

# The Sleeping Giant is Awake



The Impact of the Supreme Court's Patent Decisions on your Overall IP Strategies

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# Topics of Discussion:

- ***eBay v. MercExchange*** (2006) – When is permanent injunctive relief appropriate in an infringement case?
- ***MedImmune v. Genentech*** (2007) – Can a licensee in good standing establish an Article III case or controversy in pursuit of a declaratory judgment?
- ***Quanta Computer v. LG Electronics*** (2008) – Under what circumstances does an initial sale of a product embodying protected IP terminate all IP rights to that product?

# eBay v. MercExchange

## *That was then...*

- If a patent was found valid and infringed, then, absent special circumstances, a permanent injunction would issue (“general rule”).

## *... this is now.*

- if a patent is found valid and infringed, then the patentee must satisfy the “traditional” four factor test to obtain a permanent injunction.

# Four Factor Test

- Plaintiff must demonstrate:
  - (1) that it has suffered an *irreparable injury*;
  - (2) that *remedies available at law are inadequate* to compensate for that injury;
  - (3) that considering the *balance of hardships* between the plaintiff and the defendant, a remedy in equity is warranted; and
  - (4) that the *public interest would not be disserved* by a permanent injunction.

# eBay Background

- MercExchange asserted its “business method” patent against eBay after licensing negotiations broke down.
- The district court found that MercExchange’s patent is valid and infringed by eBay’s “Buy it Now” feature.
- Applying the four factor test as opposed to the “general rule,” the district court concluded that MercExchange had not suffered an irreparable injury because it did not practice its invention.

# eBay Background

- Applying the “general rule,” the Federal Circuit reversed the district court.
- The Supreme Court reversed the Federal Circuit holding that the traditional four-factor test applies to disputes arising under the Patent Act.

# eBay Impact on Patent Owners

- Although the Patent Act provides Patent Owners the right to exclude others from making, using, etc. the Patent Owner's invention, Patent Owners must prove irreparable harm to obtain a permanent injunction.
- Two Groups of Patent Owners:
  - Those that make/use their claimed inventions.
  - Those that only license their claimed inventions.
- Increased consideration of alternative courses of action including pursuing ITC injunctive relief.



# eBay Impact on Trademark/Copyright Owners

- District courts and appellate courts are forced to apply the four factor test for all IP cases where injunctive relief is requested.

# MedImmune v. Genentech

*That was then...*

- A patent licensee in good standing could not establish an Article III case or controversy under the Federal Circuit's "Reasonable Apprehension of Suit" test.
- The licensee was required to terminate or breach the license to obtain standing.

# MedImmune v. Genentech

- The “Reasonable Apprehension of Suit” test requires that there be:
  1. conduct by the patentee that created a reasonable apprehension of suit on the part of the DJ plaintiff; and
  2. present activity by the DJ plaintiff that could constitute infringement or “meaningful preparation” to conduct potentially infringing activity.

# MedImmune v. Genentech

*...this is now.*

- “Where threatened government action is concerned, a plaintiff is not required to expose himself to liability before bringing suit to challenge the basis for the threat.” Supreme Court Opinion.

# MedImmune Background

- MedImmune (licensee) and Genentech (licensor) entered into a patent licensing agreement.
- MedImmune viewed a letter from Genentech as a threat to terminate the license and enforce the Genentech patent against MedImmune's Synagis drug.
- Synagis accounted for 80% of MedImmune's sales revenue.

# MedImmune Background

- MedImmune believed that the Genentech patent was invalid and unenforceable.
- MedImmune paid the royalties due under protest.

# MedImmune Background

- The district court dismissed MedImmune's DJ claims for lack of jurisdiction because MedImmune was a patent licensee in good standing.
- The Federal Circuit affirmed.
- The Supreme Court reversed and remanded, concluding that, although MedImmune was a patentee in good standing, MedImmune's good standing was coerced by threatened enforcement action. Thus, an actual controversy existed.

# MedImmune Impact on IP Owners/Licensees

- No bright line rule for determining when an “actual controversy” exists.
- Licensees have increased likelihood to sustain DJ action without breaching license terms.



# Quanta Computer v. LG Electronics

*That was then ...*

- The doctrine of patent exhaustion (“DPE”) provided that a patented item’s initial authorized sale terminated all patent rights to that item.

# Quanta Computer v. LG Electronics

*... this is now.*

Update:

- The DPE applies to method patents.

Confirmation:

- the traditional bar on patent restrictions following the initial sale of the item applies when the item sufficiently embodies the patent – even if the item does not completely practice the patent.

# Quanta Background

- LG (licensor) and Intel (Licensee) entered into an agreement restricting sales of the licensed technology to third parties which would not mix Intel and non-Intel components.
- Quanta purchased technology from Intel which fell within the scope of the agreement and knowingly mixed Intel and non-Intel components.

# Quanta Background

- The district court held that Intel's sale of its chips under the LG-Intel license exhausted LG's rights to any additional patent recovery.
- The Federal Circuit determined that there was no exhaustion because of the express conditions forbidding the combination of Intel and non-Intel parts, and because the doctrine of patent exhaustion does not apply to method claims.

# Quanta Background

- The Supreme Court reversed the Federal Circuit, concluding:
  1. that methods may be embodied in a product – refusing to eliminate exhaustion for method patents; and
  2. that, because Intel was authorized to sell its products to Quanta, the DPE prevents LG from further asserting its patent rights.

# Doctrine of Patent Exhaustion Analogous to First Sale Doctrine

- Copyrights -- 17 U.S.C. §109(a) allows a purchaser to sell or give away a particular lawfully made copy of a copyrighted work without permission once it has been first purchased.
- Trademarks -- the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product (case law).

# Conclusion

- Each of the Supreme Court opinions discussed has:
  - a narrow holding effecting patent law;  
and
  - a broader holding applicable to trademarks and copyrights.



Thank you!