, the license becomes worthless.⁵ In this situation, should the licensee be required to continue paying royalties on the invalid patent? What about on a patent the licensee believes is invalid? Does the policy behind patent law demand that the licensee have the unconditional right to challenge the validity of a patent it has licensed? Although the answers to these questions may seem obvious, the courts have struggled to come to a just conclusion. Fortunately, the Supreme Court's recent decision in *MedImmune, Inc. v. Genentech, Inc.*⁶ sheds light on a possible resolution. Examining *MedImmune's* revival of *Lear v. Adkins*⁷ and its progeny, this Comment will explore the efficacy of bars to validity challenges, or "invalidity-assertion bars," arising from no-challenge clauses in arms-length licenses and litigation settlement agreements, as well as the issue-preclusive effect of validity recitations in consent judgments.

"Once upon a time, it was decreed across the land that a licensee of a patent could not challenge its validity, now or evermore."⁸ This quote articulates the doctrine of "licensee estoppel." Licensee estoppel prohibited a licensee under a patent license agreement from challenging the validity of the licensed patent.⁹ For example, if a licensee, while under a license agreement, ceased to make royalty payments to the patentee, the patentee had two options. One possible action was to terminate the license agreement following the licensee's breach of contract and sue for subsequent infringement. Alternatively, the patentee had the option to bring a breach of contract action against the licensee to recover the unpaid royalties. Thus, the licensee's validity challenge often arose as a defense to an infringement suit against the licensee for operating outside the scope of the

the now invalid patent without payment or license to the patent owner"). Rarely are all claims of a patent subject to cancellation or invalidation. Thus, any reference in this Comment to invalidating a "patent" often refers to invalidating only certain "claims" of a patent.

5. *Id.* (explaining that if the licensed patent is ruled invalid, "licensees may then have cause to either refuse payment under their licenses or to cancel their licenses").

6. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

7. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

8. Lorelei Ritchie de Larena, *License to Sue?* 16 (Fla. State Univ. College of Law, Public Law Research Paper No. 279, 2007), available at <http://ssrn.com/abstract=1018715>.

9. See *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950), *overruled in part by Lear*, 395 U.S. 653 (citing *United States v. Harvey Steel Co.*, 196 U.S. 310 (1905)).

license or a breach of contract action against the licensee for nonpayment of royalties.¹⁰

Under licensee estoppel, the licensee was only estopped from asserting a validity challenge as a defense to a breach of contract action. Even prior to *Lear*, the doctrine of licensee estoppel did not apply in infringement actions because of the absence—due to the licensor's cancellation—of a valid license agreement between the patentee (once licensor) and the accused infringer (once licensee).¹¹ Conversely, in a breach of contract action, where a valid license agreement remains, the doctrine of licensee estoppel prevented the licensee from claiming patent invalidity as a defense to the suit.¹²

The rationale of licensee estoppel stemmed from a belief that a licensee should not have the right to challenge a patent's validity while simultaneously benefiting from immunity under the license agreement.¹³ Courts qualified the doctrine with several exceptions because the application of licensee estoppel sometimes resulted in unfair outcomes.¹⁴ Nevertheless, courts upheld what remained of the doctrine until 1969,¹⁵ when the Supreme Court finally abrogated it in *Lear*.¹⁶

Lear held that a licensee was not estopped from asserting the invalidity of the licensed patent as a defense to an action brought by the licensor against the licensee.¹⁷ The *Lear* decision had ramifications in many areas of the law, but the decision's effect on invalidity-assertion bars is particularly interesting. Despite its broad language against contractual muzzling of

10. See Sharon R. Barner, *Litigation Perspective on Licensing*, 672 PLI/PAT 647, 661 (2001); Milton Handler, *Antitrust: 1969*, 55 CORNELL L. REV. 161, 187 (1970) (discussing licensor options before and after *Lear*'s elimination of licensee estoppel).

11. See Robert B. Orr, *The Doctrine of Licensee Repudiation in Patent Law*, 63 YALE L.J. 125, 125 n.3 (1953) ("If the license has terminated, the estoppel no longer applies.").

12. See *id.* at 125.

13. See de Larena, *supra* note 8, at 16.

14. See *Lear*, 395 U.S. at 664–68 (1969) (discussing the exceptions developed by courts in the years following *Harvey* that made licensee estoppel inapplicable in certain situations); see also *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 176–77 (1965) (patent procured fraudulently); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402, 406–07 (1947) (patent used for antitrust violation); *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256–58 (1945) (patent invalid due to prior art); *Drackett Chem. Co. v. Chamberlain Co.*, 63 F.2d 853, 854 (6th Cir. 1933) (patent proved invalid by a third party).

15. See, e.g., *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950) (applying the doctrine of licensee estoppel).

16. *Lear*, 395 U.S. at 671.

17. See *id.* at 670–71 ("Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas . . .").

licensees,¹⁸ *Lear* left unclear whether its abrogation of licensee estoppel precluded the enforcement of any type of no-challenge clause that might be placed in license agreements or prevented the preclusive effect of validity recitations in consent judgments accompanying settlement agreements.¹⁹

The various federal courts of appeals attempted to make sense of the *Lear* decision in this area, but circuit splits led to more confusion. In the wake of *Lear*, most courts simply assumed that *Lear*'s abrogation of licensee estoppel made no-challenge clauses unenforceable.²⁰ In fact, the appellate courts only held a licensee estopped from bringing a validity challenge when the parties entered into the settlement agreement after extensive litigation,²¹ or when a consent judgment recited both validity and infringement.²²

The Federal Courts Improvement Act of 1982 established the United States Court of Appeals for the Federal Circuit,²³ giving the Federal Circuit jurisdiction over all patent infringement suit appeals.²⁴ While the Federal Circuit initially affirmed the holding of *Lear*, it has since, at the very least, deviated from the "spirit" of *Lear*.²⁵ For instance, the Federal Circuit has overruled some of the post-*Lear* decisions allowing validity challenges, and it has distinguished away most of the policies set forth by *Lear*.²⁶

18. *Id.* at 673 ("The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.")

19. See Christian Chadd Taylor, Comment, *No-Challenge Termination Clauses: Incorporating Innovation Policy and Risk Allocation into Patent Licensing Law*, 69 IND. L.J. 215, 236 n.137, 239-41 (1993) ("No-challenge clauses are license provisions which prevent licensees from challenging the validity of the licensed patent.")

20. See *id.* at 236.

21. See *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1373-74 (6th Cir. 1976) ("[T]he public interest in the settlement . . . far outweighs any public interest to be served by providing [the licensee] with a second chance to litigate the validity of the soon-to-expire patent . . .").

22. See, e.g., *Interdynamics, Inc. v. Firma Wolf*, 653 F.2d 93, 96-97 (3d Cir. 1981) (giving a consent judgment reciting both validity and infringement *res judicata* effect).

23. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified as amended at 28 U.S.C. §§ 1-2645 (2006)); see also MARTIN J. ADELMAN ET AL., CASES AND MATERIALS ON PATENT LAW 16 (2d ed. 2003) (surveying the history of the patent law system).

24. See 28 U.S.C. § 1295(a) (2006) (defining the scope of the Federal Circuit's jurisdiction).

25. Edmund J. Sease, *The Federal Circuit's Short Circuit of Validity Challenges: Or, Is the Spirit of Lear Dead?*, 38 DRAKE L. REV. 229, 232-33 (1989).

26. See discussion *infra* Part III.

The Supreme Court recently had the opportunity to clear up some of the unsettled areas of law left behind by *Lear*, especially those concerning the extent to which parties could bar validity challenges, when it decided *MedImmune*.²⁷ Unfortunately, in *MedImmune*, the Court “expressly refused to opine on the scope of the *Lear* doctrine in this context.”²⁸ Instead, *MedImmune* focused on the constitutional Article III²⁹ issue at hand and lowered the barrier to declaratory judgment suits by licensees.³⁰ Even so, the Court’s respect for the licensee’s right to challenge the validity of the licensed patent clearly demonstrates the continued importance and applicability of *Lear* and its abrogation of licensee estoppel.³¹ Thus, *MedImmune* at the very least extends *Lear*.³²

In light of the Supreme Court’s relaxation of the barrier to licensee declaratory judgment suits, patent owners will likely increasingly attempt to contractually bar their licensees from raising validity challenges, whether by declaratory action or by affirmative defense.³³ Thus, given *MedImmune*’s revitalization of *Lear*’s abrogation of licensee estoppel, this Comment will examine the *Lear* progeny decisions dealing with invalidity-

27. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007); see also Brief of *Amicus Curiae* Licensing Executives Society (U.S.A. & Canada), Inc. in Support of Neither Party at 16, *MedImmune*, 127 S. Ct. 764 (2006) (No. 05-608), 2006 WL 1355599, available at <http://www.usa-canada.les.org/press/archives/MedImmunevGenentech.pdf> [hereinafter Brief of Licensing Executives Society] (stating that the Court should use this opportunity to clarify the scope of *Lear*).

28. *MedImmune Decision Permits Patent Licensee in Good Standing to Challenge Patent*, CLIENT ADVISORY (Arnold & Porter LLP, Washington, D.C.), Jan. 2007, at 4, available at http://www.arnoldporter.com/resources/documents/A&PCA_MedImmuneDecisionPermitsPatientLicenseeInGoodStandingToChallengePatient_012507.pdf [hereinafter *Arnold & Porter*].

29. Article III of the Constitution expressly limits the federal courts’ jurisdiction to “Cases” and “Controversies.” U.S. CONST. art. III, § 2, cl. 1. In *MedImmune*, the Supreme Court addressed the Article III standing issue in detail, but it is unnecessary to expand on this portion of the *MedImmune* decision as it is not relevant to this Comment.

30. See *MedImmune*, 127 S. Ct. at 777 (“We hold that petitioner was not required, insofar as Article III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.”).

31. See *MedImmune’s Impact May Be Greater Than Many Suspect*, INTELL. PROP. L. ALERT (Crowell Moring, Washington, D.C.), Jan. 29, 2007, available at <http://www.crowell.com/NewsEvents/Newsletter.aspx?id=218> [hereinafter *Crowell*] (“*Lear* was eroded by a series of federal Circuit decisions, the core of which has now been overturned by *MedImmune*, thus reestablishing *Lear* as good law.”).

32. See *Cooley*, *supra* note 2, at 2 (opining that *MedImmune* is “an extension of *Lear*”).

33. *Arnold & Porter*, *supra* note 28, at 3 (“Given the Court’s elimination of the Constitutional ‘case or controversy’ barrier to declaratory judgment suits, it will be important for patent owners to expressly bar their licensees by contract from challenging patent validity during the term of the license . . .”).

assertion bars in order to make sense of this still unsettled area of law.³⁴

Accordingly, this Comment analyzes *MedImmune's* effect on the efficacy of invalidity-assertion bars arising from no-challenge clauses in arms-length license agreements and litigation settlement agreements, and also examines the issue-preclusive effect of validity recitations in consent judgments. The *MedImmune* ruling effectively returns the law to the state it was in between the *Lear* decision in 1969 and the creation of the Federal Circuit in 1982. Thus, this Comment suggests history holds the answers to these unsettled issues.

Part II introduces *Lear* and discusses appellate court cases on the enforceability of invalidity-assertion bars in the wake of the case and prior to the creation of the Federal Circuit in 1982. Part III remarks on the establishment of the Federal Circuit and summarizes the holdings and reasoning of the Federal Circuit in its deviation from the *Lear* doctrine in restricting validity challenges. Part IV discusses the recent Supreme Court decision of *MedImmune v. Genentech* and the apparent return to the *Lear* era, again opening validity challenges, at least insofar as the declaratory judgment remedy is concerned. Additionally, Part IV discusses the possible effects of *MedImmune* on patent licensing, including its effect on licensee estoppel and on the frequency of patent litigation. Finally, Part IV presents a possible solution to the unsettled question regarding the enforceability of contractual invalidity-assertion bars. Part V concludes this Comment.

II. INVALIDITY-ASSERTION BARS IN THE WAKE OF *LEAR*

In *Lear*, the Supreme Court held that licensees could not be generally estopped from challenging the validity of licensed patents.³⁵ Thus, "*Lear, Inc. v. Adkins* marked the death of licensee estoppel."³⁶ The Court, however, did not specify the scope

34. In *Lear*, there was no provision in the license agreement that prevented the licensee from challenging the validity of the patent, so the Court was not required to address the enforceability of no-challenge clauses. See Taylor, *supra* note 19, at 225 ("On its facts, [*Lear*] only invalidated court-imposed estoppel."). Although there was similarly no provision of this kind in *MedImmune*, the *MedImmune* Court was fully aware of the unsettled issue, yet still expressly refused to clarify the scope of *Lear* in the contractual arena. See generally Brief of Licensing Executives Society, *supra* note 27, at 4 (pleading with the Supreme Court to clarify once and for all the scope of *Lear*).

35. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670–71 (1969) ("We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest . . .").

36. Rochelle Cooper Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677, 683 (1986).

of its holding. Particularly, it did not define “*who* may not estop the licensees and *how* they may not be estopped.”³⁷ Consequently, in the years following the *Lear* decision, the enforceability of no-challenge clauses was a source of great debate among the appellate courts.³⁸ In order to understand the impact of *Lear*, it is important to first understand the facts of the case and the basis of the Court’s decision.

A. *Lear v. Adkins*

In *Lear*, the inventor (Adkins) filed suit against his licensee (Lear, Inc.) for alleged breach of their patent licensing agreement.³⁹ Adkins developed a method that improved the accuracy of Lear’s gyroscopes at a low cost.⁴⁰ Although Adkins and Lear had entered into a short, one-page license agreement, Adkins soon realized that he needed to take measures to protect his invention.⁴¹ After filing an application with the Patent Office, Adkins entered into a more elaborate license agreement with Lear that was silent on whether Lear could challenge the patent’s validity. This agreement subsequently became the basis of their dispute.⁴²

After numerous rejections of Adkins’s claims by the Patent Office, Lear became convinced that Adkins’s method was not patentable. As a result, Lear eventually stopped paying Adkins the royalties required under the license agreement. After Adkins substantially narrowed the scope of his claims, however, the Patent Office allowed the claims and a patent issued. Once Adkins obtained his patent, he immediately brought suit against Lear in California Superior Court for breach of the patent licensing agreement. Lear defended by contending that Adkins’s patent claims were invalid.⁴³ This defense opened the door to an

37. Taylor, *supra* note 19, at 221.

38. See *infra* Part II.B (surveying the *Lear* progeny decisions on the efficacy of invalidity-assertion bars).

39. *Lear*, 395 U.S. at 660.

40. *Id.* at 655.

41. *Id.* at 657.

42. *Id.* Adkins and Lear entered into a seventeen-page license agreement which, according to the Court, included the following provision:

[I]f the U.S. Patent Office refuses to issue a patent on the substantial claims [contained in Adkins’ original patent application] or if such a patent so issued is subsequently held invalid, then in any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement

Id.

43. *Id.* at 659–60.

application of licensee estoppel.⁴⁴ Under the doctrine of licensee estoppel, Lear was precluded from proceeding with the invalidity defense in this breach of contract action.⁴⁵

On appeal, the California Supreme Court adhered to the doctrine of licensee estoppel and barred Lear from using the invalidity defense in the contract action for royalties due.⁴⁶ The court described the doctrine of licensee estoppel as follows:

[O]ne of the oldest doctrines in the field of patent law establishes that so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void.⁴⁷

Thereafter, Lear, the licensee, sought and obtained certiorari.⁴⁸

The United States Supreme Court took a different approach to the issue by weighing contract law policy against federal patent law policy. The Court began its contract law analysis by surveying its application of the "doctrine of [licensee] estoppel . . . in a line of cases reaching back into the middle of the 19th century."⁴⁹ After surveying the relevant case law invoking licensee estoppel, as well as case law limiting the doctrine, the Supreme Court concluded that "although licensee estoppel may be consistent with the letter of contractual doctrine, we cannot say that it is compelled by the spirit of contract law."⁵⁰ The Court balanced "the equities of the licensor" with "the important public interest in permitting full and free competition in the use of ideas," finding that the former did not "weigh very heavily" against the latter.⁵¹ Thus, the *Lear* Court abrogated the doctrine of licensee estoppel and remanded the case to the California state court to allow Lear to proceed with its invalidity defense.⁵² The

44. See Dreyfuss, *supra* note 36, at 684 (noting that once "Lear asserted the invalidity of the patent as a defense, the stage was set for a reconsideration of the bar against licensee challenges to patent validity").

45. See *supra* text accompanying notes 11–12 (discussing the instances where licensee estoppel was applicable).

46. *Adkins v. Lear, Inc.*, 435 P.2d 321, 336 (Cal. 1967), *vacated*, 395 U.S. 653 (1969).

47. *Adkins*, 435 P.2d at 325–26.

48. *Lear, Inc. v. Adkins*, 391 U.S. 912 (1968) (mem.) (order granting certiorari).

49. *Lear, Inc. v. Adkins*, 395 U.S. 653, 662 (1969).

50. *Id.* at 670.

51. *Id.*

52. *Id.* at 676. In abrogating the doctrine of licensee estoppel, the Court expressly overruled in part *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, directing that it "should no longer be regarded as sound law with respect to its 'estoppel'

Lear decision's uncertain effect on contractual bars to patent validity challenges is the focus of the following discussion.

B. Lear's Effect on Invalidity-Assertion Bars

After *Lear* was handed down, parties attempted to contract around its holding in efforts to block *Lear*-based validity challenges.⁵³ Licensors included provisions in license agreements that specifically prohibited the licensee from challenging the validity of the licensed patent or, alternatively, allowed for termination of the license agreement if the licensee asserted a validity challenge.⁵⁴ Courts then invalidated most forms of invalidity-assertion bars because they assumed the public-policy logic of *Lear* made the unenforceability of no-challenge clauses obvious.⁵⁵ In fact, the lower federal courts extended *Lear*'s abrogation of licensee estoppel in all but two situations: (1) they accorded preclusive effect to a consent judgment reciting both validity and infringement; and (2) they upheld a no-challenge clause in a litigation settlement agreement entered into after extensive litigation and negotiation.⁵⁶

Although many commentators have criticized the Supreme Court's decision in *Lear* and its subsequent vigorous application by the courts of appeals,⁵⁷ the *Lear* progeny cases still indicate

holding." *Id.* at 671.

53. Mark Henry, *Patent Licensing After MedImmune v. Genentech*, INTELL. PROP. TODAY, Apr. 2007, at 22, 24, available at <http://www.iptoday.com/pdf/2007/4/Henry-Apr2007.pdf>.

54. See Taylor, *supra* note 19, at 236 n.137 (explaining the difference between the two types of clauses).

55. *Id.* at 236.

56. See J. Thomas McCarthy, "Unmuzzling" the Patent Licensee: Chaos in the Wake of *Lear v. Adkins*, 45 GEO. WASH. L. REV. 429, 484 (1977). This Comment will not address consent decrees reciting both validity and infringement. See *infra* notes 85-86 and accompanying text (discussing the difference between issue preclusion and claim preclusion). Settlement agreements are discussed *infra* Part II.B.2.

In the years following *Lear*, when contract cases came before them, state courts also had the opportunity to interpret *Lear* and its underlying policies regarding public policy favoring challenges to patent validity. State courts may entertain validity challenges as affirmative defenses in such cases, sometimes holding a patent invalid. See, e.g., *Carding Specialists (Canada), Ltd. v. Gunter & Cooke, Inc.*, 214 S.E.2d 233, 236 (N.C. Ct. App. 1975) (finding an agreement settling a patent infringement claim binding despite the court's decision that the patent was invalid). This Comment, however, primarily focuses on federal court cases.

57. See, e.g., Dreyfuss, *supra* note 36, at 680 ("[A] major flaw in the Court's analysis in *Lear* was its failure to consider the economic function played by licensee estoppel."); Taylor, *supra* note 19, at 225 ("Two analytical flaws in *Lear* created confusion in the courts and in the field of licensing regarding licensee estoppel, no-challenge clauses, and no-challenge termination clauses.").

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that *Lear* will continue to be applied in light of the recent *MedImmune* decision.

1. *Arms-Length License Agreements: 1969–1982.* Not long after *Lear*, cases involving no-challenge clauses in license agreements called the enforceability of such clauses into question.⁵⁸ Although the outcomes of these cases did not depend on the validity of the clauses, the courts nevertheless chose to discuss and invalidate them.

For instance, one year after *Lear*, in *Plastic Contact Lens Co. v. W.R.S. Contact Lens Laboratories*, a district court found that a no-challenge clause in a license agreement did not prevent the licensee from challenging the validity of the licensed patent.⁵⁹ The court recognized that the parties had entered into the license agreement voluntarily, and there was no indication of fraud, misrepresentation, or duress.⁶⁰ Nevertheless, the court applied *Lear*'s policy of favoring challenges to the validity of patents, concluding that the no-challenge clause was inoperative.⁶¹

Beginning in 1970, the federal appellate courts similarly began extending the *Lear* policy to find no-challenge clauses unenforceable. In both *Bendix Corp. v. Balax, Inc.*, in 1970, and *Panther Pumps & Equipment Co. v. Hydrocraft, Inc.*, in 1972, the Seventh Circuit held that the no-challenge clauses in the license agreements were "not part of the 'limited protection' afforded by the patent monopoly" and were "plainly unenforceable," respectively.⁶² Citing *Lear*, the Seventh Circuit reiterated that "the Supreme Court held that a licensee is not estopped to challenge the validity of a patent."⁶³

Although *Lear*'s language indicates that its underlying policies preclude enforcement of a no-challenge clause, the agreement in *Lear* did not contain any express contractual

58. See, e.g., *Panther Pumps & Equip. Co. v. Hydrocraft, Inc.*, 468 F.2d 225, 231 (7th Cir. 1972) (stating that the no-challenge clause was unenforceable although the issue at hand was not invalidity but misuse); *Bendix Corp. v. Balax, Inc.*, 421 F.2d 809, 820–21 (7th Cir. 1970) (commenting on the unenforceability of the no-challenge clause although unnecessary to the holding of the case); *Plastic Contact Lens Co. v. W.R.S. Contact Lens Labs., Inc.*, 330 F. Supp. 441, 442–43 (S.D.N.Y. 1970) (invalidating the no-challenge license provision even though the court had already found for the plaintiff).

59. *Plastic Contact Lens Co.*, 330 F. Supp. at 443. The license agreement contained the following no-challenge clause: "The LICENSEE agrees to refrain from either directly or indirectly attacking the validity of said Letters Patent licensed under this agreement during the term of this agreement." *Id.* at 442.

60. *Id.* at 442.

61. *Id.* at 443.

62. *Panther*, 468 F.2d at 231; *Bendix*, 421 F.2d at 821.

63. *Panther*, 468 F.2d at 231.

language preventing challenges.⁶⁴ For this reason, some commentators have criticized these post-*Lear* decisions in the realm of license agreements for failing to consider the important public interest in enforcing contractual obligations, as well as the significant interest in and benefits from contractual freedom.⁶⁵ Despite these criticisms, the post-*Lear* decisions reflect the courts' firm application of policies favoring the open airing of patent invalidity arguments—the same policies that led to *Lear's* abrogation of licensee estoppel.

2. *Litigation Settlement License Agreements: 1969–1982.*

Courts also considered how to apply the *Lear* holding to no-challenge clauses in licenses negotiated as part of settlement agreements.⁶⁶ This issue divided the appellate courts, with some holding that no-challenge clauses in settlement agreements were binding, and others concluding that *Lear* precluded the clauses' enforceability just as *Lear* did in the case of license agreements entered into outside the realm of pending litigation.⁶⁷

For example, in *Aro Corp. v. Allied Witan Co.*,⁶⁸ the Sixth Circuit enforced a no-challenge clause in a settlement agreement because, as one commentator noted, “the public interest in settling lawsuits ordinarily outweighs that favoring the elimination of invalid patents.”⁶⁹ On the other hand, the Ninth and Second Circuits invalidated no-challenge clauses in settlement agreements entered into before litigation and right after trial had begun, respectively, seemingly focusing on the extent to which the parties negotiated the agreement.⁷⁰

64. See 1 RAYMOND T. NIMMER, *THE LAW OF COMPUTER TECHNOLOGY* § 7:98 (3d ed. 2008) (“The opinion in *Lear* contains language indicating that the federal policy it announced would also preclude enforcement of a contract provision preventing challenge, but there was no need to rule expressly on that issue in *Lear* because there were no express terms dealing with the question.”).

65. See, e.g., Taylor, *supra* note 19, at 238–39 (criticizing the post-*Lear* decisions and noting that “courts assumed in haste that no-challenge clauses were equivalent to judicially-imposed licensee estoppel”).

66. *Id.* at 239. “In a broad sense, every patent license is entered into in ‘settlement’ of patent litigation.” McCarthy, *supra* note 56, at 484. There is functionally no difference between a license arising from settlement of litigation and a license initially entered into by patentee and licensee. *Id.* Nevertheless, this Comment discusses the two situations separately to better understand the facts of each case.

67. See Dreyfuss, *supra* note 36, at 720 (noting that some courts “equate [settlement agreements] with contracts and refuse enforcement based on *Lear*,” while others “treat them as equivalent to consent decrees to which res judicata effect must be accorded”).

68. *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1374 (6th Cir. 1976).

69. See Dreyfuss, *supra* note 36, at 720 (citing *Aro*, 531 F.2d at 1374 (enforcing a no-challenge clause in a settlement agreement entered into after significant litigation)).

70. See, e.g., Warner-Jenkinson Co. v. Allied Chem. Corp., 567 F.2d 184, 187–88 (2d Cir. 1977) (“Thus, the seeming inequity of allowing a licensee to keep his license while he

Accordingly, in order to gain insight into the courts' understanding of *Lear*, it is necessary to understand why the Sixth Circuit enforced the no-challenge clause involved in *Aro* but other courts invalidated such clauses, even in the context of settlement agreements.

In *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, the Ninth Circuit held a no-challenge clause in a settlement agreement arising from threatened litigation void and unenforceable under the *Lear* rationale.⁷¹ In *Massillon-Cleveland*, the patent holder and alleged infringers entered into a settlement agreement in which the defendants acknowledged and agreed not to challenge the patent's validity. The patent holder ultimately brought a breach of contract action against them. The defendants asserted patent invalidity as an affirmative defense to the infringement action.⁷² The Ninth Circuit expressed the issue as "whether, in light of *Lear*, the express covenant, in which [defendants] agreed to refrain from directly or indirectly contesting the validity of the [patentee's] patent, is illegal and unenforceable."⁷³ The court recognized that "*Lear* did not specifically deal with the validity of such a covenant," but nonetheless held that the *Lear* "rationale" required the invalidation of the no-challenge clause.⁷⁴

After *Massillon-Cleveland*, commentators attempted to reconcile the Sixth Circuit's *Aro* decision and the contrary holdings in the Ninth Circuit. Some commentators theorized that the validity of no-challenge clauses depended on whether the settlement agreement resulted from a pending lawsuit or only from a potential lawsuit.⁷⁵ The theory posited that no-challenge clauses in settlement agreements arising from merely potential litigation were "void and unenforceable under the rationale of *Lear*," whereas no-challenge clauses in settlement agreements entered into during actual pending litigation were enforceable.⁷⁶

attacks the validity of the licensor's patent is outweighed by the public interest in placing no impediment in the way of those in the best position to contest the validity of the underlying patent."); *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425, 427 (9th Cir. 1971), *cert. denied*, 404 U.S. 873 (1971) (recognizing the policies favoring settlement, but noting that these interests "must give way to the policy favoring free competition in ideas not meriting patent protection").

71. *Massillon-Cleveland-Akron Sign Co.*, 444 F.2d at 425–27.

72. *Id.* at 425–26.

73. *Id.* at 426.

74. *Id.* at 426–27.

75. *See, e.g.,* McCarthy, *supra* note 56, at 486 (reconciling the *Lear* progeny settlement cases with the potential litigation vs. actual litigation distinction).

76. *Id.* at 486–87.

Indeed, this theory explains why the *Lear* progeny courts gave varying weight to the policy of encouraging settlement of litigation and the patent-challenge-fostering policy of *Lear*. Nonetheless, the Second Circuit's decision in *Warner-Jenkinson Co. v. Allied Chemical Corp.*, in which the court invalidated a no-challenge clause in a settlement agreement entered into shortly after litigation had begun, rebuts this theory.⁷⁷ In *Warner-Jenkinson Co.*, the agreement stipulated that the licensee would refrain from terminating the license for a two-year period.⁷⁸ The court relied on *Lear*, reasoning that the "seeming inequity of allowing a licensee to keep his license while he attacks the validity of the licensor's patent is outweighed by the public interest in placing no impediment in the way of those in the best position to contest the validity of the underlying patent."⁷⁹

Despite the breakdown of the potential litigation versus actual litigation theory, the Sixth Circuit's decision in *Aro* can still be effectively reconciled with the other *Lear* progeny cases in this area. The *Lear* progeny courts enforced no-challenge clauses in settlement agreements entered into after extensive litigation or negotiation⁸⁰ but invalidated no-challenge clauses in settlement agreements entered into with little or no litigation or negotiation.⁸¹ This extensive litigation versus little or no litigation understanding reconciles the post-*Lear* decisions, gives proper effect to the appellate courts' interpretations of *Lear*, and provides a workable dividing line for the courts to apply.

Be that as it may, according to Federal Circuit case law, if the litigation settlement agreement is accompanied by a consent judgment, the Federal Circuit disregards the settlement agreement distinction to give preclusive effect to the consent

77. *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 188 (2d Cir. 1977); see also Taylor, *supra* note 19, at 239–40 (describing how in the wake of *Lear* many courts "expanded the *Lear* holding" in the area of no-challenge clauses).

78. *Warner-Jenkinson Co.*, 567 F.2d at 186.

79. *Id.* at 188 ("[I]f a settlement agreement contains an explicit prohibition on licensee suits during some future periods . . . a court may feel that effect should be given to such provisions. However, the *Lear* decision militates against reading such provisions into a settlement agreement.").

80. See *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1374 (6th Cir. 1976), *cert. denied*, 429 U.S. 862 (1976) (enforcing the no-challenge clause in a settlement agreement entered into after sufficient litigation); see also Ellen Sudranski Friedman, Comment, *The Enforceability of Patent Settlement Agreements After Lear, Inc. v. Adkins*, 48 U. CHI. L. REV. 715, 727–28 (1981) (commenting that a settlement should be treated as "per se enforceable" like a consent judgment).

81. See, e.g., *Warner-Jenkinson Co.*, 567 F.2d at 186 (involving a settlement agreement entered into at the outset of trial); *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425, 425 (9th Cir. 1971) (involving a settlement agreement entered into as a result of potential litigation).

judgment reciting only validity.⁸² As the following section illustrates, the *Lear* progeny cases took a different approach to consent judgments.

3. *Consent Judgments:*⁸³ 1969–1982. The issue-preclusive effect of consent judgments⁸⁴ reciting the validity of the patent, but not infringement, represents the final area of discussion where the courts expanded and applied *Lear* to allow later challenges to validity.⁸⁵ The following discussion analyzes the *Lear* progeny case law evaluating whether a consent judgment deserves issue-preclusive effect,⁸⁶ and whether it should act as a bar to a licensee's subsequent validity challenge.

Prior to *Lear*, the Second Circuit had already addressed the preclusive effect of consent judgments in the landmark case of *Addressograph-Multigraph Corp. v. Cooper*.⁸⁷ The consent judgment in *Addressograph* recited the validity of the patent but did not adjudicate matters concerning infringement of the patent.⁸⁸ In later litigation, the Second Circuit refused to estop the defendant from challenging the validity of the patent, holding, long prior to *Lear*, that “the public interest in a judicial determination of the invalidity of a worthless patent is great

82. See *infra* Part III.B (discussing the Federal Circuit's take on the preclusive effect of consent judgments).

83. Because this Comment will only discuss consent judgments reciting validity (not infringement), unless otherwise specified, the term “consent judgment” refers to those judgments reciting only the validity of the patent.

84. “A consent decree is defined as a judgment to which the litigating parties agree.” Taylor, *supra* note 19, at 240 n.168. The terms “consent decree” and “consent judgment” are interchangeable, and this Comment uses the term “consent judgment.”

85. *Id.* at 239–40. Courts usually view consent judgments as “settlement option[s] available to the parties as a matter of right by which they may give the terms of their compromise the force of law.” Gregory Kenyon, Note, *Patent Law: The Res Judicata Effect of Consent Decrees in Patent Litigation—Lear, Inc. v. Adkins Takes a Back Seat—Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (*Fed. Cir.* 1991), 18 U. DAYTON L. REV. 139, 145–46 (1992). This Comment will not discuss consent judgments reciting both validity and infringement. When a consent judgment recites both validity and infringement, courts accord res judicata effect to the consent judgment because it has recited the “claim”—infringement, as well as the “issue”—validity. See Mark Crane & Malcolm R. Pfunder, *Antitrust and Res Judicata Considerations in the Settlement of Patent Litigation*, 62 ANTITRUST L.J. 151, 167–68 (1993) (discussing the preclusive effect of consent judgments reciting both validity and infringement).

86. Issue preclusion is sometimes referred to as “collateral estoppel.” Kenyon, *supra* note 85, at 149. “The general rule of issue preclusion thus allows parties to foreclose future judicial consideration of an issue either by litigating the question on its merits or by stipulating to its resolution.” *Id.* at 150.

87. *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483 (2d Cir. 1946).

88. *Id.* at 483–84.

enough to warrant the conclusion that a defendant is not estopped by a decree of validity.”⁸⁹

The court cited numerous decisions allowing reformation of a consent judgment by removing the recital of validity and thus eliminating the adjudication of that issue.⁹⁰ Moreover, the court believed that a party found not to have infringed could in fact concede validity even though not legitimately interested in adjudicating the validity of the patent.⁹¹ Thus, the court noted that the defendant should not be estopped “unless it is clear that in the litigation resulting in the decree the issue of validity was genuine.”⁹²

After *Lear*, commentators questioned whether, under its policies, the *Addressograph* rationale was now reinforced, or whether an exception to *Lear*’s policy was needed in consent judgment situations.⁹³ Perhaps giving preclusive effect to a consent judgment was more important than the policy of encouraging patent validity challenges. Nevertheless, some courts continued to hold that consent judgments reciting validity did not estop a licensee from challenging the validity of the licensed patent in a later case.⁹⁴ However, those courts now relied on the policies of *Lear* rather than the mere genuineness concern.⁹⁵

For example, in *Business Forms Finishing Service, Inc. v. Carson*, the Seventh Circuit refused to give a consent judgment reciting the validity of a patent preclusive effect.⁹⁶ Even though both parties considered the consent judgment binding as to validity, the court nevertheless decided that the validity

89. *Id.* at 485 (“[E]ither an adjudication of infringement, or a grant of some relief from which infringement may be inferred, is essential before any effect of res judicata can be given to [the consent judgment] on the issue of validity.”).

90. *See, e.g., id.* at 485 (“To hold a patent valid if it is not infringed is to decide a hypothetical case.” (quoting *Altvater v. Freeman*, 319 U.S. 359, 363 (1943))).

91. *Addressograph-Multigraph Corp.*, 156 F.2d at 484–85.

92. *Id.* at 485.

93. *See, e.g., Crane & Pfunder, supra* note 85, at 165–66 (“Ever since *Lear*, the use of consent decrees to bar the infringer, who typically takes a license as part of the settlement, from making future attacks on the validity of the licensed patent has been under a cloud.”).

94. *See Kraly v. Nat’l Distillers & Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974) (concluding that the licensee was not estopped from challenging the validity of the patent in the present suit even though a prior consent judgment had addressed the issue of validity).

95. *See id.* at 1368–69 (citing *Bus. Forms Finishing Serv., Inc. v. Carson*, 452 F.2d 70, 75 (7th Cir. 1971)) (refusing to estop the licensee based on *Lear*’s underlying principles).

96. *Bus. Forms Finishing Serv., Inc.*, 452 F.2d at 75.

provision did not act as an estoppel against the licensee.⁹⁷ The court considered “matters beyond the private interests of the litigants” because of the “consistent recognition of the fact that the private dispute has ramifications that may affect the public interest in free competition and in the free circulation of ideas.”⁹⁸ Ultimately, the court concluded that the policies underlying *Lear* prohibited estopping the defendant from challenging the validity of the patent.⁹⁹

In *Kraly v. National Distillers & Chemical Corp.*, the Seventh Circuit followed its earlier *Business Forms* precedent but noted that “[e]ven if . . . the consent decree embodied an adjudication of infringement,” it did not believe “the *Lear* rationale would necessarily be inapplicable.”¹⁰⁰ The Seventh Circuit’s dictum demonstrates the court’s strict interpretation and application of *Lear*’s encouragement-of-challenges philosophy in the years following the seminal decision.¹⁰¹

III. THE FEDERAL CIRCUIT’S TAKE ON INVALIDITY-ASSERTION BARS

Since the establishment of the Court of Appeals for the Federal Circuit,¹⁰² it has handled a number of appeals addressing bars to validity challenges.¹⁰³ Early on, the Federal Circuit affirmed *Lear*’s abrogation of licensee estoppel.¹⁰⁴ However, the

97. *Id.* at 73–74 (observing that defendants were “seeking to repudiate their solemn undertaking while the ink is barely dry” and “it is quite clear that questions of business ethics must be put to one side”).

98. *Id.* at 74.

99. *Id.* at 75. The court also noted that when a consent judgment recites that the accused products do not infringe, there is no need for a ruling on validity. *Id.* Therefore, plaintiffs cannot claim the benefits of a determination of validity in a judicial decree entered after a trial in which validity was not a genuine issue. *Id.* Thus, the consent judgment does not create an estoppel on the issue of validity because to hold otherwise “could not be reconciled with ‘the public interest in a judicial determination of the invalidity of a worthless patent.’” *Id.* (quoting *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483, 485 (2d Cir. 1946)).

100. *Kraly*, 502 F.2d at 1369.

101. *See id.* (“To allow the parties to consent to an adjudication of infringement would simply result in the erection of another obstacle to tests of patent validity.”); *see also* *Kaspar Wire Works, Inc. v. Leco Eng’g & Mach., Inc.*, 575 F.2d 530, 542 (5th Cir. 1978) (“[A] consent decree is not issue preclusive . . .”).

102. *See supra* notes 23–24 and accompanying text (explaining the creation of the Federal Circuit).

103. *See* Brief of Licensing Executives Society, *supra* note 27, at 6 (“[F]or the past 20 years, most, if not all, appeals addressing the issues raised in *Lear* have passed through the Federal Circuit.”).

104. *See* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 880, 882 (Fed. Cir. 1983) (interpreting *Lear* to permit a licensee to “bring a federal declaratory judgment action to declare the patent subject to the license invalid without prior termination of the license”).

Federal Circuit has declined to extend *Lear* with the fervor exhibited by other courts of appeals in deciding the *Lear* progeny cases.¹⁰⁵ For example, the Federal Circuit departed from the underlying policies of *Lear* by declaring that “a licensee . . . cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payments of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid.”¹⁰⁶ The Federal Circuit’s departure from the *Lear* doctrine itself suggests that the Federal Circuit would give little deference to the *Lear* progeny cases. That is to say, “those who disbelieve in *Lear*, disbelieve also in *Lear*’s progeny.”¹⁰⁷

Indeed, the Federal Circuit expressly departed from *Lear* and the *Lear* progeny with respect to no-challenge clauses in settlement agreements and the issue-preclusive effect of consent judgments. In effect, by distinguishing case after case in order to narrow *Lear*, the Federal Circuit succeeded in reviving, at least in part, the rationales behind the doctrine of licensee estoppel.¹⁰⁸ Consequently, “[T]he infringer [found] that the muzzle that *Lear* removed ha[d] . . . been locked back on, tighter than ever.”¹⁰⁹

Thus, in order to gain insight into the Federal Circuit’s understanding of *Lear*, and the court’s subsequent departure from *Lear* and its progeny, it is necessary to analyze the Federal Circuit case law in the area of invalidity-assertion bars. Because

105. See Taylor, *supra* note 19, at 245–46 (attributing the Federal Circuit’s deviation from *Lear* to two policy shifts—the Federal Circuit’s more relaxed approach toward patent–antitrust issues and its heightened presumptions of patent validity burdening infringers).

106. *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir. 1997). *Lear* involved at least three underlying policy protections which allowed the licensee to: (1) plead invalidity as a defense in a contract action; (2) sue the patentee to recoup paid royalties if the patent is found invalid; and (3) bring a declaratory judgment action. See, e.g., *C.R. Bard, Inc.*, 716 F.2d at 882 (permitting a licensee to bring a declaratory judgment action without prior termination of the license); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1259–60 (6th Cir. 1972) (establishing that a licensee may not recover royalties paid prior to the finding of patent invalidity); *Massillon-Cleveland-Akron Sign Co. v. Golden State Adver. Co.*, 444 F.2d 425, 427 (9th Cir. 1971) (allowing the licensee to raise patent invalidity as a defense to a breach of contract action, no-challenge clause notwithstanding). Arguably, *Studiengesellschaft Kohle* departed from at least the first two underlying protections of *Lear* when it placed restrictions on when a licensee may invoke the protection of *Lear*.

107. Tom Arnold & Jack C. Goldstein, *A Light in the Dark for Licensees Attacking Patent Validity*, in *PATENT LAW ANNUAL* 163, 188 (Virginia Shook Cameron ed., 1972).

108. See Sease, *supra* note 25, at 232 (“If it is in the public interest to promote full and free competition in the use of ideas which are in reality in the public domain, and if it is in the public interest to unmuzzle those having the greatest economic incentive to challenge the validity of patents . . . then the Federal Circuit is ignoring not only the spirit of *Lear*, but also the expressed policies of *Lear*.”).

109. *Id.*

of the limited Federal Circuit case law addressing no-challenge clauses in arms-length license agreements, the following sections will specifically address the Federal Circuit's departure from *Lear* in the areas of litigation settlement agreements and consent judgments.

A. *Litigation Settlement Agreements: 1982–2007*

Like the *Lear* progeny cases, the Federal Circuit has drawn a distinction between settlement agreements entered into as a result of actual litigation and those entered into as a result of potential litigation.¹¹⁰ However, as previously discussed, the *Lear* progeny case law is inconsistent with the potential litigation versus actual litigation distinction.¹¹¹ Thus, the Federal Circuit case law dealing with no-challenge clauses in settlement agreements—and its subsequent interpretation by the lower courts—is inconsistent with the *Lear* progeny case law.¹¹² Nevertheless, an analysis of the Federal Circuit's interpretation and extension of *Lear* in dealing with invalidity-assertion bars may shed some light on a possible compromise between both lines of case law.

The Federal Circuit first departed from *Lear* in *Hemstreet v. Spiegel, Inc.*¹¹³ In *Hemstreet*, the parties entered into a settlement agreement after one week of trial proceedings. The settlement agreement, which included a license with running royalties, stated that “the issues of validity, enforceability and infringement” of the licensed patent were “finally concluded and disposed of.”¹¹⁴ The licensee later filed a petition seeking an order to be relieved from making royalty payments under the license. The petition revealed that in a different action involving the patentee, a district court had found the licensed patent

110. Brief of Licensing Executives Society, *supra* note 27, at 7 (citing *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1369–70 (Fed. Cir. 2001)).

111. See *supra* Part II.B.2 (positing that a better view is that no-challenge clauses in settlement agreements entered into after extensive litigation or negotiation should be enforceable, while provisions in settlement agreements entered into with little or no litigation or negotiation should be held invalid).

112. Compare, e.g., *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 349–50 (Fed. Cir. 1988) (enforcing a no-challenge clause in a settlement agreement after only one week of trial proceedings), and *Warrior Lacrosse, Inc. v. Brine, Inc.*, No. 04-71649, 2006 WL 763190, at *23–26 (E.D. Mich. Mar. 8, 2006) (enforcing a no-challenge clause in a settlement agreement entered into in the very early stages of litigation), with *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 567 F.2d 184, 185, 188 (2d Cir. 1977) (invalidating a no-challenge clause in a settlement agreement entered into after litigation had begun, but before significant litigation had occurred).

113. *Hemstreet*, 851 F.2d at 349.

114. *Id.*

unenforceable due to the patentee's inequitable conduct before the United States Patent and Trademark Office.¹¹⁵ Thus, the licensee argued that it would be inconsistent with federal patent policy and *Lear* to require it to continue paying royalties to the licensor for an unenforceable patent. The Federal Circuit distinguished *Lear* because it did not involve a settlement agreement, and "the encouragement of settlement of litigation and the need to enforce such settlements in order to encourage the parties to enter into them" were public policy issues "totally absent in *Lear*."¹¹⁶ The Federal Circuit expressed its steadfast adherence to the encouragement of settlement of litigation and estopped the licensee from challenging the validity of the unenforceable patent.¹¹⁷

Subsequently, in *Flex-Foot, Inc. v. CRP, Inc.*, the Federal Circuit upheld its previous holding in *Hemstreet* and enforced a no-challenge clause in a settlement agreement.¹¹⁸ But this time, the parties entered into the settlement agreement after conducting discovery and briefing motions for summary judgment.¹¹⁹ Although this analysis and the *Lear* progeny decisions are consistent, a federal district court's subsequent interpretation and extension of *Flex-Foot* is inconsistent with the *Lear* progeny, and symbolizes the different direction being taken by the Federal Circuit.

The recent district court case of *Warrior Lacrosse, Inc. v. Brine, Inc.* demonstrates the uncertainty regarding the proper balancing of the policies favoring settlement of litigation and the policies underlying *Lear*.¹²⁰ *Warrior Lacrosse* involved a no-challenge clause in a settlement agreement entered into in the very early stages of litigation, without any depositions, claim construction, or summary judgment motions. The Special Master evaluating the case was unwilling to distinguish *Flex-Foot* on the ground that patent validity was not adequately scrutinized during the short-lived litigation.¹²¹ The Special Master expressly refused to consider when exactly the settlement occurred during litigation, holding that *Flex-Foot* applied "regardless of the stage

115. *Id.*

116. *Id.* at 350.

117. *Id.* at 351.

118. *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1369–70 (Fed. Cir. 2001).

119. *Id.* at 1363–64.

120. *Warrior Lacrosse, Inc. v. Brine, Inc.*, No. 04-71649, 2006 WL 763190 (E.D. Mich. Mar. 8, 2006); see also Brief Licensing Executives Society, *supra* note 27, at 7 (arguing that *Warrior Lacrosse* demonstrates the need for further clarification by the Supreme Court on the extent of *Lear*).

121. *Warrior Lacrosse*, 2006 WL 763190, at *25–26.

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of the litigation that gave rise to the settlement.”¹²² As a result, the Special Master concluded that the licensee, “[h]aving chosen to settle its litigation . . . must abide by the scope of the agreement it voluntarily entered.”¹²³ Thus, the Special Master recommended that the licensee be prevented from challenging the validity of the licensed patent on the basis of contractual estoppel.¹²⁴

The Federal Circuit's express departure from the *Lear* progeny case law in the area of settlement agreements produces two valid but distinct lines of case law interpreting *Lear*'s abrogation of licensee estoppel. If Federal Circuit case law is followed and interpreted to mean that any provision in a settlement agreement is enforceable if it is entered into after litigation commences, then “a license agreement reached after several years of negotiation could not be used to estop a licensee from challenging patent validity, while a ‘settlement agreement’ reached after only a few weeks of litigation could.”¹²⁵ The *Lear* court did not have this result in mind, as demonstrated by the *Lear* progeny decisions, most of which were denied certiorari.¹²⁶ In addition to the Federal Circuit's departure from *Lear* in the area of settlement agreements, the Federal Circuit has also expressed its own view regarding the preclusive effect of consent judgments that recite only validity.

B. *Consent Judgments: 1982–2007*

The Federal Circuit has consistently estopped the licensee from challenging the licensed patent's validity where a consent judgment recites the validity of the patent.¹²⁷ In doing so, it has expressly disagreed with the *Lear* progeny Seventh Circuit cases refusing to give preclusive effect to consent judgments that recite only validity.¹²⁸

122. *Id.* at *26.

123. *Id.*

124. *Id.* at *30. The district court judge entered a stipulated order dismissing the case on August 31, 2006. *See Warrior Lacrosse, Inc. v. Brine, Inc.*, No. 04-71649, 2006 WL 763190 (E.D. Mich. Mar. 8, 2006) (order dismissing the case).

125. *See* Brief of Licensing Executives Society, *supra* note 27, at 8 (opining that the Federal Circuit's interpretation of *Lear* could result in litigation being used as a “tactic to circumvent . . . *Lear*”).

126. *See supra* notes 68–70 and accompanying text (introducing the *Lear* progeny cases in the area of settlement agreements).

127. *See de Larena, supra* note 8, at 23 (noting that the Federal Circuit's deviation from the *Lear* progeny cases has left a “lingering question” as to the proper interpretation of *Lear*).

128. *See supra* Part II.B.3 (discussing the Seventh Circuit cases *Kraly* and *Business Forms Finishing Service, Inc.*).

In *Foster v. Hallco Manufacturing Co.*,¹²⁹ the most prominent Federal Circuit case dealing with the preclusive effect of consent judgments, the court attempted to reconcile the policies underlying *Lear* with those underlying the rule of claim preclusion.¹³⁰ Because the consent judgment in *Foster* recited both validity and infringement, however, the court briefly discussed issue preclusion.¹³¹ The Federal Circuit noted that issue preclusion usually does not result from a consent judgment because the doctrine usually requires, as its trigger, that the court actually decide an issue.¹³² The court referred to section 27 of the Second Restatement of Judgments,¹³³ noting that “once a legal or factual issue has been settled by the court after a trial in which it was fully and fairly litigated that *issue* should enjoy repose.”¹³⁴ However, the court then discussed a type of issue preclusion available for consent judgments that does not depend on actual judicial resolution of the issue, but instead on the parties’ intent to be bound.¹³⁵

Thus, the Federal Circuit set the stage for future cases by devising a new standard for issue preclusion in consent judgments: “[I]f a consent judgment, by its terms, indicates that the parties thereto intend to preclude any challenge to the validity of a particular patent . . . then that issue can be precluded.”¹³⁶ Finally, the Federal Circuit noted that the provisions in the consent judgments “must be construed narrowly,” thus “strik[ing] a reasonable balance between the policy considerations enunciated in *Lear*, and those favoring voluntary settlement of litigation.”¹³⁷

The Federal Circuit finally had an opportunity to apply its consent judgment issue preclusion standard in *Diversey Lever*,

129. *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 469 (Fed. Cir. 1991).

130. *See Kenyon, supra* note 85, at 140–41 (examining *Foster*’s departure from *Lear*).

131. *See Foster*, 947 F.2d at 475, 480–83 (recognizing the conflict among precedent in the circuits “on whether *Lear* negates the *res judicata* effect which would otherwise inhere in a consent decree”). The Federal Circuit also noted that it was using the term “*res judicata*” to refer to both “claim preclusion” and “issue preclusion.” *Id.* at 478.

132. *Id.* at 480.

133. “When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.” RESTATEMENT (SECOND) OF JUDGMENTS § 27 (1982).

134. *Foster*, 947 F.2d at 480.

135. *Id.* at 480–81 (“The [issue preclusive] effect results not from the rule of [§ 27] but from an agreement manifesting an intention to be bound.” (citing RESTATEMENT (SECOND) OF JUDGMENTS § 27 cmt. e)).

136. *Foster*, 947 F.2d at 480–81.

137. *Id.* at 481.

*Inc. v. Ecolab, Inc.*¹³⁸ In *Diversey Lever*, the parties agreed on a settlement accompanied by a consent judgment, and the Federal Circuit allowed the consent judgment to act as an estoppel against the licensee.¹³⁹ Although the court reiterated that more than a validity recitation was needed to estop the licensee, it concluded that because the provision used “the broadest possible language”—stating the licensee would not “directly or indirectly aid, assist or participate in any action contesting the validity” of the patents—the licensee gave up its right to claim invalidity as a defense to infringement.¹⁴⁰ Accordingly, in order to make a consent judgment reciting validity issue preclusive, the Federal Circuit only requires this additional “no-contest” language.

Even though this is a plausible distinction, it fails to conform to the *Lear* progeny cases and the policies underlying *Lear*. Specifically, one of the *Lear* progeny cases applied *Lear*'s abrogation of licensee estoppel to invalidate a provision almost identical to the one above.¹⁴¹ Additionally, the Federal Circuit's view directly conflicts with the Seventh Circuit's decision in *Kraly*: “We conclude . . . the licensee[] is not estopped from challenging the validity of the patent, even though a prior consent decree incorporated an understanding not to challenge the validity of the patent.”¹⁴² As in the area of settlement agreements, the Federal Circuit discreetly distinguished its way back to an approximate doctrine of licensee estoppel, leaving behind only small remnants of *Lear*.

IV. MEDIMMUNE: AN EXTENSION OF LEAR

The two conflicting lines of case law interpreting *Lear* demonstrate the difficulty in understanding and applying its underlying policies. In the recently decided *MedImmune*¹⁴³ case, the Supreme Court had the opportunity to clear up the confusion

138. *Diversey Lever, Inc. v. Ecolab, Inc.*, 191 F.3d 1350 (Fed. Cir. 1999).

139. *Id.* at 1351–52 (“We have recognized that a consent judgment of patent validity may preclude a party from asserting invalidity in subsequent litigation involving new accused products, as long as the agreement manifests an intent to be bound. However, any surrender of the right to challenge validity of a patent is construed narrowly.” (citing *Foster*, 947 F.2d at 481)).

140. *Id.* at 1352 (citing the settlement agreement language).

141. *See Plastic Contact Lens Co. v. W.R.S. Contact Lens Labs., Inc.*, 330 F. Supp. 441 (S.D.N.Y. 1970). The license agreement language provided that “The LICENSEE agrees to refrain from either directly or indirectly attacking the validity of said Letters Patent licensed under this agreement during the term of this agreement.” *Id.* at 442; *see also supra* Part II.B.1.

142. *Kraly v. Nat'l Distillers & Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974).

143. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

left behind by *Lear* in the area of invalidity-assertion bars.¹⁴⁴ Although the Court declined to resolve this unsettled area of the law, the *MedImmune* decision, at the very least, indicates the Supreme Court's respect for both *Lear*'s abrogation of licensee estoppel and the reasons behind this abrogation.¹⁴⁵

A. *MedImmune, Inc. v. Genentech, Inc.*

In 1997, petitioner *MedImmune* entered into a patent license agreement with *Genentech*, which covered one existing patent and one pending patent application.¹⁴⁶ Pursuant to the license agreement, *MedImmune* was to pay royalties on the sale of "Licensed Products."¹⁴⁷ In 2001, the U.S. Patent and Trademark Office issued *Genentech* a patent on the pending patent application (the *Cabilly II* patent), and *Genentech* promptly notified *MedImmune* that it believed *MedImmune*'s primary product, *Synagis*, was covered by the *Cabilly II* patent. *MedImmune* did not believe the *Cabilly II* patent was valid or that the claims therein were infringed by *Synagis*. Nevertheless, *MedImmune* interpreted *Genentech*'s letter as a "clear threat" that *Genentech* would try to collect royalties based on the *Cabilly II* patent, the nonpayment of which could lead to termination of *MedImmune*'s license and a subsequent suit for patent infringement.¹⁴⁸ As a result, *MedImmune* "paid the demanded royalties 'under protest and with reservation of all [its] rights'" in order to avoid the serious consequences of *Genentech* prevailing on a patent infringement action against *MedImmune*.¹⁴⁹

Without ceasing its payment of royalties, *MedImmune* then brought a declaratory judgment action against *Genentech*, seeking a declaration that the *Cabilly II* patent was invalid, unenforceable, and not infringed.¹⁵⁰ The district court dismissed *MedImmune*'s declaratory judgment suit, relying on the Federal Circuit's *Gen-Probe Inc. v. Vysis, Inc.* precedent.¹⁵¹ The district

144. *MedImmune*, 127 S. Ct. at 769–70.

145. See *Crowell*, *supra* note 31, at 1 (noting that *MedImmune* overruled some Federal Circuit cases that had "eroded" *Lear*).

146. *MedImmune*, 127 S. Ct. at 767–68.

147. *Id.* at 768.

148. *Id.*

149. *Id.* (listing the major consequences to *MedImmune* if *Genentech* prevailed, including treble damages, attorney's fees, and a loss of more than 80% of its revenue if the court enjoined *MedImmune* from selling *Synagis*).

150. *Id.* at 768, 770 n.5.

151. *MedImmune, Inc. v. Genentech, Inc.*, No. CV 03-2567, 2004 WL 3770589, at *5–6 (C.D. Cal. Apr. 26, 2004). *Gen-Probe Inc.* held that a licensee in good standing cannot have Article III standing to bring a declaratory judgment action to invalidate a patent.

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court found MedImmune lacked standing to sue because it was continuing under the license agreement and, accordingly, had no reasonable apprehension of being sued by Genentech for infringement.¹⁵² Following the Federal Circuit's expected affirmation,¹⁵³ the Supreme Court agreed to hear the case.¹⁵⁴

Justice Scalia, writing for an 8–1 majority, reversed the Federal Circuit's ruling and held that a licensee need not terminate its patent license agreement and expose itself to an infringement suit before bringing a declaratory judgment suit challenging the validity of the patent.¹⁵⁵ Because the license agreement involved in *MedImmune* did not contain any express language prohibiting a validity challenge,¹⁵⁶ the Court expressly refused to discuss the scope of *Lear* and instead decided the case solely on constitutional standing grounds.¹⁵⁷ Even though

Gen-Probe Inc. v. Vysis, Inc., 359 F.3d 1376, 1379–82 (Fed. Cir. 2004); see also *infra* note 157 (discussing the history of the licensee's declaratory judgment standing).

152. *MedImmune*, 2004 WL 3770589, at *5–6.

153. See *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 969 (Fed. Cir. 2005).

154. *MedImmune, Inc. v. Genentech, Inc.*, 546 U.S. 1169 (2006) (mem.) (order granting certiorari).

155. *MedImmune*, 127 S. Ct. at 767, 777 (remanding the case to the Federal Circuit to decide the issue on the merits). The Federal Circuit may very well decide that the licensee is estopped from challenging the license's validity based on its current precedent requiring a licensee to actually cease payment of royalties before challenging validity. See *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir. 1997) (placing limitations on invoking the protections of *Lear*); Arnold B. Calmann & Katherine A. Escanlar, *Do Patent Licensees Have It Both Ways?*, N.J.L.J., Apr. 23, 2007, at 1 (“[T]he Supreme Court may have simply opened the jurisdictional door, only to allow [the licensee], once inside the courthouse, to be estopped on the merits.” (quoting David L. Fox, *MedImmune v. Genentech and Licensee Estoppel*, IP LAW 360, Feb. 23, 2007, <http://ip.law360.com>)).

156. The Court did briefly address the patentee's assertion that the licensee was prohibited from challenging the validity of the patent. *MedImmune*, 127 S. Ct. at 776. The patentee argued that the license agreement itself contained an implied promise by the licensee not to challenge the validity of the covered patents. *Id.* at 775–76. The Court noted that this so-called prohibition could “hardly be implied from the mere promise to pay royalties on patents,” but did not address the issue of express provisions prohibiting a validity challenge of the licensed patent. *Id.*

157. *Id.* at 769–70, 777. The standing of the licensee to seek relief from the patent holder through a declaratory judgment action has been a topic of debate since before *Lear*. Arnold & Goldstein, *supra* note 107, at 181–82, 188. Interestingly, the courts' views on a licensee's standing to bring a declaratory judgment have experienced similar shifts to those in the realm of invalidity-assertion bars. See *supra* Parts II–III (chronicling both the *Lear* progeny and Federal Circuit case law dealing with invalidity-assertion bars). For instance, from 1856 to 1969, when the doctrine of licensee estoppel was in full force, legal scholars believed that “the licensee's obligation stemmed from his agreement and hence from state contract laws, not the patent or federal patent laws.” Arnold & Goldstein, *supra* note 107, at 180–81. But, even then, the Supreme Court held that an exception existed, allowing a patent licensee to seek a declaratory judgment of invalidity without terminating the license. See *id.* at 182 (citing *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 177 (1942)). When the Court abolished licensee estoppel, the patent license agreement was no longer “just a private contract governed by state law.” *Id.* at 181. Thus,

MedImmune clearly establishes Article III standing and licensee estoppel as two separate considerations,¹⁵⁸ the Court's holding—that a licensee can continue paying royalties and still have a justiciable controversy sufficient to support a judicial challenge to the validity of the licensed patent—provides a practical tool for implementing the policy of *Lear*.¹⁵⁹ Without that tool, licensees could take advantage of *Lear* only when they were sued for breach of contract, a state law claim.¹⁶⁰ However, licensees now have a federal law cause of action they can initiate themselves.¹⁶¹

Moreover, *MedImmune* sheds light on the Court's ease in overturning Federal Circuit precedent on a principle of law that has been tarnished over the years. For instance, in *MedImmune*, the Court relied on *Altvater v. Freeman*, in which the Court had previously held that a licensee continuing to pay royalties under protest had standing to bring a declaratory judgment suit under the Declaratory Judgment Act.¹⁶² In abrogating the Federal Circuit case law that had deviated from *Altvater*, the Court noted that the Federal Circuit's holding “contradict[s],” “conflicts with,” and is “in tension with” prior Supreme Court precedent.¹⁶³

After *MedImmune*, the tension between the *Lear* progeny case law and the Federal Circuit case law still remains. The Federal Circuit favors blocking validity challenges through the device of contractual estoppel.¹⁶⁴ The *Lear* progeny cases viewed

“*Lear* destroyed the century-old legal barrier to the existence of a *litigable* validity controversy between licensor and licensee,” allowing licensees to “hang onto their license and litigate too.” *Id.* at 185, 188. The Federal Circuit initially followed *Lear*, but eventually held that “a licensee must, at a minimum, stop paying royalties before bringing suit to challenge the validity or scope of the licensed patent.” *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1381 (Fed. Cir. 2004). *But see* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 882 (Fed. Cir. 1983) (“[W]e hold that a patent licensee may bring a federal declaratory judgment action to declare the patent subject to the license invalid without prior termination of the license.”). *MedImmune* has abrogated *Gen-Probe*. *MedImmune*, 127 S. Ct. at 774.

158. See Catherine Nyarady, *MedImmune v. Genentech: Unanswered Questions*, N.Y.L.J., Feb. 1, 2007, at 4 (2007) (noting that *Gen-Probe* “expressly declined to decide the lurking licensee estoppel issue”).

159. See *Cooley*, *supra* note 2, at 2 (comparing the *Lear* and *MedImmune* holdings); see also *infra* notes 167–68 and accompanying text (elaborating on *MedImmune*'s expansion of *Lear*).

160. See *supra* notes 11–12 and accompanying text (explaining why licensee estoppel only barred the licensee's patent invalidity defense in breach of contract actions).

161. *MedImmune*, 127 S. Ct. at 777.

162. *Altvater v. Freeman*, 319 U.S. 359, 365 (1943).

163. *MedImmune*, 127 S. Ct. at 774 n.11; see also *Arnold & Porter*, *supra* note 28, at 3 (noting the Supreme Court's disfavor for the Federal Circuit's departure from prior Supreme Court precedent).

164. See *supra* Part III (discussing the Federal Circuit cases that enforced contractual bars to validity challenges).

contractual restraints as inconsistent with the policy intent of *Lear*, namely, to allow licensees the freedom to challenge doubtful patents.¹⁶⁵ Nonetheless, the Supreme Court's overruling of Federal Circuit law regarding declaratory actions in *MedImmune* strongly indicates that if the Supreme Court takes a case involving an invalidity-assertion bar, it may apply *Lear* and the *Lear* progeny case law over that of the Federal Circuit. Just as the Federal Circuit law contradicted, conflicted with, and was in tension with *Altwater*, the Federal Circuit case law in the area of invalidity-assertion bars contradicts, conflicts with, and is in tension with *Lear* and the *Lear* progeny cases.¹⁶⁶

Furthermore, *MedImmune* at least extends *Lear*, thus reestablishing *Lear* as good law.¹⁶⁷ By allowing a licensee to challenge the validity of a licensed patent while still paying royalties to the patentee—a clear extension of *Lear*'s holding that a patent licensee was not estopped from challenging the validity of its licensed patent—*MedImmune* resuscitates *Lear*'s abrogation of licensee estoppel.¹⁶⁸

B. *The Effect of MedImmune on Patent Licensing*

The Court's relaxation of the constitutional case or controversy requirement affects many areas of the law.¹⁶⁹ In the wake of *MedImmune*, patentees and licensees will consider *MedImmune* when drafting license agreements, thereby crystallizing the question of whether contractual invalidity-assertion bars are inconsistent with *Lear*'s purposes.¹⁷⁰ Additionally, *MedImmune* may increase the amount of patent litigation.¹⁷¹ The following paragraphs analyze the possible implications of *MedImmune* on patent licensing.

165. See *supra* Part II (examining the *Lear* progeny cases that extended and applied *Lear* in order to invalidate validity assertion bars).

166. See *supra* Part III (describing how Federal Circuit case law deviates from that of *Lear* and the *Lear* progeny cases).

167. *Crowell*, *supra* note 31, at 1 (“*Lear* was eroded by a series of Federal Circuit decisions, the core of which has now been overturned by *MedImmune*, thus reestablishing *Lear* as good law.”).

168. See *Cooley*, *supra* note 2, at 2 (classifying *MedImmune* “as an extension of *Lear*”).

169. See *Crowell*, *supra* note 31, at 1 (“The Supreme Court’s recent decision in *MedImmune* . . . may have broader implications than some realize.”).

170. See Erik Belt & Keith Toms, *The Price of Admission: Licensee Challenges to Patents After MedImmune v. Genentech*, BOSTON B.J., May–June 2007, at 12 (“*MedImmune* has merely set the stage for a new showdown over patent policy.”).

171. See *Chu*, *supra* note 2, ¶¶ 4–35 (predicting an increase in litigation).

1. *Estopping the Licensee Despite Lear and MedImmune.* *MedImmune's* relaxation of the declaratory judgment standard will change attitudes on both sides of the licensing field. For example, licensees are now more likely to consider challenging the validity of their licensed patents while continuing to pay royalties to the patentee, albeit under protest.¹⁷² Additionally, licensees will seek to enter into license agreements in an attempt to cap their exposure to infringement liability and then seek a declaratory judgment on the validity of the patent in an attempt to avoid that exposure altogether.¹⁷³

In turn, the *MedImmune* decision will have an impact on the drafting of license agreements.¹⁷⁴ In order "to regain some of the power that has shifted to licensees as a result of *MedImmune*," patentees will attempt to create barriers to prevent licensees' validity challenges.¹⁷⁵ For instance, a license agreement may contain a provision giving the patentee a termination right if the licensee files a declaratory judgment action, or perhaps a provision requiring an increase in royalties if the licensee challenges the validity of the patent.¹⁷⁶

Moreover, if courts choose to follow the Federal Circuit's understanding of no-challenge clauses, patentees will likely invoke contractual estoppel despite the policies of *Lear* and *MedImmune*. According to current Federal Circuit case law, a no-challenge clause in a settlement agreement entered into after *any* actual litigation is considered binding against the licensee.¹⁷⁷ Thus, applying Federal Circuit case law in the area of settlement agreements will encourage the patentee to file an infringement suit against the alleged infringer *before* entering into a settlement agreement so that the court will enforce the no-challenge clause.¹⁷⁸ Of course, applying the *Lear* progeny case

172. *Cooley*, *supra* note 2, at 3 ("After *MedImmune*, patent licensees may be inclined to reevaluate the patents on which they are paying royalties, and decide to challenge the validity of those patents while paying the royalties under protest.").

173. *Crowell*, *supra* note 31, at 1 ("[It] is entirely possible that over time, companies accused of patent infringement will *first* seek a license—to cap their exposure—and then bring a declaratory judgment action to see if they can avoid that exposure altogether.").

174. *See Nyarady*, *supra* note 158, at 18 (listing ways a licensor could draft around *MedImmune*).

175. *Cooley*, *supra* note 2, at 3.

176. *See Belt & Toms*, *supra* note 170, at 12 ("Many of these provisions, however, will become the subject of further litigation because it remains unclear how much constraint *Lear*, and the policy it embodies, places on a patent holder's menu of options."); *Nyarady*, *supra* note 158, at 18 (listing numerous other ways a patentee can contract around *MedImmune* while respecting the "spirit of *Lear*").

177. *See supra* Part III.A (discussing current Federal Circuit case law in the area of settlement agreements).

178. *See* George C. Best, *Licensee Estoppel Revisited*, IPL NEWSL., Spring 2007, at 27

law, where the distinction is not based on the potential litigation versus actual litigation theory, will not encourage the patentee to file first and settle later.¹⁷⁹

Whatever the manner in which licensing parties choose to “contract around” *MedImmune* and *Lear*, changes in drafting will inevitably result in an increase in litigation.¹⁸⁰ However, an increase in settlements will most likely accompany the increase in litigation, as the following section discusses.

2. *Increase in Litigation, Increase in Settlements.* Prior to *MedImmune*, licensees were required to terminate the license agreement, if possible, before bringing a validity challenge.¹⁸¹ Thus, licensees often refrained from bringing challenges in order to avoid being subject to suit by the patentee for infringement.¹⁸² Commentators speculate that *MedImmune* will result in an increase in patent litigation because licensees may challenge the validity of the licensed patent without risk of infringement, damages for breach of contract, or injunction.¹⁸³

Indications from the years 1969–1982 suggest that although a large increase in litigation is likely, most licensee declaratory judgment actions will end in settlement because patent holders have a strong incentive to settle such issues with the licensee before the matter reaches any late stage of litigation.¹⁸⁴ Accordingly, few cases are likely to proceed to final adjudication in the courts. The patentee will prefer to settle with the licensee because fully adjudicated litigation would not only risk wasting millions of dollars, but more importantly, risk a final determination of patent invalidity, thus losing the financial advantage of the patent.¹⁸⁵ The licensee will also be encouraged to settle because, despite the licensee’s goal of simply lowering the previously agreed royalty rate, in defeating the patent’s validity the licensee would instead be opening the floodgates to competitors.¹⁸⁶ The possible ruling of invalidity will also

(analyzing the practical effects of *MedImmune*).

179. See *supra* Part II.B.2 (reconciling the *Lear* progeny case law in the area of settlement agreements using an extensive litigation vs. little or no litigation theory).

180. See Calmann & Escanlar, *supra* note 155, at 3–4 (predicting an increase in litigation).

181. Chu, *supra* note 2, ¶ 34.

182. *Id.*

183. See Calmann & Escanlar, *supra* note 155, at 3–4 (predicting an increase in litigation in the wake of *MedImmune*).

184. See de Larena, *supra* note 8, at 35 (positing that an increase in litigation is unlikely because *MedImmune* did nothing to lower the costs or uncertainties of litigation).

185. See *id.* (noting the high costs of patent litigation).

186. See *Tex. Instruments Inc. v. Tandy Corp.*, No. 12166, 1992 WL 200604, at *2

discourage the patentee from bringing an infringement suit before entering into a license agreement even though, according to Federal Circuit law, the patentee may take advantage of a no-challenge clause in a settlement agreement if litigation has commenced prior to settlement.¹⁸⁷ *MedImmune*'s potential effect on invalidity-assertion bars is ultimately dependent on a judicial ruling by the United States Supreme Court. Thus, the following section recommends a possible solution to the unsettled question regarding the enforceability of invalidity-assertion bars.

C. *Future of Invalidity-Assertion Bars—A Proposed Compromise*

The efficacy of bars to validity challenges in patent licensing depends on future Supreme Court interpretations of *Lear*.¹⁸⁸ Because *Lear* is still valid Supreme Court precedent, the Court will adhere to *Lear*, but its interpretation and extension of the underlying policies of *Lear* is of utmost importance. It remains unclear whether *Lear* extends to invalidate contractual provisions that prohibit the licensee from challenging the validity of its licensed patent.¹⁸⁹ If the Court faced a no-challenge situation similar to those discussed in this Comment, the Court would likely find the provision generally unenforceable.

However, the Court may want to avoid expressly overruling the Federal Circuit case law dealing with settlement agreements and consent judgments, and instead utilize both the *Lear* progeny case law and Federal Circuit case law to reach a compromise. Moreover, because patents are considered "legally enforced monopolies," if courts found such contractual bars to validity challenges legally valid in all circumstances, "one would expect them to be common, if not customary" in patent license agreements, which would put the licensee at risk of losing the protections associated with the patent license and having to continue paying royalties per the agreement.¹⁹⁰ This outcome would negate the benefits of *MedImmune* and the underlying policies of *Lear*. Thus, in light of these considerations, the Court

(Del. Ch. Aug. 13, 1992) ("[T]he challenge represents a threat to the validity, and thus the value, of the patent monopoly.")

187. See *supra* notes 177–79 and accompanying text (noting the effects of applying Federal Circuit case law).

188. See *Chu, supra* note 2, ¶ 37 (noting that *MedImmune* "is keeping patent holders anxiously anticipating the courts' determination of what, if any, measures they can take to protect their patents from challenges").

189. See *Cooley, supra* note 2, at 2–3 (discussing the unsettled areas of law after *MedImmune*).

190. See *Tex. Instruments Inc.*, 1992 WL 200604, at *3, *5 (addressing the issue of a no-challenge termination clause).

could provide for a few limited exceptions to the general rule by holding invalidity-assertion bars enforceable only when the parties entered into the settlement agreement containing the no-challenge clause after extensive negotiation or litigation,¹⁹¹ or when a consent judgment reciting validity indicates the parties' genuine intent to preclude a challenge of validity.¹⁹²

The above exceptions result directly from a compromise between the *Lear* progeny and the Federal Circuit's interpretations of *Lear*. Indeed, because *Lear* did not involve the settlement of litigation or the finality of judgments, these limited exceptions do not necessarily conflict with the underlying policies of *Lear*.¹⁹³ The Federal Circuit's view of no-challenge clauses in settlement agreements departs from the *Lear* progeny by following a strict bright line rule differentiating between settlement agreements entered into as a result of threatened litigation and those entered into as a result of pending litigation.¹⁹⁴ By following this bright line rule, the Federal Circuit enforces no-challenge clauses entered into before sufficient negotiation and litigation between the parties, an outcome the *Lear* court would be unlikely to approve.¹⁹⁵

With regard to consent judgments, although the *Lear* progeny cases hold that consent judgments reciting only validity are not preclusive, the Federal Circuit sets forth a workable standard for determining whether courts should give preclusive effect to these consent judgments.¹⁹⁶ However, the Federal Circuit's application of its own standard is vastly inconsistent with the *Lear* progeny line of cases.¹⁹⁷ A more appropriate

191. See *supra* Part II.B.2 (setting forth the *Lear* progeny's take on the enforceability of no-challenge clauses in settlement agreements).

192. See *supra* Part III.B (setting forth the Federal Circuit's take on the issue-preclusive effect of consent judgments reciting validity only).

193. The Federal Circuit has consistently distinguished *Lear* based on the absence of these two issues. See, e.g., *Foster v. Halco Mfg. Co.*, 947 F.2d 469, 474–75 (Fed. Cir. 1991) (finality of judgments); *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988) (settlement of litigation).

194. See *supra* Part III.A (discussing the Federal Circuit case law following this potential litigation vs. actual litigation division).

195. See *supra* text accompanying notes 125–26 (discussing the pitfalls of the Federal Circuit's interpretation of *Lear* in ruling on the enforceability of no-challenge clauses in settlement agreements).

196. See *Foster*, 947 F.2d at 480–81 (“[I]f a consent judgment, by its terms, indicates that the parties thereto intend to preclude any challenge to the validity of a particular patent . . . then that issue can be precluded.”).

197. Compare *Diversey Lever, Inc. v. Ecolab, Inc.*, 191 F.3d 1350, 1352 (Fed. Cir. 1999) (allowing a consent judgment to act as estoppel), with *Plastic Contact Lens Co. v. W.R.S. Contact Lens Labs., Inc.*, 330 F. Supp. 441, 443 (S.D.N.Y. 1970) (applying *Lear*'s abrogation of licensee estoppel to invalidate a no-challenge clause in a license agreement).

application of the Federal Circuit's "intent" requirement would require the parties to expressly manifest their intent to be bound. Assuming the parties expressly manifested their intent in a consent judgment that recites the validity of the claims, thus making the rule of issue preclusion applicable, the licensee would not be considered "muzzled" under the policies of *Lear*.¹⁹⁸

Unfortunately, this compromise may result in additional litigation on the issues of how much litigation is enough to ensure the enforceability of the no-challenge clause, and how to determine the parties' genuine intent. Accordingly, in order to apply these dividing lines, the courts will need to develop a fact specific inquiry to resolve this issue over time.

Moreover, the battle between patent public policy and contractual public policy must end with respect to invalidity-assertion bars in patent licensing. *Lear* requires that "the public interest in permitting full and free competition in the use of ideas" prevails against "the technical requirements of contract doctrine."¹⁹⁹ Furthermore, *Lear's* statements of express patent public policy cannot be considered casual comments made by the Supreme Court because the Court subsequently repeated and approved those statements.²⁰⁰ The Federal Circuit has chosen to focus instead on "the finality of judgments as well as the strong public policy of encouraging settlements."²⁰¹ The Federal Circuit believes that federal patent policy "must occupy a subsidiary position to the fundamental policy favoring the expedient and orderly settlement of disputes and the fostering of judicial economy."²⁰² This clear difference of opinion provides both inconsistency and uncertainty in the application of *Lear* in the area of invalidity-assertion bars.

However, the Supreme Court's recent decision in *MedImmune* indicates the continuing validity of *Lear*, and thus the continuing validity of the supremacy of patent public policy

198. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) ("If [licensees] are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.").

199. *Id.*; see also *Tex. Instruments Inc. v. Tandy Corp.*, No. 12166, 1992 WL 200604, at *3 (Del. Ch. Aug. 13, 1992) (applying *Lear* despite the presence of conflicting Federal Circuit case law).

200. See Sease, *supra* note 25, at 232-33 (listing three purposes of the patent system: "(1) to foster and reward inventions; (2) to promote disclosure of inventions to stimulate further innovation and allow the public to make use of the invention once the patent expires; and (3) to ensure that ideas in the public domain remain there for public use" (citing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Kewanee Oil v. Bicron Corp.*, 416 U.S. 470 (1974))).

201. *Foster*, 947 F.2d at 474-75.

202. *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 351 (Fed. Cir. 1988).

over contractual public policy.²⁰³ Permitting licensors to foreclose declaratory actions merely by inserting a no-challenge clause would effectively reverse *MedImmune*. The clause would expose the challenging licensee to termination, the very thing the Court in *MedImmune* took pains to prevent. The proposed compromise not only upholds the dominance of patent public policy, but gives effect to the Federal Circuit's policy of encouraging settlements and the finality of judgments.

Finally, while invalidity-assertion bars should be generally unenforceable, licensing parties can use other valid, mutually beneficial provisions in place of no-challenge clauses in license agreements.²⁰⁴ For instance, a provision may require that a licensee provide notice to the licensor and that a set period of time elapse before the licensee formally challenges the validity of the licensed patent.²⁰⁵ Additionally, a license may include a provision requiring arbitration or mediation,²⁰⁶ or that the parties first attempt to resolve their dispute in good faith.²⁰⁷ These provisions allow the patentee to maintain its protection while not estopping the licensee from challenging the validity of its licensed patent. Accordingly, the above provisions, which are valid under both *Lear* and *MedImmune*, can and should replace no-challenge clauses in license agreements.²⁰⁸

V. CONCLUSION

For decades now, courts have struggled with *Lear*'s abrogation of licensee estoppel. This struggle resulted in a split between the *Lear* progeny and Federal Circuit case law. As a consequence of this split, patentees and licensees have been and are continually forced to blindly enter into agreements, uncertain of whether courts will enforce a promise not to challenge the validity of a licensed patent.

203. See *supra* text accompanying notes 167–68 (describing how *MedImmune* is an “extension” of *Lear*).

204. See Jason Stolworthy & Ida Shum, *Patent Licensees Can Now Challenge Validity Without First Breaching Their Licenses*, THE ADVOCATE, Aug.–Sept. 2007, at 14.

205. *Id.* (noting that this gives the licensor an opportunity to examine whether a licensee is actually infringing).

206. See 35 U.S.C. § 294(a) (2000) (permitting voluntary arbitration of validity).

207. Stolworthy & Shum, *supra* note 204, at 14. To avoid a surprise declaratory judgment suit, the license may include a provision requiring the licensee to either cease paying royalties or make all royalty payments to an escrow account established for this particular purpose. *Id.*

208. See Henry, *supra* note 53, at 24–25 (“Although a licensor cannot altogether avoid attacks on licensed patents, it may be possible to avoid surprise attacks.”).

In *MedImmune*, the Supreme Court had the opportunity to address the issue but rightfully refused to opine on the scope of *Lear* because the facts in *MedImmune* were not suitable for an analysis on the extent to which invalidity-assertion bars are enforceable under *Lear*. Nonetheless, the Court's decision in *MedImmune* is a step in the right direction by the Supreme Court. *MedImmune* shows the willingness of the current Court to enforce previous Supreme Court precedent, despite more recent Federal Circuit precedent to the contrary. *MedImmune* "reestablish[ed] *Lear* as good law";²⁰⁹ therefore, we must give the *Lear* progeny cases the same, if not more, effect as those of the Federal Circuit.

Accordingly, when the Court faces an invalidity-assertion bar, it should implement a compromise, utilizing portions of both conflicting lines of case law. Specifically, the Court should find invalidity-assertion bars generally unenforceable as a matter of patent public policy. But, they should consider enforcing them when they arise from a no-challenge clause in a settlement agreement entered into after extensive negotiation or litigation or from the preclusive effect of a consent judgment indicating the parties' genuine intent to preclude a challenge of validity. Finally, until a definitive rule is pronounced with regard to invalidity-assertion bars, parties should consider using other mutually beneficial contract terms that sufficiently protect both licensees and patentees.

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209. See *Crowell*, *supra* note 31, at 1.