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High court mulls first business case of term

Justices to consider whether Medimmune can sue patent holder Genentech without having to breach its current agreement.

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NEW YORK (CNNMoney.com) -- In the first business case to hit the U.S. Supreme Court's docket this term, the chief justices will have to decide whether biotech firm Medimmune can have its cake and eat it too.

Medimmune (Charts), a Maryland-based biotech, is challenging the validity of heavyweight Genentech's (Charts) patent of certain DNA laboratory technology. But, in a twist that could make this case significant for patent holders throughout Corporate America, Medimmune is waging war against Genentech while still paying the company licensing fees to use its product.

And there lies the Supreme Court's dilemma: Can a patent licensee stand up and challenge a patent holder while still remaining in good standing with the company by paying all required license fees and royalties?

Court precedent, through cases like Lear v. Adkins, says no. Under Lear, a licensee must actually breach its contract with a patent holder in order to sue. The thought process behind Lear is that both parties must face a certain level of litigation risk in order to create an "actual controversy."

But legal observers say Medimmune is trying to get around that ruling by claiming that it's unfair for a company to be asked to risk an injunction order on a key profit-making product just to create the controversy needed to fight an unfair patent.

And the fact that the Supreme Court actually agreed to hear the case - which was shot down by the Federal Circuit Court of Appeals - indicates that the justices may looking to make some changes within the intellectual property market. The court will hear arguments Wednesday.

"If you want the law to stay the same, there is no reason to take that case other than to shake things up," said Sharon Barner, chair of the intellectual property department at law firm Foley & Lardner. "There is some indication that the Supreme Court believes that there is something broken within the patent office."

Plenty of patent cases

To that end, the Supreme Court has been active in accepting a number of patent cases for review this term. In addition to Medimmune v. Genentech, the high court will hear KSR v. Teleflex, which tackles the age-old question plaguing the patent industry - when is an invention so obvious that it doesn't warrant a patent?

KSR v. Teleflex and Medimmune v. Genentech are expected to have broad implications for the pharmaceutical, biotech and software industries, which lead the pack in applying for patents.

Barner said the Supreme Court's interest in the patent world is indicative of the growth in the intellectual property (IP) arena in recent years. She said with IP becoming such a central part of the U.S. economy, the Supreme Court may feel it's time to start clarifying some gray areas within the law or correcting rulings from the Federal Circuit that the justices feel may allow bad patents to be enforced.

And a ruling in Medimmune could set the tone for the rest of the term when it comes to patent law.

Richard Samp, chief counsel at public interest law firm Washington Legal Foundation, said if the Supreme Court were to side with Medimmune and allow companies to sue patent holders without having to infringe on their contract, that could lead to a wave of litigation and may result in higher licensing fees.

"If patent issuer can't buy peace from litigation by giving companies a license to use its product, maybe they'll charge (the licensees) more to use the product," he said. "A ruling in favor of Medimmune would erode the rights of patent holders and inhibit their ability to prevent competition and collect royalties."

In other words, it could cost patent holders millions of dollars in both litigation fees and loss of royalties, legal observers said.

But if the Supreme Court upholds the Federal Circuit's ruling and finds in favor of Genentech, it could make it more difficult for licensees to challenge patents they feel were granted in error or are too vague to be enforced, said Doreen Trujillo, member of law firm Cozen O'Connor.

Still, she said the case may help provide clarity for just what a licensee needs to do in order to challenge a patent holder.

Business cases abound on high court docket

But Medimmune v. Genentech is just the first in line of important business cases before the high court.

Among the key cases to watch is Philip Morris v. Williams, Mayola, which could could impose stricter limits on punitive damages, easing the liability burden for corporations.

The high court will decide whether a jury overstepped its authority by ordering tobacco giant Philip Morris - a unit of Altria (Charts) - to pay plaintiffs $79.5 million in punitive damages due to the smoking-related death of Jesse Williams, a three-pack-a-day smoker.

Also on the docket is Bell Atlantic Corp. v. Twombly, an antitrust case that alleges some of the nation's major telephone carriers conspired to carve up the market among themselves in order to create mini-monopolies that worked against consumers.

That case will test whether the high court sides with lower courts in determining that a case can go forward into the discovery stage of litigation even when there's no direct evidence against the defendants.

Bell Atlantic became Verizon Communications (up $0.07 to $37.20, Charts) in 2000.

Another antitrust case has gotten the Bush administration involved. In Weyerhaeuser (Charts) v. Ross-Simmons Hardwood Lumber, Ross-Simmons Hardwood - a now defunct saw mill - claimed that Weyerhaeuser paid more to hoard alder saw logs in order to create a monopoly on the timber and drive competitors out of business. The company

is accused of violating antitrust laws by engaging in "predatory buying."

Lower courts awarded Ross-Simmons $78.7 million in damages, but legal experts expect the Supreme Court to overturn that verdict.

- High court loads up on business cases ■