State Bar of Georgia

Intellectual Property Law Section

Todd McClelland, Chair | February 2008 | Alison Danaceau and Tina McKeon, editors

Surviving *MedImmune*: Strategies for Licensors in the Aftermath of *MedImmune*

By Jim McDonough
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In early 2007, the Supreme Court decided *MedImmune Inc. v. Genentech, Inc.*, 127 S. Ct. 764, a decision having widespread effect on the relationship between patent licensors and licensees. Patent licenses drafted prior to January 2007 are subject to potential challenges their drafters could never have anticipated. Licenses that would have provided protection for licensors prior to *MedImmune* leave licensors in a position of vulnerability. In light of the decision in *MedImmune*, licensors must revisit their patent licensing terms, strategies and policies to ensure they are protecting their interests.

In short, *MedImmune* held that a licensee can bring an action seeking a declaration of its rights as to the licensor's patent without first breaching the license. In other words, as long as a licensee continues to make its royalty payments under a license agreement, a licensee may now bring an action for invalidity, unenforceability or noninfringement as to the licensed patents while being shielded from the typical consequences (i.e., loss of the license, treble damages, injunction). *MedImmune* overruled well-settled Federal Circuit law regarding declaratory judgment jurisdiction and, as a result, has shifted the balance of power between licensor and licensee. However, the holding of *MedImmune*, at least as it relates to patent licensing, was perhaps just as notable for topics upon which it did not opine.

First, this article discusses the *MedImmune* case and its holding as it relates to the relationship between licensors and licensees. Second, this article delves beyond the jurisdictional aspects of the case and considers its broader implications on the licensor-licensee relationship. Third, it briefly discusses the post-*MedImmune* case law to date. Fourth, it highlights the questions *MedImmune* left unanswered. Finally, the article concludes with suggested drafting techniques for licensors post-*MedImmune*.

The Facts of MedImmune

Petitioner MedImmune is a biotechnology company that develops medicines to treat infectious diseases, cancer and inflammatory diseases. Its most successful product is a drug called Synagis, which is used to prevent lower respirator tract disease in children. Respondent Genentech[1] is a biotechnology company widely considered to be the founder of the biotechnology industry. Genentech uses human genetic information to discover, develop, commercialize and manufacture biotherapeutics that address a variety of human ailments.

In 1997, MedImmune entered into a licensing agreement with Genentech whereby MedImmune had rights to use technology covered by Genentech's Cabilly I patent, along with a then pending patent application (which later matured into Cabilly II).[2] At the time, MedImmune did not actually incorporate the technology in any product, so it obtained favorable licensing terms.[3]

Genentech immediately sought royalty payments from MedImmune under a new licensing agreement, citing Cabilly II as progeny of Cabilly I, and claiming that MedImmune's blockbuster Synagis, a drug used to prevent serious respiratory diseases in infants, was covered by Cabilly II. MedImmune balked, claiming that Synagis did not infringe the Cabilly II patent, and alternatively, that Cabilly II was invalid and unenforceable. However, MedImmune eventually agreed "under protest" to pay royalties to Genentech for Cabilly II under the original licensing agreement. Synagis represented 80 percent of MedImmune's total revenues, and MedImmune did not want to jeopardize that revenue stream. Shortly thereafter, MedImmune brought an action seeking a declaratory judgment of, *inter alia*, patent invalidity, unenforceability and non-infringement of the Cabilly II patent.

MedImmune's Holding

The district court granted Genentech's motion to dismiss for lack of subject matter jurisdiction, stating that there was no Article III justiciable controversy. With obvious misgiv-

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Communications Committee

Chair's Corner

By Todd McClelland, IP Law Section Chair

Greetings! We are already well underway with an exciting new year for the Section. It was great to see so many of you at the 2007 IP Institute in Puerto Rico. We were fortunate to have an outstanding cast of speakers, great weather and a wonderful tropical destination. Most importantly, it was a pleasure to enjoy the good camaraderie for which our Institutes, and our Bar in general, have become known. This year's Executive Committee has been busy bringing you a great selection of programs and seminars. There are just too many to discuss here, but I do want to bring some forthcoming programs to your attention:

In a first for the Intellectual Property Law Section, Philip Burrus is bringing Professor Kayton's Patent Resource Group to Atlanta on Feb. 13 in a joint effort with the Section to conduct a class titled "Crafting and Drafting Winning Patents." Patent practitioners of all levels will enjoy this class. James Johnson has been hard at work organizing a visit by Commissoner Lynne G. Beresford of the United States Patent and Trademark Office on March 4. We look forward to enjoying Commissioner Beresford's thoughts on the present and future of the PTO. On March 5, Melissa Howard has organized a conference titled "Music in the Digital Age," which will be of interest to anyone involved in music litigation, clearance or licensing. These are just a sampling of the many great programs being organized by the section. If you would like to be involved with organizing programs, or would like to be a part of one, please contact either me or a member of the Executive Committee.

In closing, I would like to thank the Executive Committee (pictured below) for their continued hard work. I would also like to thank the previous chairs of the IP Law Section for their continued support and assistance. □

Standing: Kevin Glidewell, Andria Beeler-Norrholm, Steve Wigmore, Alison Danaceau, Tina McKeon, Melissa Howard and Shane Nichols **Seated:** James Johnson, Brad Groff, Todd McClelland, Philip Burrus **Not Pictured:** Andrew Crain, Wab Kadaba and Hunter Yancey

MedImmune

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ings, the district court opined that it was obliged to follow the Federal Circuit's precedent in *Gen-Probe Inc. v. Vysis*, Inc., 359 F.3d 1376, which held that a licensee in good standing cannot seek relief under the Declaratory Judgment Act. The Federal Circuit affirmed, and MedImmune's petition for a writ of certiorari was granted by the U.S. Supreme Court.

The question presented to the U.S. Supreme Court was "whether Article III's limitation of federal courts' jurisdiction to "Cases" and "Controversies," reflected in the "actual controversy" requirement of the Declaratory Judgment Act, 28 U. S. C. §2201(a), requires a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed." The Court held that an Article III "case or controversy" exists even when a licensee has failed to cease making royalty payments under the license agreement, thereby overruling *Gen-Probe*.

Digging Beneath the Surface of *MedImmune*

After *MedImmune*, it is clear that, from a jurisdictional standpoint, a licensee can challenge the validity of a patent without ceasing payments under the license, thereby avoiding a breach of the license. However, what is less clear after *MedImmune* is the applicability of licensee estoppel when a licensee does not cease royalty payments under the license.

Prior to the decision in *MedImmune*, the licensing landscape was relatively stable. The last significant case from the Supreme Court addressing licensing was *Lear, Inc. v. Adkins*, 395 U.S. 653. Prior to *Lear*, a licensee was estopped from challenging the validity or enforceability of a patent it licensed. However, in *Lear*, the Supreme Court overturned the doctrine of licensee estoppel, holding that a repudiating licensee of a patent can contest the validity of the underlying patent and avoid royalty payments under the contract during the litigation. In other words, *Lear* established the proposition that a repudiating licensee can challenge the validity of a licensed patent and avoid its royalty payments during the resultant litigation.

But while the *Lear* Court did allow a licensee to attack the validity of a licensed patent, the licensee necessarily undertook enormous risk by breaching the license. In the typical situation, the licensor would likely counterclaim with a claim of infringement and, if the invalidity challenge was unsuccessful, the patentee could preclude the licensee from distributing and selling the product and could be subject to treble damages. Obviously, if the product was critical to the vitality of the company (e.g., MedImmune's Synagis, which accounted for 80 percent of revenues), this would present the company with serious quandary—it could continue paying royalties on an invalid or noninfringed patent or it could bet the company in a patent litigation suit.

The *MedImmune* Court danced around the application of the *Lear* doctrine in a situation where, as in *MedImmune*, the licensee continued to perform under the license. In discussing the petitioner's contention that it was not obliged to pay royalties on an invalid patent, the Court compared the license clause in *MedImmune* to the one in *Lear*, noting that both licenses provided royalties be paid until the patent was held invalid. The Court further noted that in *Lear* it "rejected the argument that a repudiating licensee must comply with its contract and pay royalties until its claim is vindicated in court." However, it specifically declined to address the question of whether a nonrepudiating licensee is relieved of its contractual obligations during a challenge to a patent. Moreover, the Court hinted that the rule in *Lear* may not be limited to repudiating licensees, but reaffirmed that it was not opining on the point.

More notable, was the Supreme Court's fixation on *Lear* during oral arguments. In fact, the first question by Chief Justice Roberts during oral arguments was regarding the *Lear* doctrine. Before counsel for MedImmune even reached a point of substantive law in his argument, Chief Justice Roberts asked, "Would your position be different if the contract contained a specific . . . provision specifying that the licensee may not sue?" This was not an isolated query—the Court repeatedly came back to the issue, at one point stating that, "as a matter of policy, we, at some point, either in this case or some later case, may have to address the question of whether or not such a provision [specifying that the licensee may not sue while performing under the contract] is enforceable."

Questions Left Open After *MedImmune*

As result, *MedImmune*'s holding leaves open several important questions. The Federal Circuit has held that, to invoke the benefits of the *Lear* doctrine, the licensee must repudiate the license. However, the *MedImmune* Court specifically declined to address whether licensee estoppel applies to nonrepudiating licensees. Can a licensee continue to reap the benefits of a license while contesting the validity of the patent? On a related point, a typical pre-*MedImmune* patent license obliges the licensee to pay royalties until a patent is found invalid. Can the licensee now continue paying royalties under the agreement yet avoid liability for royalties due during the course of litigation?

There are more questions still. The license in *MedImmune* did not bar the nonrepudiating licensee from challenging the patent's validity. Yet, during oral arguments, the Court asked the petitioner whether a "no challenge" clause would have been enforceable in this case. Although *Lear* cast serious doubt as to the enforceability of any such agreement, that case involved a repudiating licensee. If the license agreement had a clause prohibiting the licensee from challenging the patent, and the licensee was in good standing, would that clause be enforceable? On a related note, the Federal Circuit

has held that a party cannot later challenge a consent decree entered after settlement of a bona fide patent infringement suit. But how far does this logic hold? Is a bare agreement not to challenge a licensed patent reached as part of a "settlement" enforceable? Given that, essentially, the license agreement is itself a covenant by the patentee not to sue in exchange for consideration, is the court indicating that this shifts the equities where the licensee is in good standing?

Licensing Strategies Post-*MedImmune*

The Supreme Court's decision in *MedImmune* has fundamentally altered the balance of power between licensors and licensees—away from patent holders and toward licensees. However, there are steps patent holders can take to mitigate the effects of *MedImmune*. The following should be considered when negotiating licenses after *MedImmune*:

1. Licensors should consider including a provision that allows the patentee to terminate the agreement if the licensee brings an action for invalidity, unenforceability or noninfringement. Such a provision may allow the licensor to mitigate the potential consequences of MedImmune as they relate to the ability to get treble damages, injunctive relief and attorney's fees.

2. Licenses should also include a provision allowing termination if the licensee issues a press release, public announcement or news release alleging invalidity or unenforceability of the patent. This provision will help the licensor protect the value of the patent in the marketplace and its market position generally. In this same vein, licensors may consider incorporating a royalty step-up in the case that the licensee issues a press release, public announcement or news release alleging patent invalidity or unenforceability.

3. The license agreement should include a provision requiring pre-suit notification, including details concerning alleged invalidity, unenforceability or noninfringement. Such agreements will provide time for the licensor to sue first in a favorable forum or address the concerns of the licensee.

4. The licensor should obtain the licensee's agreement that it has analyzed the patent and its acknowledgement that it incorporates the technology in its covered products (i.e., the product infringes the patent). This can be used in trial to defend against noninfringement contentions.

5. The licensor should consider including a clause that requires a licensee, in the case that a patent it licenses is found invalid, to waive all rights to reimbursement of amounts payable under the license after bringing suit but prior to the date of a final judgment of invalidity.

6. To the greatest degree possible, licensors should include language characterizing the licensing agreement as being granted in settlement of pending and/or prospective litigation between the parties. If letters were exchanged as part of negotiations, they should be included as exhibits to the agreement. Such language will make it more likely that the agreement is not subject to a declaratory judgment action.

7. Licensors should obtain an agreement by the licensee not to assert that the patent is invalid, unenforceable or not infringed. As part of this covenant, the licensor may also include statements by the licensee regarding the proper inventorship or the adequacy of the patent's specification. These provisions may dissuade challenges to the patent. Moreover, used in conjunction with language characterizing the license as a settlement agreement, such clauses may well be enforceable.

8. Licensors should front load payment for use of the patent. One such method is to negotiate a minimum fully-paid, up-front royalty payment, which is paid by means of a financing mechanism, the payment of which is tied to royalties stream or some other financial measure of the licensee. The payments on such a provision should include language ensuring that the payments are irrevocable, noncancellable and nonterminable.

9. Licensors may consider incorporating an arbitration provision that forces the parties to submit to binding confidential arbitration in the event a dispute as to the agreement arises. This would allow a licensor to avoid putting its patent in danger while also ensuring that findings do not affect other licensees or potential licensees.

10. Licensors may want to include a provision triggering a step-up in royalty rate upon challenge of the patent by licensee or upon an unsuccessful invalidity challenge. It is questionable whether such a provision will be enforceable, but this type of provision may deter a licensee from challenging the patent on weak grounds.

Conclusion

MedImmune represents a fundamental shift in the licensor-licensee paradigm. Licensors are now in a weaker overall position with respect to their rights under a license. A licensor could be subject to a declaratory judgment action to invalidate its patents while being left helpless if the licensee continues to perform under the contract. As a result, licensors should be proactive in adopting drafting techniques that mitigate the potential effects of *MedImmune*. In doing so, licensors can ensure they are in the best position possible in defending patent challenges. □

Endnotes

1. City of Hope, a nonprofit organization, is a co-assignee of the patent and was also a defendant in the suit.
2. MedImmune agreed to pay royalties for each of its products that utilized the technology covered by Cabilly I and its progeny. Further, MedImmune agreed to pay royalties until the patent was found invalid.
3. Years later, Genentech settled a long standing dispute with its competitor Celltech over ownership rights to a patent called Cabilly II. As part of that settlement, Genentech and Celltech agreed that Genentech was the patent owner.

Patent Committee Report

By Philip Burrus
Patent Committee Chair

On Dec. 11, 2007, the Patent Committee held a panel luncheon to discuss the new rules on claims and continuations that were recently promulgated by the U.S. Patent and Trademark Office. "Why do that?" you might ask. "They've been stayed in that lawsuit by GlaxoSmithKline." Well, they've been stayed for the moment, but according to the panelists, if you read the briefs, some of those rules are likely to survive the stay. For instance, while the limitation on requests to continue prosecution and continuations may not survive, the 5/25 claim rule may. Our panelists and moderators gathered to discuss three things: what might happen after this case; what to do now in your practice to prepare; and how to advise clients.

Moderator Larry Robertson, a partner at Kilpatrick Stockton, led the panel discussion. The panel included Geoff Sutcliffe of AT&T Intellectual Property Management Corp., Jeff Young of Alston & Bird and Steve Wigmore of King & Spalding.

The discussion began with an overview of the briefs filed in the *Glaxo* case. Larry suggested that many of the arguments against the new rules were based on the premise that the Patent and Trademark Office had overstepped its statutory authority. He noted that a patent reform bill had passed the House and was now in the Senate. "One piece of legislation could change all this," Larry said, referring to the fact that Congress could easily grant the Patent Office additional statutory authority. Further, Larry noted that it was not clear from the briefs that the 5/25 claim rule would be struck down.

The discussion then turned to how to prepare for an uncertain rules package. A good part of the discussion was devoted to file management. Steve Wigmore noted that one might consider flagging all cases that have had at least one final office action if the rules were going to be enacted in the near future. By doing so, one would at least be able to consider whether to file last minute requests for continued examination to submit prior art.

While speaking of prior art, Larry posed the question of what to do when an application had been allowed, and a practitioner then received a foreign office action citing additional prior art. "Under the new rules, you can't submit that art. What do you do?" Larry asked.

Steve said, "I file an RCE anyway." He suggested that he would rather fulfill his duty of disclosure, letting the Patent Office reject the RCE and the new art, than not disclose. He opined that it would be better for the patentee to have done everything possible to disclose the art, even if it gets rejected. Geoff suggested submitting the list of art as a post-allowance comment, suggesting that while it may not be considered by the examiner, it would at least be in the record.

The discussion soon turned to the use of PCT applications under the new rules. This discussion was in conjunction with issues relating to suggested restriction requirements. Steve pointed out that unity of invention in the PCT is not the same standard as double patenting in the United States. He noted that a recent interpretation and clarification from the Patent Office submitted that lack of unity objections in the PCT would be acceptable for restriction requirements, and that PCT filings designating the US may be used to help extend the "tree" of divisional/continuation/requests for continued prosecution in a particular application family.

The discussion then turned to the benefits and disadvantages of filing one large application with a suggested restriction requirement versus several applications with a common specification. Jeff Young pondered what might happen if one examiner asserted that multiple applications be combined, and thus subject to the 5/25 claim rule, when another examiner disagreed.

Jeff then turned to the discussion of refund requests. He advised everyone to be careful with dates, as the new rules included strict time limits for requesting refunds of excess claim fees. He suggested that docketing the request for refund date may not be a bad idea.

There was one point upon which both the panel and audience agreed unanimously: If you file an examination support document, you do so at your peril. The estoppel and other issues are so risky, that many attendees indicated they would not file them as a per se rule. "What did you call it the other day, Larry?" Steve asked. "An estoppel suicide document," Larry responded.

The Patent Committee would like to thank all of those who attended this event, as well as Johanna Merrill and the staff of the State Bar for assisting in making the event possible. For information concerning upcoming Patent Committee Events, please visit the IP Law Section website at www.gabar.org. If you have questions or comments about the Patent Committee, please feel free to e-mail Philip Burrus at pburrus@burrusiplaw.com. Also, many of the Patent Committee's events have been recorded and are available as podcasts at the following website: www.georgiaip.org. ◻

Opinions of Counsel: Ancient Artifact in Patent Litigation?

By Kiran Raji
Fish & Richardson P.C.

Over the past few years, the value of obtaining a non-infringement or invalidity opinion has dramatically decreased. An opinion of counsel is, in its most basic form, a written opinion by an attorney (or law firm) that provides an analysis of infringement, validity and enforceability of a particular patent. Generally, such an opinion serves as a defense to a claim of willful infringement, establishing that an accused infringer acted in good faith and avoiding a treble damages award.

In 1983, in *Underwater Devices v. Morrison-Knudsen*, 717 F.2d 1380, the Federal Circuit held that an accused infringer had an affirmative duty of care to avoid infringement. This decision led to enormous growth in the number of opinions of counsel. For the next 22 years, it was standard practice for a defendant to obtain an opinion of counsel to refute a charge of willful infringement. In fact, it was essentially a requirement as many jurisdictions allowed the trier of fact to make an adverse inference of willful infringement if the defendant failed to provide an opinion of counsel. However, in the 2005 case of *Knorr-Bremse v. Dana Corp.*, 383 F.3d 1337, the Federal Circuit held that it was impermissible to draw a negative inference from a failure to disclose an opinion of counsel. Although it was no longer a requirement to obtain an opinion of counsel, many litigants continued to do so to show the jury that the accused infringer took affirmative steps to avoid infringing a valid, enforceable patent.

In August 2007, the Federal Circuit, sitting *en banc*, drastically changed the law on willfulness and, in the process, significantly decreased the value and usefulness of opinions of counsel. *In re Seagate Tech., LLC*, 497 F.3d 1360, eradicated twenty-four years of willfulness precedent by overruling *Underwater Devices* in an effort to "alleviate the disproportionate burdens" that *Underwater Devices* "has placed on otherwise law-abiding commercial enterprise." The Court equated the old standard to negligence, which "fails to comport with the general understanding of willfulness in the civil context."

Instead of an affirmative duty of care, the Federal Circuit developed a two-prong analysis. A patent holder must show both objective and subjective recklessness to prevail on a willful infringement claim. Only if the patent holder can satisfy the objective standard, does the subjective recklessness prong become relevant.

Under the objective recklessness prong, a patent holder "must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." Importantly, "the state of mind of the accused infringer is not relevant to this objective inquiry." Thus, an accused infringer's good faith, normally shown by relying on an opinion of counsel, is irrelevant to the objective inquiry.

Since the objective recklessness analysis is new to patent law, the lower courts have yet to flesh it out. Courts may equate the objective recklessness analysis with the business judgment rule used in corporate law. Under the business judgment rule, when a director relies upon the opinion of an outside expert, the director's judgment is rarely second-guessed by the courts. If the Seagate objective recklessness analysis develops along similar lines, opinions of counsel may become prevalent again. This is especially true if litigation is imminent because an opinion of counsel may provide an effective shield to any claim of willful infringement.

Under the subjective prong, a patent holder must demonstrate that the objectively-defined risk "was either known or so obvious that it should have been known to the accused infringer." An opinion of counsel that shows the good faith of an accused infringer will be relevant to the analysis under this prong. However, the Federal Circuit was quick to "reemphasize that there is no affirmative obligation to obtain opinion of counsel." Furthermore, if the patent holder was able to show that the accused infringer acted with objective recklessness, any opinion of counsel that concludes otherwise would be suspect.

Seagate also changed the timing of when an accused infringer should obtain an opinion of counsel. Prior to Seagate, many accused infringers would obtain an opinion of counsel after a patent owner filed a suit against them. According to the Federal Circuit, an opinion of counsel obtained after the filing of the lawsuit is now irrelevant for purposes of determining willful infringement. The rationale behind this bright-line rule is two fold. First, the patent holder must have a good faith basis to accuse the defendant of willful infringement. Thus, obtaining an opinion of counsel after filing cannot affect the outcome of a pre-filing willful infringement claim. Second, the Court refused to allow a patent holder to accrue enhanced damages based on willfulness after filing the lawsuit. The Court reasoned that moving for a preliminary injunction would protect the patent

holder. Conversely, a patent holder "who does not attempt to stop an accused infringer's activities [by moving for a preliminary injunction] should not be allowed to accrue enhanced damages based solely on the infringer's post-filing conduct."

Although the value of an opinion of counsel has decreased dramatically in the context of willful infringement, it is still useful to refute other claims. For example, an opinion of counsel can be used to refute a claim of active inducement. To show active inducement to infringe, a patent holder must prove that the defendant actively and knowingly aided and abetted another's direct infringement. In other words, the state of mind or intent of the defendant is relevant. As such, an opinion of counsel that advises the defendant that its acts do not aid or abet another's infringement is material and relevant to an active inducement claim. For example, in *DSU Medical v. Medisystems*, 471 F.3d 1293, a 2006 *en banc* decision, the Federal Circuit relied upon an opinion of counsel to uphold a jury verdict that absolved the defendant from liability for active inducement.

An opinion of counsel can be useful even if it is not disclosed during litigation. Some examples include:

Providing trial counsel with a strategy and plan for defending an infringement suit

Helping design around patents to avoid infringement suits

Evaluating risk or liability exposure before large commercialization or growth plan implementation

Since a corporation is now unlikely to disclose an opinion of counsel during litigation, it will not be forced to hire a law firm that does not know its business or products to write an opinion. The corporation can use its regular outside counsel or in-house counsel to provide an opinion without the fear of having to waive attorney-client privilege as a result of using the opinion during litigation. This may increase the usefulness of an opinion of counsel to the business decision makers.

In conclusion, it is no longer absolutely necessary to obtain an opinion of counsel to defeat a claim of willful patent infringement. However, there still may be some value to obtaining an opinion for litigation. Corporations and litigation counsel should carefully weigh the decision and stay abreast of the changing legal landscape. □

This article was written while Kiran Raj was an associate with Fish & Richardson, P.C. He is now a law clerk to Judge Pierre Leval on the United States Court of Appeals for the Second Circuit.

Trademark Committee Report

By James Johnson
Trademark Committee Chair

We are pleased to announce that Commissioner Lynne Beresford of the Trademark Office has agreed to speak on March 4, 2008, on the state of the Trademark Office and to answer general questions. In addition to Ms. Beresford's upcoming program, the committee has already conducted several programs including 1) a trademark boot camp (trademark basics for new lawyers); 2) a discussion regarding the impact of the Trademark Dilution Revision Act of 2006 and 3) a review of Medinol and its progeny, regarding allegations of fraud in Trademark Office filings. We also plan to have a program on the new TTAB rules.

We plan to work more closely with the In-house Counsel Committee to encourage more corporate involvement in the IP Section. One program idea is to have an IP program for the non-IP in-house attorney. The subject would be tips on how to spot potential IP problems in your business transactions. We will work with Kevin Glidewell, In-House Counsel Committee chair, on further developing this topic and others. □

Licensing Committee Report

By Andria E. Beeler-Norrholm
Licensing Committee Chair

The Licensing Committee will be hosting a joint event with the In-House Counsel Committee in the coming months which will focus on the litigator's perspective on common clauses and phrases used in licensing agreements. Panelists will include prominent litigators who will provide insight on how courts have interpreted common licensing clauses and phrases and the practical effect of these clauses and phrases in the event of a dispute.

The Licensing Committee will also be hosting a lunch panel which will focus on new ways companies have been using user-generated content in marketing and the risks and benefits of such use.

The dates and times for the events set forth above have not yet been determined. □

On Your Mark: Hey, Louie! Chew on This!

By Michael C. Mason
Gardner Groff Greenwald & Villanueva

There was more to 2007, the unofficial "Year of the Dog," than the pet food recall or Ellen's dog rescue group battle or Dog the Bounty Hunter's racial tirade. For trademark lawyers, there was *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, Case No. 06-2267, 4th Circuit Court of Appeals (Nov. 13, 2007). This case is interesting as it is the first 4th Circuit case to apply the standards of the Trademark Dilution Revision Act (TDRA), enacted on Oct. 6, 2006. Under the new Act, trademark owners of famous marks need not prove actual dilution, but only a likelihood of dilution. Dilution may take the form of making famous marks less distinctive due to many other similar marks in the marketplace (dilution by blurring) or harming the reputation of the famous mark by associating it with certain other goods (dilution by tarnishment). The TDRA was created to lessen the litigation burden for owners of famous marks such as Louis Vuitton Malletier, S.A.

Louis Vuitton Malletier, S.A. (Louie) is a well-known French manufacturer of luxury luggage, handbags and apparently a few pet products that only Trouble Helmsley, "the richest Maltese in the world," could afford. Louie, owner of famous marks that include the name LOUIS VUITTON, brought suit against Haute Diggity Dog (HDDog), a small company that manufactures pet chew toys and beds with names that spoof famous luxury brands. Some of these names include CHEWY VUITON, CHEWNEL NO. 5, DOG PERIGNON, and SNIFFANY & CO.

The district court, on cross-motions for summary judgment, ruled in HDDog's favor on claims of trademark infringement, trademark dilution and copyright infringement. Basically, the district court found that CHEWY VUITON was a successful parody of Louie's marks. When the case reached the appellate court, Louie had been joined by the International Trademark Association (INTA) as amicus curiae. INTA submitted a brief and also participated in the oral argument. The battleground was set for a classic dogfight which, in that year, actually did not involve Michael Vick. It was the Big Dogs versus the Underdog. The humorless French megacorp versus the comical little American company. King Louis LV versus Goofy.

The 4th Circuit, apparently fresh from its lunch of American hamburgers and Freedom Fries, shrugged off the Big Dogs' arguments as if Louie was armed with no more than an accordion and Milk Bone underwear. The 4th Circuit agreed with the district court that CHEWY VUITON neither infringed Louie's famous trademark nor its copyright. Also, in rejecting Louie's claim for dilution by tarnishment, the Court found it speculative that Louie's reputation could be harmed because a dog could choke on a Chewy Vuiton toy.

The most noteworthy aspect of the 4th Circuit's ruling, however, is its holding that HDDog's use of CHEWY VUITON also did not result in dilution by blurring of the famous LOUIS VUITTON mark under the TDRA. In evaluating the dilution by blurring claim, the 4th Circuit initially acknowledged and emphasized "parody is not automatically a complete defense to a claim of dilution by blurring where the defendant uses the parody as its own designation of source, i.e., as a trademark." Nonetheless, the Court held that the TDRA "does not require a court to ignore the existence of a parody that is used as a trademark, and it does not preclude a court from considering parody as part of the circumstances to be considered for determining whether the plaintiff has made out a claim for dilution by blurring." The Court found that three of the TDRA factors—"the degree of similarity between the two marks, the degree of distinctiveness of the famous mark, and its recognizability—are directly implicated by consideration of the fact that the defendant's mark is a successful parody. Indeed, by making the famous mark an object of the parody, a successful parody might actually enhance the famous mark's distinctiveness by making it an icon." In other words, a really doggone good parody, even one that becomes an identifiable trademark itself, can be a defense against both trademark infringement and dilution.

I imagine many trademark lawyers were barking mad after this decision. INTA, on the other hand, claims that all was not totally lost because the 4th Circuit's decision accepted INTA's positions that the district court had inadequately considered the TDRA factors for assessing dilution by blurring and that the TDRA's parody defense does not apply to trademarks for goods and services. It believes that the Court's analysis confuses the differences between infringement and dilution. According to INTA, parody may be a fair use defense in infringement claims; however, it is probably irrelevant in the context of dilution claims because of the different type of harm antidilution law is designed to protect – specifically, consumers thinking of multiple associations when encountering the mark instead of one set of associations created by the famous brand.

Legally speaking, this case does not mean that a successful parody, even when used as a mark, is a complete defense to a claim of dilution. But if a judge finds an allegedly infringing mark to be funnier than a Marcel Marceau mime routine, the owner of the famous mark may very well find himself shouting, "Sacre bleu!" □

Domain Name Disputes: Trademark Owners Face Record Problems

By Doug Isenberg
The GigaLaw Firm

Domain name disputes were once thought to have disappeared with the dot-com bust of 2000 but, like the high-tech economy itself, have rebounded to record levels, all to the dismay of trademark owners worldwide. A good measure of this activity is the number of cases filed under the Uniform Domain Name Dispute Resolution Policy (UDRP), the mandatory arbitration process created in 1999. At the World Intellectual Property Organization (WIPO), the leading provider of UDRP services, complaints under this policy fell from a high of 1,857 in the year 2000 to 1,100 in 2003. But, a record 2,156 UDRP complaints were filed with WIPO last year! The National Arbitration Forum (NAF) had not published year-end statistics as of this writing but earlier in 2007 had reported a 21 percent increase in the number of UDRP filings it had received.

The surge in domain name disputes is causing alarm for trademark owners as cybersquatters exploit new tactics online. The cybersquatters' old tricks—rushing to register a company's business or product names as domain names before the company realized the importance of the Internet, and then offering to sell the domain names to the rightful trademark owner or creating a pornographic website using the domain—have been replaced by new, more sophisticated scams. For example:

> Domain name "tasting." Under this practice, cybersquatters register domain names for a short period of time to exploit a loophole that entitles them to a refund of their registration fees if the domain names do not prove worthwhile. As a result, the number of domain name registrations is at an all-time high, approaching 100 million!
>
> "Cyberflight." Often, a cybersquatter quickly transfers a domain name after learning of a dispute, in an attempt to avoid an adverse decision.
>
> Privacy services and false registration data. Many cybersquatters attempt to hide their identities to frustrate trademark owners. For example, in one UDRP complaint I filed for a client, the domain name registrant was identified as, literally, "Sdf fdgg." Fortunately, ICANN (the Internet Corporation for Assigned Names and Numbers) has rejected efforts that would further hide data on domain name registrants but has taken little action that would ensure the openness and accuracy of this information.
>
> Advertising portal sites. Cybersquatters now use automated services to generate affiliate links on web pages for newly registered domain names, often trading on the goodwill of a trademark owner. These services allow a cybersquatter to profit from a domain name with almost no investment and minimal effort.

As a result of the above tactics, "domaining" has become an industry of its own, attracting both individual speculators and well-funded companies with domain name portfolios that number in the hundreds of thousands. Industry publications have even been created to cover this field, which often blurs the line between legitimate entrepreneurship and illegal exploits.

Fortunately, the UDRP remains a trademark owner's most valuable cyber-tool. In 2007, trademark owners obtained favorable decisions under the UDRP in about 90 percent of the reported WIPO decisions.

Many domain name disputes are perfectly suited for the UDRP, which requires a complaining party to prove three elements:

> the domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights;
>
> the domain name registrant has no rights or legitimate interests in respect of the domain name; and
>
> the domain name has been registered and is being used in bad faith.

Where a trademark owner can establish the above, the UDRP continues to be a popular (and often, preferred) alternative to litigation, given the financial and timing efficiencies of the UDRP.

Still, domain name disputes—like other online legal conflicts—will continue to evolve. Among other things, the rise in importance of some country-code top-level domains (ccTLDs) and the likely creation of new generic top-level domains (gTLDs) will only cause more conflicts between domain name registrants and trademark owners. As a result, trademark owners must remain vigilant against cybersquatters, to protect their brands, their customers and even the integrity of the Internet itself. □

Founder of The GigaLaw Firm, Doug Isenberg is a domain name panelist for WIPO, a past chair of the Intellectual Property Law Section, and a member of the Intellectual Property Constituency at ICANN, the Internet Corporation for Assigned Names and Numbers. He has represented clients in domain name disputes since 1996. Visit his firm's website at www.GigaLawFirm.com or his blog at www.GigaLaw.com. Contact him at disenberg@gigalawfirm.com or 404-348-0368.

IP Member In Focus: Judge Charles A. Pannell Jr.

By Collin A. Webb, Chief IP Counsel
Hexagon Metrology

This article is a first in a series devoted to the practical experiences of IP lawyers practicing IP law.

Northern District of Georgia Judge Charles A. Pannell Jr. has maintained an active intellectual property (IP) docket during his tenure on the bench. I sat down with Judge Pannell to talk about his background and his experiences on the bench, and with IP law in particular.

Upon entering Judge Pannell's chambers for my interview with him, I immediately was impressed with the number of awards recognizing his outstanding public service. Judge Pannell has received the Silver Beaver, a Scouting award for distinguished service to young people within a Boy Scouts of America local council; and the Cross and Flame Award from the United Methodist Church, a national award in recognition for work with youth, as well as Army commendations stemming from his near-thirty-year stint in the U.S. Army Reserves. Indeed, Judge Pannell has a reputation for fairness and integrity, just like his father, Judge Pannell's namesake, a "country lawyer" in Dalton, Ga., and successful politician. As Judge Pannell explains with great pride, his father was indicted by a grand jury for his colorblind application of the law as an appointee on the parole board.

Like his father, Judge Pannell began his career as a country lawyer and politician. He proudly recalls that as district attorney and, later, a judge of the Superior Court for the Conasauga Circuit, a local preacher rebuked him in three different sermons. Judge Pannell explains that one sermon was spurred by his efforts in convicting one of the preacher's congregants. In another ecclesiastical rebuke, the preacher thought a defendant sentenced by Judge Pannell should have received a harsher penalty, and said so in his sermon. However, eventually the preacher became to appreciate and understand Judge Pannell, and the judge even hired the preacher's daughter as a Superior Court law clerk.

Before Judge Pannell was appointed to the federal bench, he had had little or no experience with IP law. Rather, he had served as an advocate and judge at the state level, trying, by his estimate, more than 800 jury cases.

Judge Pannell observed "there's a lot at stake" in what IP attorneys do. An early IP case he handled as a federal judge garnered national attention and no doubt bolstered his view of the high stakes involved. This was the copyright case involving the book *The Wind Done Gone*, which involved literary luminaries like Toni Morrison and Pat Conroy, who gave evidence in the case. When I asked about the case, Judge Pannell lit up, leaned forward in his chair and grinned, saying, "That case was a lot of fun." His opinion supporting his preliminary injunction was exceptionally thorough and garnered national attention.

The subject matter itself was obviously close to Judge Pannell's heart, perhaps because of the cultural milieu from which he comes. General Sherman's troops razed the original Whitfield County courthouse in Dalton, Judge Pannell's hometown, on their march to the sea. So, during the litigation, the characters of *Gone with the Wind*, on which *The Wind Done Gone* is based, came alive for him. In his description of the case he gives the impression that a person spending as much time on it as he did would sense a corporeal nature to the characters—would view them as real people who happen to be absent for the trial that so intimately involves them, rather than the conjurings of an author long dormant. Judge Pannell hated to see the characters "drug through the mud, as Ms. Randall [author of *The Wind Done Gone*] did."

Judge Pannell's preliminary injunction against Houghton Mifflin, the publisher of *The Wind Done Gone*, called the book "unabated piracy." The 11th Circuit overturned the preliminary injunction, saying that injunctive relief was inappropriate. According to the judge, "They were like a tank going through a wheat field." In fact, the 11th Circuit commented on the thoroughness of Judge Pannell's opinion.

Judge Pannell also handles a number of patent infringement cases. As he points out, the Federal Circuit is not always consistent and the precedent is complicated by Supreme Court decisions altering the Federal Circuit Court authority. "Meanwhile . . . district court judges are trying to get their cases out and get them decided correctly, so they don't have to work on them again," Judge Pannell noted. "We don't understand the law and we don't understand the technology. What's left not to understand?"

Judge Pannell also is an advocate for special masters. Special masters should meld the best of both worlds: a generalist Article III judge with expertise in the rules of civil procedure and evidence, and a specialist as special master who does not need involved briefs on the substantive law (and may have a good idea about the technology, also). "And [special masters will] be good for the lawyers. That

way, three different [sets] of lawyers can get involved in a case." Judge Pannell notes with a chuckle.

Judge Pannell muses about the practice of law and the need for specialization. "You can't keep up with everything. There may be a few [who can], but there aren't enough of those guys to go around, so the rest of us have to specialize." For this reason, he has encouraged his son, also a lawyer, to pursue the practice of patent law.

Modern life not only creates specialists like IP lawyers, but it also has the potential to raise the cost of access to the courts for the average worker. Yet this is an age-old problem. "[The system has] always been unfair. When we were at the Superior Court we were worried about little people not being able to use the court system. …. [But] there were complaints back in the Middle Ages about the cost of going to court in England. So it hasn't changed."

Nevertheless, the Northern District of Georgia, and Judge Pannell, work to reduce the burden on juries and the parties to a suit through such measures as time limits on the presentation of a case. This forces advocates to put on a concise case with their best evidence, whereas without time limits a lawyer might be "so conscientious," to use the Judge's euphemism, that he will raise more arguments and offer more evidence than are really necessary. □

Patent Sales—A New Marketplace

By William A. Hartselle
bhartselle@ipinvestmentsgroup.com

Patent attorneys know that the value provided by a patent can take many forms. A patent can be used offensively against a competitor selling an infringing product, defensively against an aggressor to fend off a patent infringement allegation, as evidence of a company's innovative culture, or as proof to investors and venture capitalists of appropriate protection of key innovative assets. All these value types are critically important to a business, yet they are primarily intangible and illiquid. Short of suing an infringer (which brings with it high monetary and time commitments, risk of retaliation, uncertainty as to outcome, and possible bad publicity), there typically was no efficient way for a company to monetize its patent portfolio.

The Power Of Patents

Over the past few years, the market for patent sales has evolved, thereby providing an efficient way for patent owners to monetize their portfolio. Why has the market grown so quickly? A big reason is the increased awareness of the power and importance of patents. Several high-profile patent lawsuits have been in the news recently (the BlackBerry case, for example) with high damages awarded or large settlements being reached. Seldom does a week go by where a patent-related article isn't seen in the *Wall Street Journal* or *New York Times*.

The U.S. Supreme Court has also decided to jump into the patent arena. Several recent decisions by the Supreme Court, as well as the Federal Circuit, have broken new ground in patent law. Additionally, Congress is presently working on patent reform legislation and the PTO is attempting to implement new rules. Consequently, the subject of patents, which years ago may have only rarely been broached in corporate boardrooms, now is routinely addressed. Patents have gone mainstream.

All Patents Are Not Created Equal

Many companies believe they can never let go of any of their patents. This is simply not true. A patent is certainly a unique type of asset, but at its core it is a piece of property, and property has different levels of value to its owner. All patents are not created equal.

"Crown-jewel" patents are those covering fundamental technology that is core to a company's business, but these patents are typically rare. Instead, most patents cover particular aspects of a product or service rather than fundamental core technology. Reasons for this may include significant prior art cited by the PTO that restricted the scope of the claims, and shifting company strategy over time to different technologies or products, thereby rendering patents for old technology "non-core." Therefore, there may be many patents in a portfolio covering technology that isn't being used by the owner. Or there may be patents for technology that is currently being used, but which may actually have more value on the open market. Consequently, valuable patents may be unused or under-used, lying in a drawer gathering dust, but yet still be extremely valuable (i.e., veritable "Rembrandts in the Attic", to borrow the title of a renowned book on the subject).

The Market For Patent Sales

In addition to the importance of patents being emphasized in recent years, or perhaps because of it, the market has witnessed a dramatic increase in patent sales activity. One of the first transactions that generated interest was the auction several years ago of Internet commerce patents out of bankruptcy proceedings in California. Those patents sold for $15.5 million, and the market has been growing since.

Patent buyers come in many forms. In recent years, patent

holding companies have been formed to acquire patents to license for royalties. Other buyers include consortiums created to acquire patents for defensive purposes (i.e., to take patents "off the street" to protect their investors). Some buyers seek to do both. But it is not only patent holding companies that seek to acquire patents. Publicly-traded operating companies are also in the market to buy patents for reasons such as bolstering existing portfolios, instantly obtaining a portfolio in a line of business they are seeking to enter or for litigation they are embroiled in, or to keep a portfolio out of the hands of competitors or other companies. Several large publicly-traded operating companies have created business units, the sole purpose of which is to acquire patents.

IPinvestments Group: Atlanta-Based Intellectual Property Business Advisors

Different entities have sprung up to serve this market, including companies that hold live patent auctions, Internet services that seek to match buyers and sellers, and patent brokers that directly market patents for sale on behalf of patent owners.

An Atlanta company, IPinvestments Group, is helping patent owners participate in this growing market by helping them sell or license their patents. They are a business advisory firm that operates on a success fee (i.e., contingent fee) basis, with a large percentage of their business devoted to brokering the sale of patents on behalf of patent owners. They have represented a wide range of clients, from individual inventors to publicly traded companies, both large and small. They work closely with patent attorneys, both local and national, who refer interested clients with patents to sell.

The three principals of IPinvestments Group are Atlanta-based intellectual property veterans. The two founders, Mike McLaughlin and Ryan Strong, are from the financial side of the patent landscape, having been patent valuation and damages consultants with InteCap (now part of CRA International). The third principal, Bill Hartselle, is a patent attorney who was with Jones & Askew and was in-house at ANTEC Corp. (now Arris Group) prior to making the transition to the business side of patents, most recently as Managing Director of Patent Licensing at BellSouth. Together, they are bringing patent assets to market on behalf of patent owners from Atlanta and throughout the nation. There's real money involved—over the last two years, IPinvestments Group has closed more than 30 transactions that generated more than $50 million in upfront cash payments. Numerous deals also include future payments from licensing revenue-sharing arrangements.

As with any other asset, patent sale transactions occur between a willing seller and buyer. This eliminates the adversarial nature of patent litigation and allows transactions to close quickly, typically within a matter of months, demonstrating that patent sales can be a terrific cash source and provide significant near-term revenue for patent owners.

Conclusion

With no signs of slowing down, the market for patent sales should continue to grow and provide patent owners with the opportunity to sell their patent assets on the open market to generate revenue that several years ago would have been difficult to imagine. □

Litigation Committee Report

By Brad Groff
Litigation Committee Chair

The Litigation Committee has been very active this Bar year, starting off with our lunch program on Sept. 27 at the Bar Center, "*Underwater Devices* Dries Up? Life After *In re Seagate*." Dan Kent of Fish & Richardson moderated a panel including Jim Ewing of Kilpatrick Stockton, Steve Wigmore of King & Spalding, and Bernie Zidar of McKesson Technology Solutions, discussing the *Seagate* case and its impact on the attorney-client privilege, willfulness and enhanced damages, and opinion practice.

On Dec. 4, Glenn W. Perdue, an accredited valuation analyst with Crowe Chizek & Company presented a program on intellectual property damages. Purdue's thought-provoking analysis of the implications of recent case law developments (including the *eBay*, *MedImmune* and *KSR* cases) and proposed legislative reform and rule changes led to a lively discussion of trends in IP damage awards, litigation strategies and patent reform economics.

On Jan. 23 the Litigation and Copyright committees jointly presented a CLE luncehon that discussed the "fair use" defense in copyright and trademark disputes. The speakers were David Lilenfeld of Manning Lilenfeld and Joe Beck of Kilpatrick Stockton. Special thanks to Melissa Howard of Turner Broadcasting System, chair of the Copyright Committee, for helping put this program together.

Thanks also go out to Ann Fort, Darcy Jones and Kristin Goran of Sutherland Asbill & Brennan, Jennifer Liotta of Alston & Bird and David Lilenfeld of Manning Lilenfeld for their active participation and hard work on our Litigation Committee. If you would like to get involved or propose a program topic or speaker, please e-mail Litigation Committee Chair Brad Groff at bgroff@gardnergroff.com. □

Top: Kimberly Thomason, Leslie Slavich, Jason Prine, Mike Krause and Vanessa Spencer

Middle: Charlene Marino, Eric Maurer, John Bush and Jennifer Davis

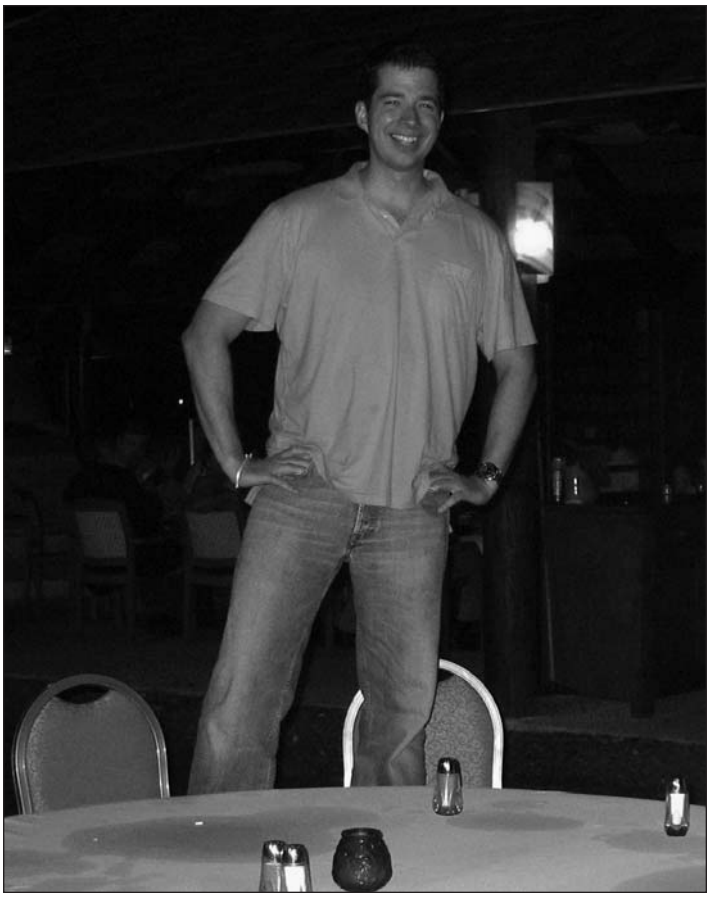
Bottom: Arvind Reddy, Tony Bonner, Julie Tennyson and James Johnson

IP/YLD Happy Hour at Shout

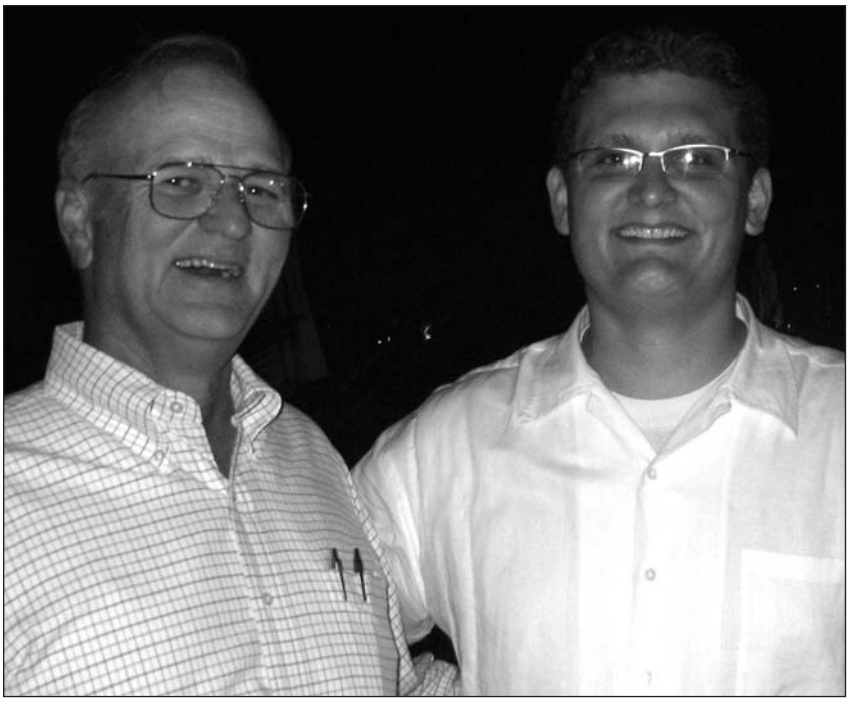
On Oct. 25 the Intellectual Property Law Section and the IP Law Committee of the State Bar's Young Lawyers Division met for a group happy hour at Shout in Midtown Atlanta.

Scenes from the 2007 IP Institute at the Grand Melia Puerto Rico

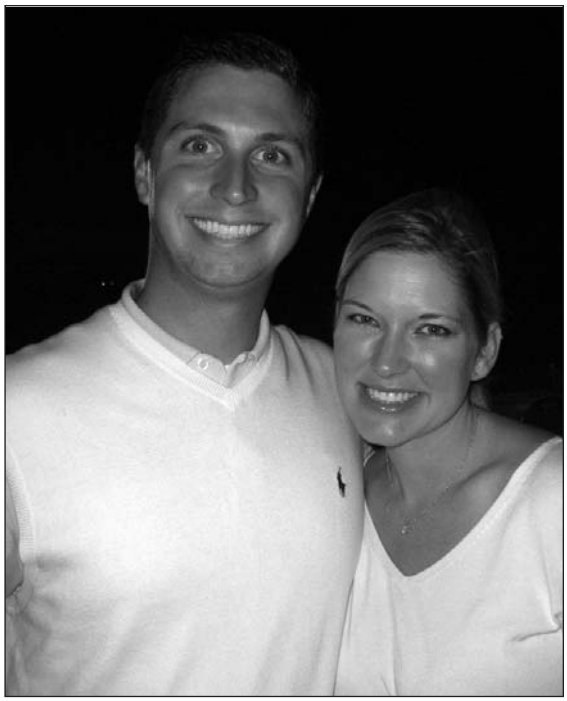
Right: The Chair on a Chair—Todd McClelland
Below: Mary Jo Schrade and Alison Danaceau



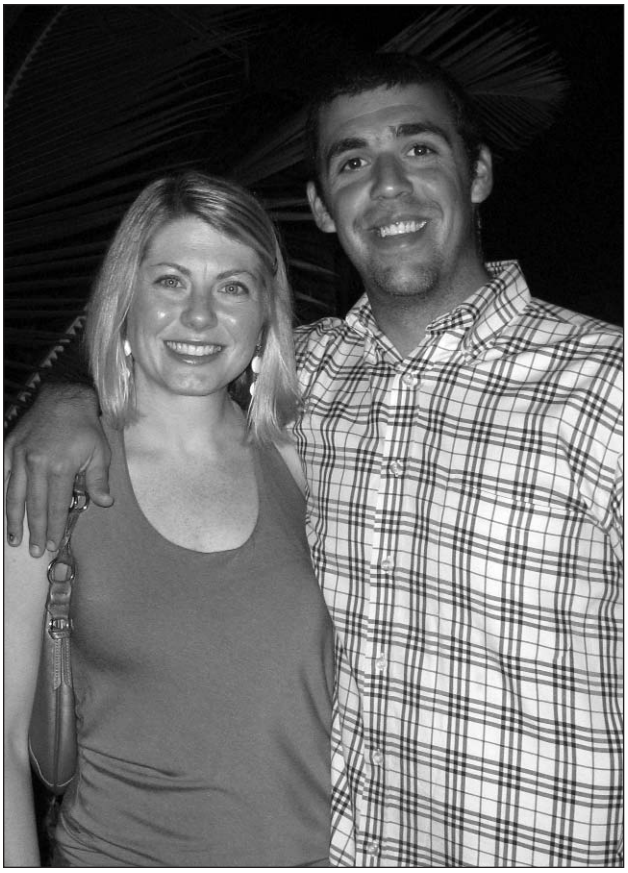
Photos by Alison DAnaceau



Judge Charles Pannell and Chad Pannell



Trenton and Courtney Ward



Top: Valerie Pannell, IP Law Section Past Chair Mike Hobbs, Jewel Nichols, Ginny Hobbs and IP Law Section Treasurer Shane Nichols

Left: Lauren Estrin and Andy Deutsch

Above Right: IP Law Section Past Chair Greg Kirsch, Laney Kirsch and IP Law Section Past Chair Nora Tocups

Letter from the Editors

By Alison Danaceau (Carlton Fields) and Tina Williams McKeon (Fish & Richardson P.C.)

The Communications Committee has an ambitious year before it, and we need your help. We plan to give a new face and new content to both the IP Law Section website and the newsletter. To that end, we welcome your comments and your contributions.

With this first newsletter, we begin the transition by providing you a hefty amount of content regarding various aspects of intellectual property law, including an article by Doug Isenberg (The GigaLaw Firm) regarding domain name disputes, an article by Michael Mason (Gardner Groff Greenwald & Villanueva) about a recent trademark dilution case (*Louis Vuitton Malletier S.A. v. Haute Diggity Dog*), and articles by Kiran Raj and Jim McDonough (Fish & Richardson) about opinions of counsel in patent litigation and about licensing strategies in view of *MedImmune*, respectively. As a new feature, committee member Collin Webb interviewed Judge Charles A. Pannell Jr. of the U.S. District Court for the Northern District of Georgia, and we provide you a profile of Judge Pannell, along with some of his thoughts on intellectual property cases he sees from the bench. We are grateful to the authors of these articles, and we hope you will follow their lead by providing articles for future newsletters.

Along with these substantive articles, we offer you a letter from IP Law Section Chair Todd McClelland and several committee reports. The Section is again offering a plethora of opportunities to its members, and we are striving to keep you informed about upcoming section and non-section events of interest to you. Please let us know of events that you would like us to share in subsequent newsletters or on the website.

Based on feedback from a small number of members, we understand that you would like only an electronic version of the newsletter. We are providing this edition in both electronic and print form, as a means of generating additional discussion and feedback from you. We can forego subsequent paper newsletters, which, of course, would reduce expenses to the section, but we would like to hear whether you think we should send the next newsletter in paper form. Give us a call or drop us an e-mail and let us hear from you in this regard.

The members of the Communications Committee are Chris Curfman (Needle & Rosenberg), Chris Glass (Morris, Manning & Martin), Lauren Fernandez Staley (Gardner Groff Greenwald & Villanueva), and Collin Webb (Leica Geosystems). Their contributions and ideas have been tremendous. We look forward to their continued involvement. Let us know if you would like to join the committee or if you have goals that you would like to see us pursue.

Also, we provide special thanks to Philip Burrus (Burrus Intellectual Property Law Group) for his insights regarding the website and to Johanna Merrill (section liaison of the State Bar of Georgia) who makes all our collective ideas a reality. ◻

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