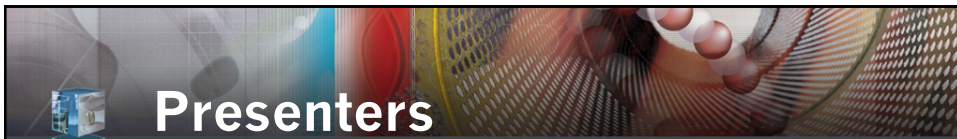


Hot Topics in IP & Business Implications

FOLEY
FOLEY & LARDNER LLP

©2007 Foley & Lardner LLP • Attorney Advertising • Prior results do not guarantee a similar outcome • Models used are not clients but may be representative of clients • 321 N. Clark Street, Suite 2800, Chicago, IL 60610 • 312.632.4500



Presenters

- Kristy Joi Downing
 - Patent Attorney and Associate at Foley & Lardner LLP
- Jim Morrow
 - Patent Attorney and Partner at Foley & Lardner LLP

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Hot Topics

- Patents 101
- *MedImmune v. Genentech*
 - Licensing IP
- *eBay*
 - Enforcing IP
- *KSR v. Teleflex*
 - Patentability/Validity (Obviousness)
- Q&A

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Patents 101

- The U.S. Constitution authorizes Congress to protect patents (Art. 1, Sec. 8, clause 8):
 - “Congress shall have the power ... to promote the progress of science and useful arts, by securing for limited times to ... Inventors ***the exclusive right to their ... Discoveries.***” ...and Congress has done so thru:
 - Codified in the Patent Act, 35 U.S.C. § 101 et seq.

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

Patents 101 cont.

- **Right to Exclude**

- The right conferred by a patent grant is the right “to **exclude others** from making, using, offering for sale, or selling the invention in the United States or importing the invention into the United States.” 35 U.S.C. § 271(a).

- **20 Year Term**

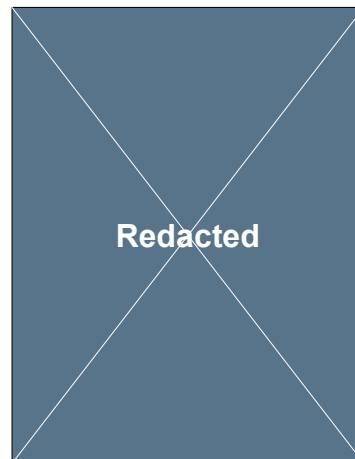
- Generally speaking, the term of the patent grant is **20 years from the date on which the application** for patent was filed in the United States, subject to the payment of maintenance fees and patent term adjustment.

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

Claims

- The specification must conclude with a claim or claims that **particularly point out and distinctly claim the subject matter** which the applicant regards as the invention. 35 U.S.C. § 112 ¶ 2.
- The claims define the **actual scope** of the invention



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Summary Patents 101

- The primary right provided by the grant of a U.S. patent is the right to exclude.
 - No affirmative right to use
- *MedImmune v. Genentech*
 - Licensing IP
- *eBay*
 - Enforcing IP
- *KSR v. Teleflex*
 - Patentability/Validity (Obviousness)

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune v. Genentech

127 S. Ct. 764 (2007)

- **U.S. Supreme Court Decision**
- **Issue:** Whether a Licensee must terminate or be in breach of its license before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed?

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune v. Genentech

■ Facts

- MedImmune produces Synagis – a drug for the prevention of respiratory infections in infants
 - Synagis accounted for \$1.06 billion of its \$1.2 billion in revenue for 2005. See Wikipedia
- Genentech obtained a patent (Cabilly II) and notified MedImmune that it owed royalties for the Synagis drug under an existing License Agreement between the parties

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune v. Genentech

■ Facts cont.

- MedImmune seeking to minimize its risk of paying damages and facing an injunction if Genentech were to prevail in a suit paid the royalty under protest; and
- Filed a declaratory judgment action seeking to invalidate the Cabilly II patent or obtain a ruling that the Synagis drug was not covered by the patent
- Genentech sought to dismiss the case

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing pre-*MedImmune*

- Licensee Estoppel
 - A licensee could not both accept the benefit of a license and challenge the licensed patent’s validity.
 - **Common Law of Contracts:** Forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he made.

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing pre-*MedImmune*

- *Lear v. Adkins* 89 S. Ct. 1902 (1969)
 - U.S. Supreme Court negated the doctrine of Licensee Estoppel. A licensee may not be stopped from challenging patent validity.
 - Rat’l: Promotes Free Competition
 - Public Interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.
 - “No challenge” clause not enforceable (1973)

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing pre-*MedImmune*

- *Gen-Probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376 (2004)
 - Article III U.S. Constitution
 - Federal Circuit held that a licensee cannot establish an Article III case or controversy and file a declaratory judgment action if the licensee continues to pay royalties under the license to the patent.

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune

- Balance of Interests
 - Contract Law
 - Public Interest
 - Case and Controversy Jurisdiction



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune

Holding

- U.S. Supreme Court held that MedImmune does not need to terminate or be in breach of its license agreement before seeking a declaratory judgment in federal court that the licensed patent is:
 - Invalid
 - Unenforceable and/or
 - Not Infringed

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune

Basis for Supreme Court Decision

- Standard for Declaratory Judgment:
 - Whether the facts alleged, under all the circumstances, show that there is a ***substantial controversy***, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory action

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



MedImmune

Basis cont.

- “There is no dispute that these standards would have been satisfied if petitioner (MedImmune) had taken the final step of refusing to make royalty payments under the 1997 license agreement”
- “Where threatened action by the government is concerned, we do not require a plaintiff to expose himself to liability before bring suit to challenge the basis for the threat”

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing after MedImmune

Impact of the MedImmune Decision

- Standard for Declaratory Judgment
 - Does an offer to license now create the basis for declaratory Judgment?
- Existing Agreements
 - Can Licensees now challenge the validity of licensed patents without first breaching the agreement?
- Future Licensing Agreements
 - What provisions will now be included in License Agreements to address this new risk?

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing after *MedImmune*

Future Licensing Agreements

- Termination Clause: Allowing for termination if the Licensee challenges the patent
 - Uncertain if enforceable under *Lear*
- Enhanced Royalty: Providing an increased royalty payment if the patent is found to be valid and infringed
- Cost of Defending the Challenge: providing for a fee or increased royalty payment during the challenge
- Jurisdiction choice

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing after *MedImmune*

Practical Implications

- Licensee has increased bargaining power in existing licenses to renegotiate terms without the risk of willful infringement and injunction
- Licensors should consider how to reallocate the risk created by the *MedImmune* Decision

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Licensing Alternatives

- License resulting from the termination of a law suit
 - If you sue first and the lawsuit results in a license, the patent's validity is unchallengeable by the licensee
 - **Res judicata** (consent judgment)
 - **Contract Estoppel** (settlement agreement)
 - Does not apply if the lawsuit is dismissed
- Paid-Up License
 - Royalties fully paid up-front

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



eBay v. MercExchange 126 S. Ct. 1837 (2006)

- **U.S. Supreme Court Decision**
- **Issue:** What is the appropriate standard for granting a permanent injunction upon finding infringement of a valid patent?



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



eBay v. MercExchange 126 S. Ct. 1837 (2006)

■ Facts

- eBay offers a popular Internet based auctioning forum for personal goods
- MercExchange owned a software (or business method) patent providing an auction service akin to eBay’s “Buy it Now” feature – enabling users to purchase an item immediately for a price set by the seller *without bidding*

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Pre-eBay

- Previously, a permanent injunction **automatically granted** after finding infringement of a valid patent
 - General rule = “courts will issue permanent injunctions against patent infringement *absent exceptional circumstances.*” *MercExchange v. eBay*, 401 F.3d 1323 (Fed. Cir. 2005)(emphasis added).
- Practical Implications
 - Strengthened the value of a patent
 - Increase bargaining power
 - Avoid litigation

©2007 Foley & Lardner LLP

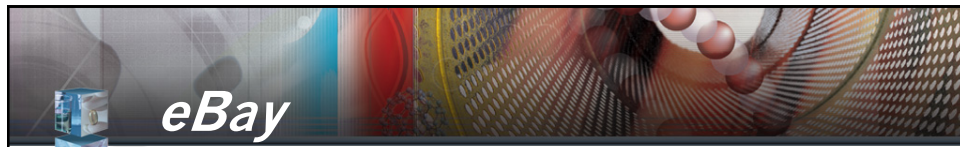
FOLEY
FOLEY & LARDNER LLP



eBay

- **Holding**
 - U.S. Supreme Court removed automatic injunction, courts should apply the traditional standard
 - “[T]he decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.” *eBay, supra* at 1841.


©2007 Foley & Lardner LLP

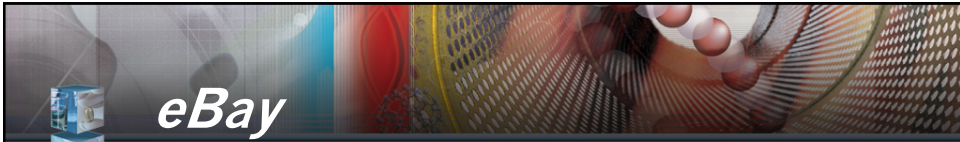


eBay

- **Basis**
 - Patent Act
 - Injunctions “may” issue “in accordance with the principles of equity.” 35 U.S.C. 283
 - Not “must”
 - Consistent with Copyright Act
 - Following traditional principles of equity

©2007 Foley & Lardner LLP





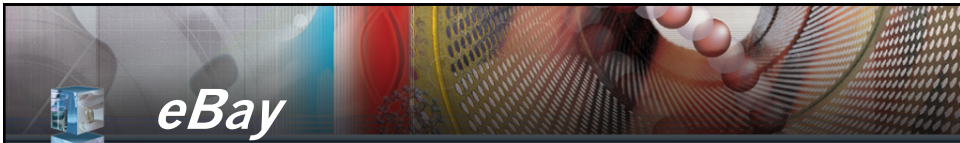
eBay

- 4-prong test for permanent injunctions:
 1. Showing of irreparable harm
 2. Monetary damages inadequate
 3. Balance of hardships favors an injunction
 4. Public interest warrants remedy in equity (free competition)

IV

FOLEY
FOLEY & LARDNER LLP

©2007 Foley & Lardner LLP



eBay

- Roberts Concurrence
 - History should be instructive in applying the 4-prong test
 - “When it comes to discerning and applying [standards], in this area as others, ‘a page of history is worth a volume of logic.’” *quoting* O.W. Holmes, Jr.
- Kennedy Concurrence
 - Agrees with historical instruction
 - Non-practicing patentee less entitled to an injunction
 - “In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder...”

FOLEY
FOLEY & LARDNER LLP

©2007 Foley & Lardner LLP



Post-*eBay*

■ Practical Implications

- Permanent injunction still probable?
- Weaken patents?
- Balance bargaining power?
- Jurisdiction choice?

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



KSR v. Teleflex

■ Basic Conditions for patentability include, *inter alia*:

- Novelty - 35 U.S.C. § 102
- **Non-Obviousness** - 35 U.S.C. § 103



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Non-Obviousness §103

- “A patent may not be obtained...
 - if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art.” 35 U.S.C. § 103(a)
 - No “flash of genius” is required for patentability
 - “Patentability shall not be negated by the manner in which the invention was made.” 35 U.S.C. § 103(a).
 - **Not applied in hindsight.**

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP



Non-Obviousness §103

- **Teaching, Suggestion, Motivation Test**
 - CAFC developed the TSM test to discourage applications in hindsight
 - “[c]ombining prior art references without evidence of such suggestion, teaching, or motivation simply takes the inventor’s disclosure as a blueprint for piecing together the prior art to defeat patentability—the essence of hindsight”). *In re Dembiczak*, 175 F.3d 994 at 999 (Fed. Cir. 1999)

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

KSR v. Teleflex

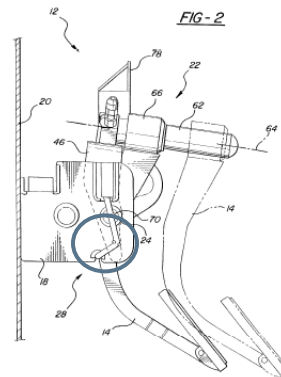
- **U.S. Supreme Court Decision**
- **Issue:** KSR challenges the use of the TSM test

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

KSR v. Teleflex

- **Facts**
 - Teleflex owns a patent regarding an adjustable pedal assembly with electronic throttle control.
 - Claim 4 of the '565 patent requires that the electronic [throttle] control, responsive to a pivot (e.g., 24 as shown in FIG. 2) attached to a vehicle gas pedal, mounted to the pedal support.



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

KSR v. Teleflex

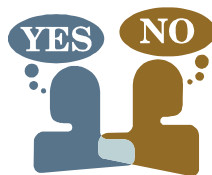
- E.D. Mich.
 - Found the Teleflex patent to be obvious in light of the offered prior art
- CAFC
 - Vacated the district courts decision on invalidity and remanded the case for further proceedings.
 - In large part the CAFC highlighted the important role the TSM test plays in resisting the temptation to engage in impermissible hindsight while reviewing inventions for obviousness.

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

KSR v. Teleflex

- **Holding**
 - U.S. Supreme Court Decision TBD
 - ___ S. Ct. ___ (2007)
 - Teaching-Suggestion-Motivation Test is _____



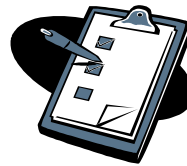
©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

KSR v. Teleflex

■ Practical Implications

- Fewer Patents?
- Reliance on objective determinants of obviousness
 - *Graham v. John Deere* Factors
 - Commercial success
 - Industry Recognition
 - Long Felt Need
 - Failure of Others
 - Copying
 - Industry Skepticism



©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP

Summary

- *MedImmune v. Genentech*
 - One may challenge patent validity and take a license simultaneously
- *eBay*
 - Traditional principles of equity govern rights to permanent injunction (no longer a given)
- *KSR v. Teleflex*
 - Standard for patentability/validity may change
- Q&A

©2007 Foley & Lardner LLP

FOLEY
FOLEY & LARDNER LLP