

New York Law Journal



Web address: <http://www.nylj.com>

VOLUME 237—NO. 11

WEDNESDAY, JANUARY 17, 2007

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INTELLECTUAL PROPERTY LITIGATION

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Strengthening the Hand of Accused Patent Infringer

This is a time of change in patent law. Last May, the U.S. Supreme Court clarified (and, depending on your viewpoint, changed) the rules governing injunctive relief in patent cases, *eBay Inc. v. MercExchange LLC*, 126 SCt 1837 (2006), and in *KSR Int'l Inc. v. Teleflex Co.*, No. 04-1350. The Court will soon issue an important decision on obviousness, one of the central issues in patent prosecution and litigation.

And, according to a decision issued in November, at least a minority of the U.S. Court of Appeals for the Federal Circuit believes that court ought to re-examine whether deference should be accorded to trial court decisions on claim construction, a development that would fundamentally alter patent litigation. See, *Amgen, Inc. v. Hoechst Marion Roussel, Inc.*, 469 F3d 1039 (Fed. Cir. 2006).

'MedImmune v. Genentech'

On Jan. 7, in another significant development, the Supreme Court acted again to strengthen the hand of accused patent infringers, overturning established Federal Circuit precedent and holding that a licensee in good standing may sue for a declaratory judgment that a patent is invalid, unenforceable or not infringed. *MedImmune, Inc. v. Genentech, Inc.*, 2007 WL 43797 (US, Jan. 7, 2007).

MedImmune had signed a license agreement with Genentech, covering an issued patent and a pending application. When the application issued as a patent, Genentech took the position that MedImmune's major product, Synagis, a drug for treatment of children's respiratory problems, was covered by the new patent and that MedImmune therefore owed royalties under the



license. MedImmune paid royalties "under protest and with reservation of all of [its] rights" and then sued for a declaratory judgment of non-infringement and that the patent was invalid and unenforceable.

The Federal Circuit dismissed for lack of subject matter jurisdiction, finding that MedImmune lacked standing under Article III of the Constitution because it was current on its royalty obligations. That ruling was an application of the Federal Circuit's decision in *Gen-Probe Inc. v. Vysis, Inc.*, 359 F3d 1376 (Fed. Cir. 2004), which held that a licensee not in default does not have a "reasonable apprehension" of an infringement action and therefore lacks standing.

To establish constitutional standing, a declaratory judgment plaintiff must show that there is a "definite and concrete" dispute—a "substantial controversy between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." The Supreme Court's 8-1 majority opinion, written by Justice Antonin Scalia, began by examining a line of cases in which the Court has recognized standing where a declaratory judgment plaintiff is threatened with government action. In those cases, for example, plaintiffs have sued for a declaration declaring a criminal statute unconstitutional, rather than violating the statute and risking prosecution in order to raise a constitutional defense.

The Court reasoned that a party "coerced by threatened enforcement action of a private party rather than the government"—here, the threat of an infringement action if demanded royalties aren't paid—also should have standing. Therefore, faced with that threat, MedImmune did not have to breach or terminate the license as the cost of contesting infringement and challenging the patent.

The Court disagreed with a large group of amici supporting Genentech, who argued that allowing a paid-up licensee to sue would raise licensing costs—licensors presumably would build expected litigation costs into royalty rates—and encourage technology users to negotiate sham licenses, merely meant to shield them during expected litigation. Certainly, the decision upsets the expectations of the parties to license agreements signed in the past.

In the wake of *MedImmune*, licensors are likely to consider adding provisions to license agreements in order to discourage licensee challenges. A license might provide that filing litigation is grounds for termination, or grounds to increase royalty rates or trigger liquidated damages. The Court did not rule on whether any such clause would be enforceable.

MedImmune was issued against a background of congressional consideration of a succession of patent "reform" bills that would make it easier to challenge patents. One of the latest, Patent Reform of 2006, S.3818, would, among other changes, significantly strengthen procedures for post-grant review of patents in the Patent Office. Behind much of this activity is the assumption among many constituencies in the patent system, including certain users of technology and government agencies such as the Federal Trade Commission (FTC), that too many weak patents are granted by the Patent Office and later enforced by the courts.

A recent report from the Brookings Institution, for example, argues that the heavy presumption of validity that attaches to issued patents should be abolished, because, it supposedly is based on unwarranted assumptions about the quality of

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Patent Office review. See, Lichtman, "Aligning Patent Presumptions With the Reality of Patent Review: A Proposal for Patent Reform." The report stresses the limited amount of time patent examiners can spend on the hundreds of thousands of applications filed each year.

Such concerns may well influence the Supreme Court's forthcoming decision in *KSR*, and play a part in shaping the terms of the next round of patent legislation.

Patents

In *DSU Medical Corp. v. JMS Co., Ltd.*, 2006 WL 3615056 (Fed. Cir. Dec. 13, 2006), the Federal Circuit took the unusual step of issuing a portion of a decision en banc, for the purpose of clarifying the standards for inducing infringement. Under §271(b) of the Patent Act, "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The en banc court held that, to show inducement, a plaintiff must establish that the defendant induced infringing acts and that defendant "knew or should have known his actions would induce actual infringement." Under that standard, defendant must know of the patent. The court rejected plaintiff's argument that inducement can be proved merely by showing that the defendant induced acts of a third party, which acts constituted direct infringement, without having actual knowledge of the patent. It held that inducement requires "culpable conduct" that encourages "another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." As the court noted, while direct infringement must take place in the United States, inducement does not require any activity in the country, as long as direct infringement occurs here.

Propat Int'l Corp. v. RPost, Inc., 2007 WL 14688 (Fed. Cir. Jan. 4, 2007), addresses a recurring and sometimes difficult issue—when a party has a sufficient ownership interest in a patent to maintain an infringement suit. Under an agreement with a patent owner, plaintiff Propat was given the right to license the patent to third parties, enforce license agreements and sue infringers, subject to the owner's prior approval. The agreement did not contemplate that Propat would practice the patent. Affirming the trial court, the Federal Circuit held that Propat was not a proper plaintiff, even if the patent owner joined the suit. Propat "lacked important indicia of a true ownership interest in the patent, such as the right to transfer its interest," making it more "an agent than a co-owner."

In *Plumtree Software, Inc. v. Datamize, LLC*, 2006 WL 3703180 (Fed. Cir. Dec. 18, 2006), the Federal Circuit sustained declaratory judgment jurisdiction, under the "reasonable apprehension of suit" test called into question

by the *MedImmune* decision. While Datamize, the patent holder, had not made an explicit threat of suit on the patents at issue, it had brought suit against alleged infringer Plumtree on a related patent, filed suit against other parties on the patents at issue and stated in discovery in that suit its belief that Plumtree was infringing those patents. While Datamize's suit against Plumtree on the related patents was filed two years before Plumtree's declaratory judgment action, Datamize did not meet its burden to show that the passage of time had "dissipated any reasonable apprehension" of an infringement suit. Federal Circuit declaratory judgment jurisprudence certainly will change after *MedImmune*.

Trademark

In *Synergistic International, LLC v. Korman*, 470 F3d 162 (4th Cir. 2006), the U.S. Court of Appeals for the Fourth Circuit endorsed the test used by the U.S. Court of Appeals for the Third and Fifth circuits to determine when a court should exercise equitable discretion to award lost profits under the Lanham Act. That test requires that a court consider at least the following factors: whether defendant acted with intent to confuse or deceive; whether sales were diverted; the adequacy of other remedies (such as an injunction); whether plaintiff unreasonably delayed in asserting its rights; the public interest in "making the misconduct unprofitable"; and whether defendant tried to "palm off" its goods as those of the plaintiff. Addressing an issue that has divided federal courts, the Court of Appeals specifically found that bad intent, while relevant, is not required for an award of profits.

Nova Wines, Inc. v. Adler Fels Winery LLC, 2006 WL 3498574 (N.D. Cal. Dec. 4, 2006), held that Adler Wines' use of wine labels featuring Marilyn Monroe infringed Nova Wines' trade dress in its Marilyn Merlot and related brands. Nova asserted that Adler's labels infringed its rights in the registered "Marilyn Monroe" trademark, which it obtained from Monroe's estate, and infringed Nova Wines' trade dress, which it described as "high quality, distinctive photographs of Marilyn Monroe...that show her beauty, glamour and sex appeal." The court dismissed the trademark claim, finding that Nova lacked standing under the Lanham Act as it is not an exclusive licensee of the Monroe estate. However, the court sustained the trade dress claim, concluding that "the use at issue...is not simply the use of the Marilyn Monroe image, it is the use of the Marilyn Monroe image on wine bottles." Nova's use was inherently distinctive, because there is no natural connection between Monroe's image and wine. Although Nova had licensed the copyrighted images used on its labels,

Adler's trade dress rights were broader than the copyright interests in those photographs.

Walker & Zanger, Inc. v. Paragon Industries, Inc., 2006 WL 3490975 (N.D. Cal. Dec. 1, 2006), granted summary judgment that plaintiff's trade dress in its stone and ceramic decorative tiles was generic and therefore not entitled to trademark protection. Walker & Zanger, a producer of high quality stone and ceramic decorative tiles, claimed that Paragon had been selling tiles with designs that are confusingly similar to its own. Plaintiff described its trade dress in its ceramic tiles as "distinguished by their classical designs and careful craftsmanship, which give the tiles the look of Old World handiwork." Relying on *Yurman Design, Inc. v. PAJ, Inc.*, 262 F3d 101 (2d Cir. 2001), the trial court concluded that plaintiff's use of phrases like "decorative or artistic" to describe its trade dress, and its reliance upon "empty generalities in the face of more precise alternatives"—instead of listing actual colors, plaintiff referred to a "palette of colors reminiscent of Provence," for instance—supported a finding that the trade dress is generic. Other claimed elements—including the depth of the tiles and stone-carving effects—constituted basic forms of tile design, not trade dress identifying plaintiff as the source of the goods.

Copyright

In *Live Nation Motor Sports, Inc. v. Davis*, 2006 WL 3616983 (N.D. Tex., Dec. 12, 2006), the court issued a preliminary injunction preventing defendant from continuing to stream plaintiff's live Web cast of motorcycle racing events. Plaintiff promotes and produces motorcycle races, broadcasting them on television and radio and through "audio Web casts" distributed on the Internet. Defendant provided an audio Web cast link to the events on his Web site. Finding that "litigation over copyright protections for live Internet Web casts have not made their way into controlling Fifth Circuit opinions (nor any other circuit court opinions that this court could find)," the district court looked for guidance to precedents governing copyright in live television broadcasts. It concluded without difficulty that defendant's unauthorized link to plaintiff's live Web casts "would likely qualify as a copied display or performance of [plaintiff's] copyrighted material."