

July 15, 2003

**REVERSING A FORTUNE: LESSONS LEARNED FROM
IGEN v. ROCHE**

Summary

On July 9, 2003, the U.S. Court of Appeals for the Fourth Circuit (the Court) reversed nearly \$490 million in damages, including \$404 million in punitive damages, awarded to IGEN International, Inc. after a six year legal battle with Roche Diagnostics GmbH over issues relating to a license agreement (the Agreement). *IGEN International, Incorporated v. Roche Diagnostics GMBH et al.*, 02-1537 (4th Cir., 2003).

In its decision, the Court dealt with issues ranging from piercing the corporate veil to what constitutes a material breach, and in the process provided some useful lessons to consider when entering into a licensing arrangement.

Background

Under the Agreement with Roche, IGEN granted Roche a license to exploit certain diagnostic devices in a specified field of use. After a dispute arose between the parties, IGEN filed suit against Roche alleging miscalculation of royalties, failure to share improvements, sale of the devices outside the designated field and breach of the implied duty of good faith and fair dealing.

Shortly thereafter, Laboratoires Serono S.A. (Serono) filed suit against IGEN and Roche claiming that the devices developed under the Agreement infringe a Serono patent. Roche's parent, F. Hoffmann-La Roche Ltd. (HLR), acquired Serono's patent, became the plaintiff in the suit and offered IGEN and Roche dismissal without prejudice. IGEN declined the offer, Roche accepted the offer and the suit proceeded to trial. Because HLR continued with the suit, IGEN amended its complaint against Roche, adding a claim of tortious unfair competition, and claimed that Roche breached the Agreement when HLR settled the suit without IGEN's consent.

The Decision

Piercing the Corporate Veil

The Court strongly suggested that, had the issue been raised on appeal, it would have reversed the decision of the district court that HLR was Roche's alter ego, because acts of separate entities for tort liability purposes, even if affiliates of each other, should not be imputed to each other; instead, the Court was bound by the decision of the lower court. As a result, the Court held that HLR's purchase of the Serono patent and the resulting settlement could be imputed to Roche, and therefore, Roche was held to have settled the suit without IGEN's consent.

Punitive Damages and the Noerr-Pennington Doctrine

Because Roche was held liable for the actions of HLR, Roche sought to immunize itself from collateral attack regarding such actions by asserting application of the *Noerr-Pennington* doctrine.¹ The Court discussed the application of *Noerr-Pennington* immunity to business torts, such as the one asserted by IGEN, and held that because no exception to such immunity existed in this case, Roche was immunized from collateral tort liability arising from its actions in the Serono suit. As a result, the Court reversed the punitive damages award of \$400 million.

Implied Duties v. Express Contract Terms

Implied duties of good faith and fair dealing that exist in every contract cannot override the express terms of a contract. IGEN asserted that Roche breached such implied duties by not using its best efforts to develop IGEN's technology when it developed competing products, and IGEN demanded the return of its license. However, the express terms of the Agreement provided that in the event of such competing development, Roche's semi-exclusive and exclusive licenses would convert to non-exclusive licenses. There was nothing in the Agreement requiring a return of the license to IGEN, and the Court refused to read such requirement into the contract in light of the express contract term providing otherwise.

Material Breach

Finally, the Court addressed the contract-related issue of what constitutes a material breach. As noted above, the alleged breaches

¹ The *Noerr-Pennington* doctrine grants First Amendment immunity to parties engaging in petitioning activity, which includes the pursuit of litigation including business torts.

involved Roche's miscalculation of royalties (including the maintenance of insufficient records), sale of the devices outside the limited field and failure to share improvements. The Court found evidence to support all three of these breaches, and held each one to be material.

Possible Implications

Several lessons learned from the Court's decisions in the IGEN suit affect how license agreements may be structured with respect to several issues.

First, typical patent enforcement language provides that neither party shall settle an enforcement action without the other party's consent. Even though the Court noted that affiliated companies may not be responsible for each other's actions if they are separate entities for tort liability purposes, the drafters should consider protecting themselves by widening enforcement language to provide that neither party *or its affiliates* will settle a suit without the other party's consent. The parties should also consider what happens when one party refuses to consent to such settlement and forces the litigation forward at the time and expense of both parties.

Second, an agreement should set forth clear guidelines establishing the efforts to be used by the licensee to exploit its license, as well as the consequences to the licensee if it does not expend the required efforts. Regardless of the remedy set forth in the agreement, for maximum flexibility, the agreement should provide that any remedy set forth is not the exclusive remedy, unless that result is intended.

Finally, while this case offers guidelines as to what may be a material breach of a license agreement, if the parties are concerned about particular types of breaches, they should consider drafting the termination provision to set forth what specific types of breach reach the level of material breach under the agreement, and the remedies for such material breach.

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