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Intellectual Property Litigation

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This Issue: Equitable Defenses in IP Litigation

Equitable Exceptions to the Rule Against Perpetual Contracts

By Brett A. August and Andrew N. Downer

We've all seen (and perhaps written) license agreements for our clients that purport to be perpetual in duration, particularly when they grant rights that are nonexclusive. Our clients may seek such relationships, thinking that it will be easier to grant a perpetual license—sometimes characterized as one of “indefinite” duration—to avoid having to deal with renegotiating or renewing the agreement every few years. Perpetual license agreements can, however, be a trap for the unwary. Care must be taken when drafting such agreements, or the license that the parties intended to be perpetual may actually be terminable at will.

The courts of many states have

determined that perpetual contracts are against public policy. The theory is that, even though companies may initially want an agreement to last forever, changing times and technological advances often lead to the breakdown of a business relationship. Thus, an agreement that is of “indefinite duration” will, in many instances, be held to be terminable at will by either party.

The rule against perpetual contracts can be used offensively by an opportunistic licensor to preempt written contract terms and end a relationship it no longer views as economically advantageous, despite the licensee's belief that its rights were

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Can Laches Bar a Permanent Injunction after eBay?

By David H. Binney and Nicola J. Templeton

In *eBay, Inc. v. MercExchange*¹, the U.S. Supreme Court reversed the well-established Federal Circuit presumption of irreparable harm that nearly always resulted in a permanent injunction when patent infringement was established. As a result, the ability of plaintiffs to permanently enjoin infringing activity has decreased significantly. A delay in bringing suit can affect a post-*eBay* plaintiff's ability to obtain permanent injunctive

relief for patent infringement in a number of ways.

Permanent Injunctive Relief in Patent Cases Post-*eBay*

According to 35 U.S.C. § 283, courts “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”

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Message from the Chairs

Our Winter 2010 issue dealt with secondary liability doctrines that may apply to the various participants in the chain of commerce when intellectual property infringement issues arise. As turnabout is fair play, this issue explores the various equitable defenses those accused of infringement may assert to meet a plaintiff's claims. The U.S. Supreme Court's recent decisions in *Bell Atlantic v. Twombly* and *Ashcroft v. Iqbal*, as well as a number of recent decisions in the patent and copyright arenas, have changed the landscape concerning the use, applicability, and potential effectiveness of equitable defenses in intellectual property cases.

In this issue, we'll learn how the *Twombly* and *Iqbal* decisions have potentially impacted the "failure to state a claim" defense in patent infringement cases; how the laches defense applies in patent cases after the *eBay, Inc. v. MercExchange, Inc.* decision that reversed the long-standing presumption that irreparable harm nearly always justifies a permanent injunction; how post-patent prosecution misconduct

may provide a defendant with an equitable defense to infringement claims; how the equitable doctrine of intervening rights potentially provides an accused infringer with a safe harbor where patents are revived or reissued; how and when to assert claims of inequitable conduct against a patent holder as part of an accused infringer's defense; how the doctrine of "copyright misuse" impacts both litigation and transactional counsel in dealing with copyright holders; and how the equitable exception to the rule against perpetual contracts may be used by licensees and licensors to protect their rights. We hope this exploration of equitable defenses across intellectual property disciplines provides you with additional tools to utilize in vindicating your clients' rights when intellectual property disputes arise.

We also want to invite you to get more active in the Committee. Our subcommittees are all working hard on the ambitious initiatives upon which we've embarked this year, which includes, among other things, providing recognition and exposure to

our active members who contribute their time and talent to make our programs and publications such a success. We encourage those who are interested in becoming more involved in our work, whether it's through contributions to the newsletter, website, or programs, or through membership outreach. For more information about opportunities to become involved, please visit the committee's webpage at www.abanet.org/litigation/committees/intellectual.

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Finally, please mark your calendars for the ABA Annual Conference, which will be held in San Francisco on August 5–10, 2010. Thank you for your continuing support! ●

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Failure to State a Claim: *Twombly*, *Iqbal*, and Rule 12 in Patent Cases

By Thomas A. Brown

Few defenses are as potent as an allegation that the plaintiff has failed to state a claim on which relief may be granted. Like equitable defenses, failure to state a claim may be asserted in a defendant's answer. Similarly, the defense is adjudicated by a judge rather than a jury. But failure to state a claim is also more flexible than other defenses, because it may be alleged not only in the answer (Fed. R. Civ. P. 12(h)(2)(A)), but also in a pre- or post-answer motion (Fed. R. Civ. P. 12(b)(6) & 12(c)). Even without asserting it early, a party may claim the defense at trial. Fed. R. Civ. P. 12(h)(2)(C). If the defense is alleged before trial, a court generally must hear and decide it before proceeding to trial. Fed. R. Civ. P. 12(i).

Despite the apparent force of this defense, patent litigators have historically found little use for it. The reason is simple: Form 18 of the Federal Rules of Civil Procedure appears to undermine any attack on a bare-bones complaint for patent infringement. The form appears to require only a bare assertion of infringement as a result of a named defendant's activities with respect to an accused product described only in the most general of terms. Rule 84, meanwhile, expressly endorses the pleading style typified by Form 18, stating that the forms "suffice under these rules and illustrate the simplicity and brevity that these rules contemplate." Thus, the form and the rule seem to foreclose any argument that a patent infringement complaint require any level of real detail.

This view may be changing. In *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007) and *Ashcroft v. Iqbal*, 129 S.Ct. 1937 (2009), the Supreme Court may have fundamentally changed the playing field by requiring plaintiffs to allege facts that would render its allegations of patent infringement "plausible." It's too soon to know how these decisions will fully play out,¹ but some courts have concluded that patent infringement complaints must include a modicum of facts giving rise to an inference that the defendant has infringed the plaintiff's patent. Any move in this direction would add artillery to the arsenal of an accused infringer, particularly in cases that are facially meritless.

Notice Pleading and its Possible Demise

Under Rule 8 of the Federal Rules of Civil Procedure, a complaint is sufficient so long as it sets out "a short and plain statement of the claim showing that the pleader is entitled to relief." A complaint alleging patent infringement is sufficient if it alleges, for example, that the "defendant has infringed and is still infringing the Letters Patent by making, selling, and using electric motors that embody the patented invention, and the defendant will continue to do so unless enjoined by this court." Fed. R. Civ. P., Form 18 & Rule 84 (providing that the forms suffice under the Federal Rules).

For decades, the Supreme Court adhered to the "accepted rule that a complaint should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove *no set of facts* in support of his claim which would entitle him to relief." *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957) (emphasis added). This standard became known as the "no set of facts" test. Under this liberal standard, it was rare for an accused patent infringer to persuade a court to grant a motion to dismiss under Rule 12(b)(6).

Two Supreme Court cases repudiated this analysis. In *Twombly*, the Court considered whether a complaint stated a claim for a violation of the Sherman Act where the plaintiff alleged the existence of a conspiracy in restraint of trade but failed to allege supporting facts. 550 U.S. at 556-57. The Court ruled that such a complaint was insufficient to state a claim under Rule 8. *Id.* In so doing, the Court overruled *Conley's* "no set of facts" formulation, substituting instead the rule that "once a claim has been stated adequately, it may be supported by showing any set of facts consistent with the allegations in the complaint." *Id.* at 563.

For a time, some believed that *Twombly* was to be confined to actions arising under the Sherman Act. In *Iqbal*, the Court corrected this misapprehension. Rejecting the view that *Twombly* applied only in antitrust cases, 129 S.Ct. at 1953, the Court in *Iqbal* reiterated that a complaint in any civil action "must contain sufficient factual matter,

accepted as true, to 'state a claim to relief that is plausible on its face.'" *Id.* at 1949 (quoting *Twombly*, 550 U.S. at 570). The Court further explained that a "claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Id.* According to the Court, this standard "asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* "Where a complaint pleads facts that are merely consistent with a defendant's liability, it stops short of the line between possibility and plausibility of entitlement to relief." *Id.* (quotation marks and citations omitted).

The Federal Circuit has on two occasions considered the impact of *Twombly* and *Iqbal* on complaints for patent infringement. In *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354 (Fed. Cir. 2007), a case decided after *Twombly* but before *Iqbal*, the Federal Circuit concluded that, under Rule 84 and Form 18 (then Form 16) of the Federal Rules of Civil Procedure, a complaint is sufficient if it contains:

1. An assertion of ownership of the patent-in suit.
2. An identification of the named defendants.
3. A statement that the named defendants infringe the patent.
4. A relatively conclusory explanation of how the patent is infringed ("[t]he defendant's INTERNATIONAL WALKIE TALKIE machine physically have [sic] or perform all of the basic elements contained in the patent claims of the plaintiff and further infringes under the doctrine of equivalents").
5. An identification of the relevant statutory provision being invoked ("35 U.S.C. § 271"). *Id.* at 1357.

The court rejected the notion that the complaint at issue was deficient because the plaintiff "didn't know what device, what mechanism or what means Nextel uses to transmit and connect its telephone customers to the rest of the world." *Id.* at 1357-58.

According to the court, it was sufficient that the plaintiff pled all he could, relying on publicly available information. “[T]he specifics of how Sprint Nextel’s purportedly infringing device works is something to be determined through discovery.” *Id.* at 1358.

A later Federal Circuit case took a somewhat dimmer view of the sufficiency of a plaintiff’s complaint. In *Colida v. Nokia*, No. 2009-1226, 2009 WL 3172724 (Fed. Cir. Oct. 6, 2009), in an unpublished, per curiam decision, the Federal Circuit reviewed a dismissal for failure to state a claim by a complaint alleging infringement of a design patent. In the district court, the magistrate judge had “examined the asserted patents and the depictions of the accused product’s design” attached to the complaint. *Id.* at 2. Following a “detailed analysis,” the magistrate judge concluded “that the accused product could

Following *Twombly* and *Iqbal*, some courts have dismissed claims for failure to definitively allege infringement.

not infringe any asserted patent.” *Id.* Although the plaintiff’s complaint asserted that the accused product, a cellular telephone, “reproduces the novel distinctive design appearance of the clam-shell design” of the plaintiff’s patents, the complaint “states nothing about how the accused phone . . . bears this design or anything remotely similar to it.” *Id.*

Ruling after *Iqbal*, the Federal Circuit affirmed. Emphasizing the “facial plausibility” standard articulated by the *Iqbal* Court, *id.* at *1, the Federal Circuit agreed with the district court that “the dissimilarities far exceed the similarities when comparing each of plaintiff’s four [p]atents, as construed, to defendant’s 6061 telephone, and that no amount of extrinsic evidence can change that.” *Id.*

Several aspects of the *Colida* decision may be significant for an accused infringer seeking an early dismissal. First, the district court and the court of appeals didn’t hesitate to look at the accused product (a picture of which was

attached to the complaint) in the context of a motion to dismiss. Second, the district court construed the claims of the design patent at the motion to dismiss stage. Although the court couldn’t look to extrinsic evidence in the context of a Rule 12(b)(6) motion, the court concluded that “no amount of extrinsic evidence” could alter its conclusion. *Id.* Third, also at the motion to dismiss stage, the district court found no infringement as a matter of law, and the Federal Circuit agreed. Fourth, in a footnote, the Federal Circuit cast doubt on the viability of a formulaic reliance on Form 18 in all patent cases, noting that it “is not tailored to design patents and was last updated before the Supreme Court’s *Iqbal* decision.”

Do these cases signal an opening for defendants in patent infringement cases to seek early dismissal? Possibly, particularly in defined circumstances. As explained in more detail below, following *Twombly* and *Iqbal*, some courts have dismissed claims for failure to definitively allege infringement and for failure to allege one party’s control over another party for claims requiring action by multiple parties. Moreover, it may be possible that certain cases where claim construction is not required or where particular claim construction questions can be determined through the limited Rule 12 record can be quickly disposed of on the merits. Such an outcome would be a boon to accused infringers facing the prospect of burdensome discovery on a patent infringement claim that fundamentally lacks merit.

The Aftermath

Indirect Infringement

One controversial use of a post-*Iqbal* motion to dismiss is where the plaintiff alleges indirect infringement but has little information about the internal functioning of the accused product or about how the defendant allegedly induced or contributed to infringement. In *Elan v. Apple*, 2009 WL 2972374 (N.D. Cal. Sept. 14, 2009), the U.S. District Court for the Northern District of California dismissed Apple’s patent infringement counterclaims because, according to the court, the claims didn’t satisfy the pleading standards of Rule 8 under *Iqbal*. The court stated that “Apple’s allegation of infringement . . . consists of nothing more than a bare assertion, made ‘on information and belief[.]’ that Elan ‘has been and is currently, directly and/or indirectly infringing’” the asserted patents by selling products specified in the counterclaim. *Id.* at *2. According to the court, “this pleading plainly falls within the prohibition against

“[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements.”” *Id.* (quoting *Iqbal*, 129 S.Ct. at 1949). As a result, the court granted the motion to dismiss. *But cf. Boy Blue, Inc. v. Zomba Recording, LLC*, No. 3:09-CV-483-HEH, 2009 WL 2970794, *2 (E.D. Va. Sept. 16, 2009) (“Pleading ‘upon information and belief’ is appropriate when the factual basis supporting a pleading is only available to the [opposing party] at the time of pleading.”).

How can the result in *Elan* be harmonized with Form 18, Rule 84, and the Federal Circuit’s holding in *McZeal*? Only with difficulty, as the *Elan* court itself acknowledged, saying that Form 18 “requires essentially nothing more than conclusory statements,” *id.*, and noted that in a separate opinion in the *McZeal* case, Judge Dyk “acknowledg[ed] that Rule 84 renders Form 18 sufficient for allegations of direct literal infringement” but “expressly opined that the form would be insufficient to state a claim under the usual standards.” *Id.* at *2, n.3 (citing *McZeal*, 501 F.3d at 1360 (Dyk, J., concurring-in-part and dissenting-in-part)). The *Elan* court ultimately distinguished *McZeal* by noting that *McZeal* involved only an allegation of direct patent infringement, while the counterclaim at issue in *Elan* involved a charge of direct “and/or” indirect infringement. *Id.* at *2. Because indirect patent infringement requires proof of elements beyond those required to show direct infringement, the court found Form 18 inapplicable and the counterclaim deficient. *Id.*

The rule apparently adopted by the *Elan* court places a patentee in a quandary. How can a patentee allege how a complex accused product works without discovery? It’s for this reason that the *McZeal* decision concluded that “the specifics of how Sprint Nextel’s purportedly infringing device works is something to be determined through discovery.” 501 F.3d at 1358. The Supreme Court, however, arguably rejected this logic in *Twombly* and *Iqbal*. The *Twombly* pleading standard “serves the practical purpose of preventing a plaintiff with a largely groundless claim from taking up the time of a number of other people, with the right to do so representing an *in terrorem* increment of the settlement value.” *Twombly*, 550 U.S. at 546 (quotation marks, brackets, and citations omitted). In other words, the purpose of the *Twombly* rule was to allow defendants charged with “groundless claims” to require the plaintiff to explain the basis for a claim or face dismissal. Under *Twombly*, the possibility that a plaintiff might uncover

through discovery facts that support its claim is irrelevant. Instead, the court should perform a gatekeeping function, dismissing groundless claims at the outset to protect defendants from the expense and burden of discovery.

Several courts, however, have concluded that *Twombly* and *Iqbal* did little to change the pleading requirements for patent infringement claims. *See, e.g., Sorenson v. Dorman Products, Inc.*, 2009 WL 4261189, *1-2 (S.D. Cal. Nov. 24, 2009); *S.O.I.TEC Silicon On Insulator Techs., S.A. v. MEMC Elec. Materials, Inc.*, No. 08-292-SLR, 2009 WL 423989, *2 (D. Del. Feb. 20, 2009); *Fotomedia Techs., LLC v. AOL, LLC*, No. 2:07-CV-255, 2008 WL 4135906, *1-*2 (E.D. Tex. Aug. 29, 2008); *see also* Andrea Kuperman, *Review of Case Law Applying Bell Atlantic Corp. v. Twombly and Ashcroft v. Iqbal 2* (Dec. 30, 2009), available at www.uscourts.gov/rules/Memo%20re%20pleading%20standards%20by%20circuit.pdf (“The approach taken by many courts may suggest that *Twombly* and *Iqbal* are providing a new framework in which to analyze familiar pleading principles, rather than an entirely new pleading standard.”). Interestingly, at least one court has taken a compromise position, ruling that relatively conclusory allegations of direct patent infringement are sufficient under *McZeal* and Form 18, but that a more detailed recitation of facts is required to resist dismissal of the portion of a complaint that alleges indirect patent infringement. *Sharafabadi v. Univ. of Idaho*, No. C-09-1043-JLR, 2009 WL 4432367, *3-5 (W.D. Wash. Nov. 27, 2009).

Joint Infringement

Iqbal may also be invoked in a case where the patent consists of method claims requiring action by multiple parties and the complaint fails to allege “direction or control” by a single party. Method claims requiring action by multiple parties can’t be infringed except where a single party exercises “direction or control” over the actions of another party, such that the controlling party may be said to perform all of the steps of the method. *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1328-30 (Fed. Cir. 2008). In *Global Patent Holdings v. Panthers BRHC LLC*, 586 F. Supp. 2d 1331 (S.D. Fla. 2008), the district court dismissed the patentee’s claims because the complaint failed to allege facts sufficient to support an inference that the defendant, who operated a website, controlled the actions of users who visited the website. *Id.* at 1335. Because the parties

agreed that such control was required to prove direct infringement, the district court dismissed the claim under Rule 12(b)(6). *Id.* Thus, in cases where multiple actors are required but only one actor is alleged, courts may be willing to dismiss the case.

Clear Noninfringement

There are situations where noninfringement is clear and a court may dismiss a complaint at the motion to dismiss stage. The key for a defendant is to ensure that adequate information is in the Rule 12 record. A defendant may construct an adequate record by incorporating into the answer relevant material, such as the prosecution history and documents describing the accused product. This permits the defendant to move for judgment on the pleadings under Rule 12(c). If claim construction is not required, courts may dismiss facially meritless patent claims on a Rule 12 motion. *See Colida*, 2009 WL 3172724 (discussed above); *Moody v. Morris*, 608 F. Supp. 2d 575, 579 (S.D.N.Y. 2009) (dismissing a complaint directed to a captioning or subtitling system because, in the accused product, “characters speak dialogue and captioning is nowhere involved”); *but see Yangaroo, Inc. v. Destiny Media Techs., Inc.*, No. 09-C-462, 2009 WL 2836643 (E.D. Wis. Aug. 31, 2009) (holding that claim construction could not be undertaken in the context of a motion to dismiss).

Affirmative Defenses

Just as a defendant may deploy an *Iqbal* argument to request dismissal, a plaintiff may invoke these cases to argue that a defendant’s affirmative defense is insufficiently pled. Under this theory, *Iqbal* and *Twombly* require a defendant to plead facts suggesting that its affirmative defenses are “plausible.” A plaintiff seeking adjudication of this argument would move to strike the defendant’s affirmative defenses. Some courts have accepted this position. *See, e.g., CTF Development, Inc. v. Penta Hospitality, LLC*, No. C-09-024290WHA, 2009 WL 3517617, *8 (N.D. Cal. Oct. 26, 2009). Other courts, however, have held that *Iqbal* and *Twombly* are inapplicable to affirmative defenses. *See Sun Microsystems, Inc. v. Versata Enterprises, Inc.*, 630 F. Supp. 2d 395, 408 n.8 (D. Del. 2009) (citing cases). Whether *Iqbal* and *Twombly* apply to affirmative defenses is yet another issue that remains hotly debated.

Conclusion

The import of *Twombly* and *Iqbal* is still undetermined. On the one hand, the fact that

Form 18 endorses a patent complaint that hardly seems to contain anything more than conclusory allegations seems to provide a safe haven for patentees with little fodder for their complaint. On the other hand, particularly after *Iqbal*, several courts seem inclined to confine Form 18 to the specific situation at which it’s directed, namely direct, literal patent infringement, and require a recitation of facts making patent infringement “plausible” for other allegations of infringement.

If this latter view prevails, defendants accused of infringement who can demonstrate without detailed claim construction that there is no possibility of proving infringement may be able to escape litigation without the burden of discovery. By the same token, plaintiffs may succeed in striking affirmative defenses that lack sufficiently pled facts. Still, a requirement that a patentee be required to

Several courts seem inclined to narrowly confine Form 18 to the specific situation at which it’s directed.

present a “plausible” case of infringement in its complaint could weed out a significant number of facially meritless lawsuits. This would be a real boon to companies facing meritless claims of patent infringement. ●

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Endnote

1. A memorandum prepared for the Federal Judiciary’s Advisory Committee on Civil Rules concludes that “the case law to date does not appear to indicate that *Iqbal* has dramatically changed the application of the standards used to determine pleading sufficiency.” Andrea Kuperman, *Review of Case Law Applying Bell Atlantic Corp. v. Twombly and Ashcroft v. Iqbal 2* (Dec. 30, 2009), available at www.uscourts.gov/rules/Memo%20re%20pleading%20standards%20by%20circuit.pdf.

Intervening Rights Following Reissue: Protecting an Accused Infringer's Pre-Reissue Activity

By Holly Hogan

Although the doctrine of intervening rights (35 U.S.C. § 252) is not so widely known as to have its own Wikipedia page, it can be a game-changing defense in a patent infringement case involving a reissued patent. The doctrine's relatively quiet presence in patent law stems from the fact that it arises only in a unique circumstance: an action brought against a party who does not infringe a patent as originally issued, but is instead accused of infringing reissued claims. When an accused infringer finds itself in this situation, the doctrine of intervening rights taps into the concept of fairness by protecting the accused infringer's activities that occurred between the original patent and the reissued patent. The doctrine immunizes, and may allow the accused infringer to continue (albeit with conditions), its pre-reissue activity.

Assume, for example, that your client, *We'veBeenDoingThisALongTime, Inc.*, is sued for infringing a recently reissued patent on widget manufacturing. The original patent included claims 1–5. The plaintiff does not assert these five original claims because your client clearly does not infringe them. To these original five claims, the reissue added new claims 6–10, and these are the basis of the plaintiff's infringement claims. Here's where the doctrine of intervening rights comes in as a defense: Your client's alleged infringing activity started long before the patent reissued. Between the time of the original patent and the reissued patent, *We'veBeenDoingThisALongTime, Inc.*, began making and selling the accused V1.0 widgets. It also nearly completed development of the accused V2.0 widgets, and started making and selling the V2.0 widgets just a few months after the patent reissued.

In view of these pre-reissue activities, *We'veBeenDoingThisALongTime, Inc.*, has intervening rights with respect to its V1.0 and V2.0 widgets. The scope of its intervening rights varies depending on the accused product's stage in the development cycle.

Moreover, concluding that the doctrine of intervening rights applies and determining the scope of those rights is just the first step; you must also prove that the company is entitled to them.

The Scope of Intervening Rights

As a threshold matter, for the doctrine of intervening rights to apply, the reissued claims must not be substantially identical to the original patent. In other words, there must be a change in scope. *See, e.g., Seattle Box Co. v. Indus. Crating & Packing, Inc. (Seattle Box I)*, 731 F.2d 818 at 829-30 (Fed. Cir. 1984). In addition, some authority indicates that the accused infringer must come forward with evidence of reliance on the infirmities in the initial patent. *Halliburton Co. v. Western Co. of North America*, 1989 WL 77199, *2 (Fed. Cir. July 17, 1989) (a court may properly take into consideration the presence or absence of reliance in exercising its judgment on the equities in the case); *Slimfold Mfg. Co., Inc. v. Kinkead Indus., Inc.*, 810 F.2d 1113, 1117 (Fed. Cir. 1987). With the difference between the original and reissued patents settled, the next query is in regards to what types of intervening rights are available.

The doctrine of intervening rights is a rule of fairness, and the scope of an accused infringer's intervening rights varies accordingly. An accused infringer has personal intervening rights of differing scope with respect to products that:

- Don't infringe the original patent and were in existence before the reissue (i.e., the V1.0 widgets made and sold prior to the reissue), or
- Were in substantial progress before the reissue (i.e., the V2.0 widgets in development prior to the reissue) or products identical to those that were in existence (i.e., the V1.0 widgets that weren't made and sold until after the reissue but are identical to those that were made and sold prior to the reissue). 35 U.S.C. § 252.

The scope of a defendant's intervening rights depends on the category into which the accused product falls. The first category generates the strongest sentiment of unfairness because liability for these products would result from actions that were "over and done with" before the patent reissued. It comes as no surprise then, that the first category of products has the strongest intervening rights protection. Indeed, a defendant has an absolute intervening right with regard to products in the first category, meaning that the defendant has no liability for these products.

The fairness argument is somewhat less compelling for products that weren't made and sold until after the reissue, like those in the second category. Although these products have some origin in the defendant's pre-reissue activity, the actual infringing activities did not occur until after the reissue. The intervening rights for such products thus do not have as much fortitude. While a defendant has an absolute intervening right with regard to products in the first category, the more flexible, equitable intervening rights protect products in the second category.

Because of the court's discretion to define an equitable intervening right, the parameters of that right—what a court deems fair—varies from case to case. The Federal Circuit suggested several possible parameters in *Seattle Box I*, 731 F.2d 818, 830 (Fed. Cir. 1984). Some of the suggested parameters would be a victory, or a near victory, much like absolute intervening rights. Others would be little more than a consolation prize. The Federal Circuit's opportunity to suggest these parameters arose because it determined that the accused infringer had equitable intervening rights with respect to the products at issue. *Id.*

The next question, of course, was in regards to what kind of equitable rights the accused infringer had. In remanding the case to the district court to determine the parameters of the infringer's intervening rights, the Federal Circuit suggested: (1) allow only the use of the infringing products already

in existence as of the reissue; (2) permit the infringer to continue its business operations with limitations, such as restrictions on the amount, type, or geography of its activities; or (3) allow the infringer to continue its business unconditionally. *Id.* The first option would allow the infringer to do little more than sell off its inventory at reissue without liability. The second option allows the infringer a limited continuing right. Those limitations could outweigh any advantage from future sales of the accused products. By contrast, the third option is essentially a continuing absolute intervening right.

When the case made its way back up on appeal of the district court's determination with respect to a subset of accused products, the Federal Circuit determined which of the three foregoing options applied. *Seattle Box II* at 1580–81. In making its determination, the Federal Circuit highlighted that the infringer sought the advice of counsel in a successful effort to design around the original patent-in-suit. *Id.* at 1580. Believing that it avoided the patent-in-suit, the

infringer moved forward with its plans for the accused products and had a large number of existing orders at the time of reissue. *Id.* In view of these facts, the court found that “[t]he new reissue claims in this case present a compelling case for the application of the doctrine of intervening rights because a person should be able to make business decisions secure in the knowledge that those actions which fall outside the original patent claims are protected.” *Id.* The infringer only sought to protect its business decisions by selling off products incorporating the accused components under option number one above (presumably because it was no longer selling the accused products) and the Federal Circuit permitted it to do so. *Id.* at 1581.

The Federal Circuit's three suggested options are not exclusive, and courts have fashioned other forms of intervening rights. In *Plastic Container Corp. v. Continental Plastics of Oklahoma, Inc.*, 607 F.2d 885 (10th Cir. 1979), for example, the court permitted the defendant to recoup its investment, but did not allow the accused infringer

to continue its sales of the accused products. The accused infringer sought an intervening right to continue selling the accused safety closure products. *Id.* at 902. In support of its position, the accused infringer offered evidence of its exploration of the safety closure market, as well as its expenditures for development and marketing of the accused products. *Id.* This evidence didn't persuade the court, however, because the accused infringer may have already recouped these investments due to the profitability of the accused products, and the investments could also be used toward noninfringing uses. *Id.* at 902–03. In light of the foregoing, the defendant was entitled to recoup its investments and any future costs of conversion toward noninfringing uses, but wasn't entitled to continue selling the accused products. *Id.* at 903.

Although courts can follow the lead of the *Plastic Container Corp.* and *Seattle Box* courts and define an equitable intervening right appropriate to the facts of the case, courts also have the discretion to refuse an

Absolute Intervening Rights

With absolute intervening rights, the fairness pendulum rests entirely on the accused infringer's side. Absolute intervening rights are, as the name suggests, an absolute bar to recovery:

A reissued patent shall not abridge or affect the right of any person or that person's successors in business who, **prior to the grant of a reissue, made, purchased, offered to sell, or used within the United States, or imported into the United States, anything patented by the reissued patent**, to continue the use of, to offer to sell, or to sell to others to be used, offered for sale, or sold, the specific thing so made, purchased, offered for sale, used, or imported unless the making, using, offering for sale, or selling of such thing infringes a valid claim of the reissued patent which was in the original patent. 35 U.S.C. § 252 (emphasis added).

Absolute intervening rights are straightforward: As long as the accused product does not infringe a valid claim

of the original patent, the patentee has no recourse for products made, purchased, offered to sell, used, or imported prior to reissue. *BIC Leisure Products, Inc. v. Windsurfing Intern, Inc.*, 1 F.3d 1214, 1221 (Fed. Cir. 1993). Period.

This simple defense is good news for your hypothetical client, We'veBeen-DoingThisA LongTime, Inc. The plaintiff can't obtain a judgment of infringement on the V1.0 widgets sold, or any unsold V1.0 widgets stored in inventory, prior to the reissue.

Equitable Intervening Rights

Similar in the principle of fairness but juxtaposed in scope are equitable intervening rights, which benefit the second category of products (i.e., products identical to those in existence prior to reissue and those for which substantial progress was made prior to the reissue). Unlike absolute intervening rights, equitable intervening rights don't carry a complete shield against infringement claims. Instead, when equitable intervening rights are at play, the judge has discretion to fashion an appropriate remedy:

The court before which such matter is in question may provide for

the **continued manufacture, use, offer for sale, or sale of the thing made, purchased, offered for sale, used, or imported as specified, or for the manufacture, use, offer for sale, or sale in the United States of which substantial preparation was made before the grant of the reissue**, and the court may also provide for the continued practice of any process patented by the reissue that is practiced, or for the practice of which substantial preparation was made, before the grant of the reissue, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the grant of the reissue. 35 U.S.C. § 252 (emphasis added).

In view of pre-reissue activity, therefore, the court may grant an accused infringer an equitable intervening right to “continue what would otherwise be infringing activity after reissue under terms the Court deems equitable.” *Seattle Box Co. v. Indus. Crating and Packing Inc.* (*Seattle Box II*), 756 F.2d 1574, 1579 (Fed. Cir. 1985).

equitable intervening right at all. In *Westvaco Corp. v. Int'l Paper Co.*, 991 F.2d 735 (Fed Cir. 1993), the court did just that, finding that it would be unfair to bestow the accused infringer with intervening rights. The accused infringer argued that its \$1 million investment in developing the accused product prior to reissue constituted substantial preparations that entitled it to equitable intervening rights. *Id.* at 743. The district court found that intervening rights were nevertheless contrary to the principles of fairness. *Id.* In a perfunctory opinion, the Federal Circuit upheld the decision, emphasizing that even if an accused infringer made substantial preparations, the statute provides that the court “may” grant the defendant an intervening right. *See also Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1361 (Fed Cir. 2001) (“because Arcan did not have clean hands [due to its willful infringement], the district court did not abuse its discretion in declining to exercise its equitable powers on Arcan’s behalf. Equity’s ‘unclean hands’ doctrine demands that ‘[one] who seeks equity must do equity.’”) Equitable intervening rights are not automatic.

As the above cases illustrated, whether or not a defendant can obtain an equitable intervening right, and the confines of that right, are highly case-specific. The fact-intensive nature of the defense leads to any number of possible equitable intervening rights—from simply being able to sell off inventory to continuing “business as usual.”

Although the availability of equitable intervening rights is good news for We’veBeenDoingThisALongTime, Inc., if only because it’s better than no defense at all, the extent of those intervening rights remains uncertain. You must develop and present a persuasive story explaining why We’veBeenDoingThisALongTime, Inc., is entitled to intervening rights with respect to the V2.0 widgets and the V1.0 widgets sold after reissue, and what the parameters of those intervening rights should be. To start developing that story, of course, you need to gather the underlying facts.

Developing Your Defense

Knowing that We’veBeenDoingThisALongTime, Inc., has both absolute and intervening rights with respect to the accused products, it goes without saying that you need to gather information to prove these defenses.

Because the defense is straightforward, evidence regarding products subject to

absolute intervening rights is relatively easy to gather. Your checklist should contain:

- Sales data prior to reissue;
- Back-up documentation for those sales (e.g., the sales contracts with customers);
- Manufacturing documentation for the accused products made (but unsold) prior to the reissue;
- Inventory documentation for the widgets in inventory as of the reissue; and
- Documentation concerning offers to sell prior to the reissue.

Evidence regarding the products subject to equitable intervening rights requires more creative planning in accord with the factors for determining an equitable intervening rights remedy. Courts fashioning equitable intervening rights look to whether the infringer had orders for the infringing products, whether the infringer made substantial preparations prior to reissue, whether the infringer continued manufacturing before the reissue on advice of its patent counsel, whether the infringing party has noninfringing alternatives (because a minimal cost of conversion would avoid a total loss of the infringer’s investment), whether the infringer has recouped its investment on the infringing product, and whether there is a long period of sales prior to the reissuance from which no damages are available. *Seattle Box II*, 756 F.2d at 1759; *Visto Corp. v. Sprogit Tech., Inc.* 413 F. Supp. 2d 1073, 1089 (N.D. Cal. 2006).

With these factors in mind, you should add to your checklist:

- Technical information and witnesses confirming that the accused products sold prior to reissue are identical to those sold after;
- Financial data for the investment into the equitable intervening rights products and recoupment of that investment or, if unavailable, a sound estimate from the relevant witnesses;
- Evidence that tells the story of your client’s investment in the accused products and the substantial preparation of these products, such as documents and witnesses that will describe the basis for the company’s decision to develop the equitable intervening rights products, the reasons the company invested money

into these products, the number of engineers and other staff who worked on these products, the length of time to develop the products, and special equipment purchased to develop the products;

- Noninfringing alternatives (or more appropriately, the lack thereof) that could be developed from the products in inventory (as well as considerations of how those noninfringing alternatives may impact your arguments concerning noninfringing alternatives in your damages case);
- Any advice given by patent counsel with respect to the patent-in-suit;
- Financial data demonstrating how long your client has been selling the products at issue, and any predecessor products; and
- Any knowledge of the patent-in-suit as originally issued and reliance upon it (as well as considerations of how such reliance may impact the plaintiff’s willfulness arguments).

Finally, because your client has an intervening rights defense, and thus has been making the accused products for quite some time, you also need to make a note to check with your client’s engineers about any prior art.

Conclusion

Intervening rights is grounded in good, old-fashioned fairness. It’s not fair for a defendant to be liable for its activities that didn’t infringe an original patent prior to a reissue; thus, the law gives a defendant an absolute intervening right to these activities. What is fair is less fixed when considering products “in the works” prior to reissue and/or products sold after reissue. The inability to set in stone what is fair regarding such products is reflected in the fluid nature of equitable intervening rights.

A defendant mounting an intervening rights defense must be cognizant of the principle of fairness as the underlying theme. All evidence gathered, as well as arguments made to the court and jury, must be geared toward demonstrating that it’s only fair that your client be given an intervening right in light of its pre-reissue activities. ●

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Post-Prosecution Inequitable Conduct

By Madeline F. Baer

Defendants accused of patent infringement commonly plead unenforceability resulting from inequitable conduct as an affirmative defense. Most often, the accused conduct occurred during prosecution of the patents-in-suit, which is when the lion's share of activity associated with a patent takes place. However, because of *Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp.*,¹ post-prosecution activity is available to support allegations of inequitable conduct as well.

Post-issuance of a patent, the only required action by a patentee is the payment of maintenance fees. In the last few years, activities associated with these payments have been cited in support of an unenforceability defense with mixed success. In several cases, courts have considered maintenance fee-related activities when determining whether or not to find the patents-in-suit unenforceable. Accused infringers shouldn't overlook post-issuance conduct by the patentee when considering possible grounds for an unenforceability defense.

Inequitable Conduct: Materiality and Intent

Proof of inequitable conduct requires evidence of an affirmative misrepresentation of a material fact, failure to disclose material information, or the submission of false information to the U.S. Patent and Trademark Office (PTO), coupled with an intent to deceive the PTO. Both the materiality of the information and the intent to deceive must be established by clear and convincing evidence. Once the court finds proof of both materiality and intent, it must weigh these elements to determine if the action(s) taken are sufficiently egregious to constitute inequitable conduct resulting in unenforceability of the patent.²

Activity that constitutes inequitable conduct violates 37 C.F.R. § 1.56 (Rule 1.56). Under Rule 1.56, everyone associated with the filing and prosecution of a patent application has a "duty of candor" to the PTO, which includes a duty to disclose "all information known to that individual

to be material to patentability." Included in the duty is the obligation to disclose any information that refutes, alone or together with other information, "a prima facie case of unpatentability of a claim," or refutes or is inconsistent with a position the applicant takes in opposing an argument of unpatentability or asserting an argument of patentability. Persons associated with the filing and prosecution of a patent, and charged with the duty under Rule 1.56, include each inventor named in the application, each attorney or agent preparing or prosecuting the application, and anyone else who is "substantively involved" in the application and who is associated with the

Mere negligence, or even gross negligence, is not sufficient to prove the requisite intent to deceive.

inventor, the assignee, or anyone to whom there is an obligation to assign.³

Information is considered material when "a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." Information that's cumulative of already disclosed information isn't material and can't support an inequitable conduct defense.⁴

Though the failure to cite relevant prior art is the most common basis for pleading inequitable conduct, the submission of any false information—whether or not it affects the patentability of a claim—can constitute "material information" and provide a basis for an assertion of inequitable conduct. The submission of affidavits containing false information of any kind

is particularly egregious and is considered highly material.⁵

Materiality doesn't presume intent. The court must find by clear and convincing evidence that the patentee had the "specific intent to deceive the PTO."⁶ Mere negligence, or even gross negligence, is not sufficient to prove the requisite intent to deceive.⁷

Obtaining a verdict of inequitable conduct that results in unenforceability of a patent is rightfully difficult, because the consequences for the patent holder are severe. If the court determines there has been inequitable conduct, the entire patent becomes unenforceable, as may members of its family through infectious unenforceability.⁸ Attorney fees may also be awarded in litigation if the inequitable conduct renders the case "exceptional."⁹

The Federal Circuit Opens the Door

In 2003, the Federal Circuit decided for the first time that post-prosecution activity could constitute inequitable conduct, stating in *Ulead*:

[W]e see no reason why [inequitable conduct] should not extend into other contexts, like the present one, where the allegation is that inequitable conduct has occurred after the patent has issued and during the course of establishing and paying the appropriate maintenance fee. In this context, it is equally important that the PTO receive accurate information from those who practice before it.¹⁰

In *Ulead*, the alleged infringers filed for summary judgment, asserting that the patent-in-suit was unenforceable because the patentee misrepresented its small-entity status to the PTO and underpaid the required maintenance fee, thereby causing the patent to expire. Immediately after the motion was filed, the patentee petitioned the PTO to change its status to a large entity and paid the balance of the fees owed.

The patentee stated that it was unaware of its error in claiming small-entity status. The PTO accepted the payment, and the patents remained in force.

The patentee had been a “small entity,” defined by the PTO as individual inventors, nonprofit organizations, and businesses with less than 500 employees, when it acquired the patent-in-suit. The subsequent grant of licenses to large entities, however, transformed it into a large entity under the PTO’s rules.¹¹

The district court found the patentee engaged in inequitable conduct and entered judgment for the defendants based on the resulting unenforceability of the patent-in-suit.

The Federal Circuit reviewed the applicable PTO rule regarding false claims of small entity status (at that time 37 C.F.R. § 1.28) and found the standards for commission of fraud were consonant with the

conduct. Thus, while opening the door to the possibility of finding inequitable conduct based on post-prosecution behavior, the court left for a later day an actual verdict on the issue, stating:

To be sure, if the patentee makes a request to correct incorrect payment of fees as a small entity knowing that it does not satisfy the good faith error standard of section 1.28(c), the patentee may be found to have engaged in inequitable conduct.¹³

Inequitable Conduct in Post-Prosecution Actions

In 2007,¹⁴ the Federal Circuit affirmed a district court judgment based on a finding that post-prosecution activity constituted inequitable conduct. In *Nilssen*, the court examined the patentee’s conduct during prosecution and found he engaged in

he rightfully believed he was entitled to pay small-entity fees, and that the applicable regulations were ambiguous. The court was not persuaded and affirmed the district court’s judgment, thereby finding all the patents-in-suit unenforceable “due to inequitable conduct improperly claiming small entity status.”¹⁵

In *Nilssen*, the patentee’s pattern of inequitable conduct prior to issuance of the patents was surely a factor in the court’s decision not to believe that the patentee acted in good faith when he erroneously claimed small-entity status post-issuance. However, whereas prior to *Nilssen*, a post-issuance finding of inequitable conduct was only a possibility, after *Nilssen*, there is established precedent for finding inequitable conduct in post-prosecution activity.

Petitions to Revive

The recent district court case, *Abstrax, Inc. v. Dell, Inc.*, provides an example of post-prosecution activity, other than false claims of small-entity status, which can lead to a finding of unenforceability.¹⁶ In *Abstrax*, the defendant argued that the asserted patent was invalid because it had been deliberately abandoned and then improperly revived. According to the defendant, business records established that the prior owner of the patent-in-suit had intentionally abandoned the patent to avoid paying maintenance fees. However, declarations had been submitted to the PTO, attesting to an unintentional lapse in payment. Based on these declarations, the PTO allowed the lapsed patent to be revived.

The defendant’s claim finds support in precedent, stating that unintentional abandonment doesn’t occur where a review has been undertaken and a decision reached that is later determined to have been an error. “An intentional act is not rendered unintentional when an applicant reviewing the same facts changes his mind as to the appropriate course of action to pursue.”¹⁷

The court reviewed the affirmative defenses listed in 35 U.S.C. § 282 and decided that improper revival can’t be raised under § 282 as part of an invalidity defense, because improper revival isn’t a ground specified as a condition for patentability.¹⁸ The court then went on to consider whether the defendant could assert improper revival as an inequitable conduct claim.

Citing *Ulead*, the court determined that submission of the affidavit claiming

Defendants in patent infringement suits shouldn’t forget to review a patent holder’s actions after issuance of the patent-in-suit, as well as any related patents, for inequitable conduct.

court’s standard for inequitable conduct. Therefore, the patentee’s conduct in regard to its payments was properly examined for inequitable conduct.

The court determined that when paying the post-licensing maintenance fees, the patentee had submitted a false affidavit claiming it still had small-entity status, and that this affidavit was material to the PTO’s acceptance of these fees and the survival of the patent. Therefore, a threshold level of materiality was “established as a matter of law.”¹²

However, based on testimony that neither the patent holder nor its attorney were aware that the patent holder was no longer a small entity, the court found there were issues of fact with respect to the patentee’s intent to deceive the PTO that precluded granting summary judgment of inequitable

inequitable conduct both during examination and reexamination. The patentee’s actions included the omission of material information in affidavits, claims of false priority dates, failure to disclose litigation, and withholding material references. The court then turned to the patentee’s post-prosecution actions.

The patentee was an independent inventor and during prosecution was initially entitled to pay small-entity fees. After the initial patents issued, however, the patentee licensed them and subsequent applications to Phillips Electronics North America, a large corporation. Nevertheless, the patentee continued to pay both small-entity issuance and maintenance fees for the majority of his patents. In litigation, the patentee argued that the licenses were through a nonprofit organization, that

unintentional abandonment was material to the PTO's revival of the patent and that a triable issue of fact existed with respect to the patentee's intent to deceive the PTO. According to the court, the patentee's false declaration that the failure to pay maintenance fees was unintentional could constitute inequitable conduct if there was intent to deceive the PTO. Therefore, the defendant should be able to raise an unenforceability defense at trial based on this post-prosecution activity.

Discovery

The issue of post-prosecution inequitable conduct has also found its way into discovery disputes. In *Duhn Oil, Inc. v. Cooper Cameron Corp.*, the defendant issued nine nonparty subpoenas on nine entities, which the defendant was unable to confirm were affiliates of the patentee.¹⁹ The purpose of the subpoenas was to obtain information concerning the number of the patentee's employees to support a claim that the patentee was a very large entity and had been committing inequitable conduct by paying maintenance and other fees as a small entity.

The plaintiff contended that the nonparty subpoenas were unduly burdensome. The court disagreed, stating that the defendant was entitled "to obtain discovery regarding any matter . . . relevant to the . . . defense of any party." Because the defendant had asserted the defense of inequitable conduct and had been unable to obtain information required to pursue its defense, the court allowed the defendant to serve the subpoenas and conduct the wide discovery it sought.²⁰

Conclusion

Based on the cases discussed above, defendants in patent infringement suits shouldn't forget to review a patent holder's actions after issuance of the patent-in-suit, as well as any related patents, for inequitable conduct. The activities found to involve inequitable conduct have thus far been those involving payment of fees. Any post-prosecution activity, however, may involve inequitable conduct, particularly activity where declarations are filed with the PTO. Among those actions that should be scrutinized carefully, and which will likely appear in future allegations of inequitable conduct, are those involving the filing of terminal disclaimers, because these can be filed at any time. Allegations


of inequitable conduct in the course of filing a terminal disclaimer during prosecution have already been used to support an unenforceability defense.²¹ Discovery requests relevant to the post-prosecution activities in issue are proper and shouldn't be forgotten. ●

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Endnotes

1. Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp., 351 F.3d 1139 (Fed. Cir. 2003).
2. Ulead at 351 F.3d at 1144.
3. 37 C.F.R. §1.56 (c).
4. Star Scientific, Inc. v. R.J. Reynolds Tobacco Co., 537 F. 3d 1357, 1367 (Fed. Cir. 2008).
5. Rohm & Haas Co. v. Crystal Chem. Co., 722 F.2d 1556, 1572 (Fed. Cir. 1983) ("In contrast to cases where allegations of fraud are based on the withholding of prior art, there is no room to argue that submission of false affidavits is not material.").
6. Star Scientific, 537 F.3d at 1366.

7. *Id.*
8. *See, e.g.*, Consolidated Aluminum Corp. v. Foseco, 910 F.2d 804 (Fed. Cir. 1990).
9. Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F. 3d 1370, 1386 (Fed. Cir. 2001).
10. Ulead 351 F.3d at 1145.
11. *See id.* at 1142; current rule at 37 C.F.R. § 1.27.
12. *Id.* at 1146.
13. *Id.* at 1150; also Cardiac Pacemakers, Inc. v. St. Jude Med., Inc., 381 F.3d 1371, 1385–86 (Fed. Cir. 2004).
14. Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223 (Fed Cir. 2007).
15. Nilssen at 1233.
16. Abstrax, Inc. v. Dell, Inc., No. 2:07 CV221-DF-CE, 2009 WL 3254973 (E.D. Texas, Oct. 7, 2009)
17. *In re* Maldague, No. 725,592 1988 WL 252399 at *1478. (Com'r Pat & Trademarks 1989).
18. Abstrax 2009 WL 3254973 at *5–6.
19. Duhn Oil, Inc. v. Cooper Cameron Corp., at *6 No. 1:05 CV 014211 OWW GSA, Oct. 15, 2009 WL 3381055 (E.D.Cal. 2009)
20. Duhn Oil, 2009 WL 3381055 at *5–6.
21. *See* Bellehumer v. Bonnett, 127 Fed. Appx. 480, 485 (Fed. Cir. 2005).


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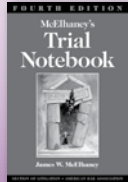


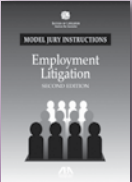
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Can Improper Revival Be a Defense to Infringement?

By Lisa M. Kattan

Had the Patent and Trademark Office (PTO) existed when Benjamin Franklin poked fun at death and taxes, he might have added patent fees to his list of certainties in life.¹ But life is messy, and patent fees, while always due, aren't always paid on time. Forgetting to pay PTO fees can result in abandoned patent applications and prematurely expired patents. Luckily for patentees, the PTO can revive most neglected patents and applications, within certain limits and with yet another fee. In the last 25 years, the PTO has revived approximately 73,000 abandoned patent applications—more than half of which were eventually issued as patents.²

But what happens to the lucky patentee's competitors, who rejoiced at the untimely demise of the patent, only to be sued when it's resurrected? Intervening rights, as provided by 35 U.S.C. § 41(c)(2), offer some equitable relief for parties accused of infringing revived patents. If an accused infringer started infringing (or made substantial preparation to do so) *after* the six-month grace period given to patentees to pay their maintenance fees, but *before* the patent was revived, Section 41(c)(2) authorizes courts to grant the accused infringer a safe harbor to continue its activities, even after the patent is revived.

But Section 41(c)(2) doesn't provide relief for accused infringers who began their activities before the grace period lapsed or after the patent was revived. Nor does Section 41(c)(2) explicitly provide relief to accused infringers when a patent or an application is abandoned because a patentee misses other types of fees or deadlines.³ Section 41(c)(2) is also silent about patents that were revived improperly.

Outside of this safe harbor, what's an accused infringer to do? To add insult to injury, what if the patent was revived improperly, or even fraudulently, and the bulk of the accused infringing activities took place while the patent didn't technically exist? The remedies available to

accused infringers of improperly revived patents have been addressed recently in two patent infringement cases, *Aristocrat Techs. Australia Pty Ltd. v. Int'l Game Tech.* and *Abstrax, Inc. v. Dell, Inc.*⁴

Aristocrat v. IGT

Aristocrat owns patents on a "slot machine game and system with improved jackpot feature." During prosecution, the PTO received Aristocrat's national stage filing fee one day late, and mailed a notice of abandonment to Aristocrat. Months later, Aristocrat filed a petition to revive the application, claiming under 37 C.F.R. § 1.137(b) that its delay in paying the fee was "unintentional." The PTO accepted Aristocrat's petition and granted the patent.

Six days later, Aristocrat sued IGT for infringement of the patent in the U.S. District Court for the Northern District of California. IGT filed for summary judgment that the patent was invalid because it was based on a patent application that had been improperly revived by the PTO.

To revive an abandoned patent application, IGT argued, 35 U.S.C. §§ 133 and 371(d) each requires that a patentee swear that its delay was "unavoidable." Because Aristocrat only swore that its delay was "unintentional" (a lower standard), the PTO shouldn't have revived the patent.

The district court agreed with IGT and granted summary judgment of invalidity, holding that the Patent Act only allows abandoned applications to be revived upon a showing of unavoidable delay. The district court further held that improper revival was a defense to infringement under 35 U.S.C. § 282.

Aristocrat appealed. The Court of Appeals for the Federal Circuit addressed the threshold issue of whether improper revival was a cognizable defense by turning to Section 282, the definitive "catalog of defenses" available in "any action involving the validity or infringement of a patent":

(1) Noninfringement, absence of liability for infringement or

unenforceability,
(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,
(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,
(4) Any other fact or act made a defense by this title.

IGT had argued that improper revival was a defense under subsection 2, because it was a "ground specified in part II of this title as a condition for patentability." Specifically, IGT argued that according to 35 U.S.C. §§ 133 and 371(d), a patent application for which the national stage filing fee is late is abandoned unless the delay was unavoidable. The Federal Circuit dismissed this argument, holding that while it may be true that timely payment of a national stage filing fee is "specified in part II" of the Patent Act, it didn't rise to a "condition for patentability."

The Federal Circuit explained that conditions for patentability are set out in only three sections of the Patent Act—Sections 101, 102, and 103. Not even Section 112 has conditions for patentability; rather Section 112 "merely [has] requirements for obtaining a valid patent." Section 112 can be raised as a defense, but improper revival can't, because Section 112 is specifically identified in subsection 3 of Section 282 as a defense.

Alternatively, IGT argued that improper revival was a defense under Section 282's catch-all provision, subsection 4. The district court had agreed, reasoning that because Sections 133 and 371(d) were part of Title 35, they were necessarily "made a defense" under Section 282.

The Federal Circuit rejected this argument as well, stating a concern that accused infringers, armed with such a broad reading of the catch-all provision, "would inundate the courts with arguments relating to every minor transgression they

could comb from the file wrapper.” The Federal Circuit contrasted provisions such as Section 273⁵ and Section 185,⁶ which Congress explicitly made defenses, with Sections 133 and 371(d), which Congress did not.

The Federal Circuit declined to reach the issue of whether the Patent Act would even permit revival for unintentional, rather than unavoidable, delay. But the court stressed that while improper revival was merely a “prosecution irregularity,” if it were the result of inequitable conduct, the patent would be unenforceable. This case is currently on remand, where it remains to be seen whether IGT will convert its improper revival arguments into an inequitable conduct defense.

Abstrax, Inc. v. Dell, Inc.

Following on the heels of *Aristocrat*, Dell, Inc., tried its luck with the defense of improper revival when it was sued for patent infringement by Abstrax, Inc.

Abstrax’s patent claims manufacturing methods for assembling products with a computer. During the course of discovery, Dell learned that Motorola had prosecuted the patent and later sold it to Abstrax. Soon after the patent issued, but before Motorola sold it, Motorola made a business decision to “drop” the patent and didn’t pay the first maintenance fee due to the PTO. The patent expired in May 2005. Although Motorola didn’t assign the patent-in-suit to Abstrax until May 2007, in November 2006, Abstrax submitted a petition to the PTO to accept the “Unintentionally Delayed Payment of Maintenance Fee in an Expired Patent.” The PTO granted Abstrax’s petition, and the patent was revived.

Abstrax sued Dell the next day. According to Dell, Abstrax sought \$650 million in damages for alleged infringement of a patent, most of which took place, Dell argued, after the patent should have irreversibly expired.

Dell raised the defense of improper revival, with a twist. Dell distinguished *Aristocrat*, arguing that *Aristocrat* had abandoned a patent application, in violation of Sections 133 and 371(d), whereas Abstrax had abandoned an issued patent, in violation of 35 U.S.C. § 102(c). Maybe Section 102(c) would provide the statutory hook that the Federal Circuit found lacking in *Aristocrat*.

In response to Abstrax’s motion for

summary judgment, the U.S. District Court for the Eastern District of Texas rejected Dell’s argument, holding that improper revival of a patent was not a defense under Section 102(c) because the statute forbids the abandonment of an “invention”—not a patent. Without a statutory defense, the court found Dell’s situation was analogous to IGT’s, and the holding of *Aristocrat* applied. But the district court left the door open for Dell to prove that the improper revival was inequitable conduct.

While the Texas district court was considering the issue, Dell petitioned the PTO with evidence from the Texas litigation, which Dell said showed that Motorola’s failure to pay the maintenance fee was

Pursuing a defense of inequitable conduct seems to be the best option for a defendant accused of infringing a patent that was dead.

not unintentional, but rather a deliberate business strategy. Dell also argued that Abstrax’s petition to revive the patent shouldn’t have been accepted by the PTO at all because, at the time, the patent was still owned by Motorola, and Abstrax’s patent lawyer didn’t have authority to file the petition. Perhaps realizing its own petition was a long shot, Dell also asked the PTO to suspend any rules that may otherwise prevent the PTO from considering Dell’s petition.

Five months later, the PTO rejected Dell’s petition. The PTO said that Dell didn’t have standing to file its petition because it was a third party to the ex parte prosecution of the patent. The PTO defended its decision, saying it “simply acts in a ministerial capacity in collecting maintenance payment fees and has no obligation to address the concerns of third

parties with regard to the Office’s fee collection practices.” If other third parties had successfully challenged the reinstatement of a patent, those situations were irrelevant because “the Office’s past actions do not bind the Office in any way.”

Dell did not accept this defeat, however, and next sued the PTO itself under the Administrative Procedure Act in the U.S. District Court for the Eastern District of Virginia.⁷ Dell alleged that the PTO’s rejection of its petition, and the PTO’s acceptance of Abstrax’s petition, were both arbitrary, capricious, and an abuse of discretion. Dell preemptively argued that it had standing to seek relief because it was within a protectable “zone of interests” because, had the patent not been revived, Dell wouldn’t have been sued for \$650 million. Dell further pled that it had no other adequate forum to seek relief, because the Texas court, in the pending infringement case, had already ruled that improper revival was not a cognizable defense.

The PTO answered with a motion to dismiss, arguing Dell didn’t have standing because it was not the patent owner and had no interest in the ex parte revival proceedings at the PTO at the time they occurred. The PTO argued that because Dell had argued that Abstrax lied to the PTO during the proceedings, Dell could obtain relief by raising inequitable relief as a defense to infringement.

Before the Virginia court’s ruling, however, Abstrax and Dell settled the case, and Dell voluntarily dismissed its complaint against the PTO with prejudice.

What’s an Accused Infringer of a Dead Patent to Do?

Under the current law, pursuing a defense of inequitable conduct seems to be the best (and besides intervening rights, perhaps the only) option for a defendant accused of infringing a patent that was, for a time, dead. In *Aristocrat*, the Federal Circuit gave the defendants the green light to pursue an inequitable conduct defense against an improperly revived patent. It can be a powerful defense when it works. Unlike a defense of invalidity, which affects each claim individually, a finding of inequitable conduct wipes out an entire patent—and its progeny. But not all improper revivals are inequitable conduct—only those that are the result of a material addition,

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Exergen: A Long-Awaited Clarification to Pleading Inequitable Conduct

By Holly S. Hawkins and Labriah Lee

No defense in patent infringement litigation has been abused as frequently as the inequitable conduct defense. *Dickson Indus., Inc. v. Patent Enforcement Team, LLC*, 333 F. App'x 514, 519 (Fed. Cir. 2009) (“This court has long recognized that ‘the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.’”). To curb abuse of this doctrine, in August 2009, the Federal Circuit seized upon the opportunity to clarify, and in doing so significantly heighten, the requirements for pleading the defense.

The Evolution of the Inequitable Conduct Defense

The Supreme Court first articulated the inequitable conduct defense, derived from the equitable doctrine of unclean hands, in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814–15 (1945). Under the guidance of *Precision Instrument*, the requirement that the individuals associated with the filing of an application with the U.S. Patent and Trademark Office (PTO) comply with a duty of good faith and candor was first codified in 1977. See 37 C.F.R. § 1.56.

In the decades since the codification of this rule, despite a clear teaching that inequitable conduct requires a showing of a material act or omission coupled with intent to deceive, neither the Court of Customs and Patent Appeals nor the Federal Circuit have provided guidance as to the requirements to properly plead the defense. See, e.g., *King Auto., Inc. v. Speedy Muffler King, Inc.*, 667 F.2d 1008, 1010 (C.C.P.A. 1981) (“Rule 9(b) requires that the pleadings contain explicit rather than implied expression of the circumstances constituting fraud.”); *Ferguson Beauregard/Logic Controls, Div. of Dover Res., Inc. v. Mega Sys., LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003) (stating, in dicta, that inequitable conduct “must be pled with particularity.”). With no clear direction from the court, this affirmative defense too often was included in an

accused infringer’s answer as a matter of course. See *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988) (“the habit of charging inequitable conduct in almost every major patent case has become an absolute plague”). Against this backdrop, in August 2009, the Federal Circuit revisited the inequitable conduct defense at the pleadings stage.

The Federal Circuit Clarifies the Requirements

In *Exergen Corp. v. Wal-Mart Stores, Inc.*, SAAT, the accused infringer, filed a motion to amend its answer to allege inequitable conduct in the procurement of the patent-in-suit by “Exergen [and] its agents and/or attorneys,” who it said failed to disclose during prosecution material references of which they were aware and made arguments to the PTO that contradicted statements on Exergen’s website that were material to the patentability of the claims of the patent-in-suit. 575 F.3d 1312, 1325–26 (Fed. Cir. 2009). The district court denied SAAT’s motion and, following a jury verdict for Exergen, SAAT appealed, among other things, the district court’s denial of its motion for leave to amend. *Id.* at 1312.

On review, the Federal Circuit first noted that “‘inequitable conduct, while a broader concept than fraud, must be pled with particularity’ under Rule 9(b),” which requires that “[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity.” 575 F.3d at 1326 (quoting *Mega Sys., LLC*, 350 F.3d at 1344). Thus, “[a] pleading that simply avers the substantive elements of inequitable conduct”—that “(1) an individual associated with the filing and prosecution of a patent application made an affirmative misrepresentation of a material fact, failed to disclose material information, or submitted false material information; and (2) the individual did so with a specific intent to deceive the PTO”—“without setting forth the particularized factual bases for the allegation, does not satisfy Rule

9(b).” *Exergen Corp.*, 575 F.3d at 1326–27 & n.3. The court then adopted the Seventh Circuit’s standard for pleading fraud with particularity, holding that to properly plead the “circumstances” prong of inequitable conduct, “Rule 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO.” *Id.* at 1327; see also *DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7th Cir. 1990).

Against this newly articulated standard, the court turned to the specifics of SAAT’s inequitable conduct allegations. Regarding the “who” component of the test, the court stated that a pleading must “name the specific individual” associated with the application “who both knew of the material information and deliberately withheld or misrepresented it.” *Exergen Corp.*, 575 F.3d at 1329 (citing 37 C.F.R. § 1.56(a) (“Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the [PTO]. . . .” (emphasis in citation))); Manual of Patent Examining Procedures § 2001.01 (8th ed., rev. 2, May 2004) (explaining that “the duty applies only to individuals, not to organizations”). Simply referring to the patentee or “its agents and/or attorneys” is insufficient. *Exergen Corp.*, 575 F.3d at 1329.

The court next agreed that SAAT had not identified the requisite “what” and “where” of a proper inequitable conduct allegation. *Id.* Relying on 37 C.F.R. § 1.56(a), the court held that the party alleging inequitable conduct must “identify which claims, and which limitations in those claims, the withheld references are relevant to, and where in those references the material information is found” to pass muster. *Id.* (citing 37 C.F.R. § 1.56(a) (“The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned.” (emphasis added))).

The court stated that the “how” and “why” requirements are satisfied if the

pleading “identif[ies] the particular claim limitations, or combination of claim limitations, that are supposedly absent from the information of record” i.e., “‘why’ the withheld information is material and not cumulative, and ‘how’ an examiner would have used this information in assessing the patentability of the claims.” *Exergen Corp.*, 575 F.3d at 1329-30 (citing 37 C.F.R. § 1.56(b)(1) (information is material if it “establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim”)). The court didn’t address the “when” requirement.

The court also held that SAAT’s allegations didn’t “give rise to a reasonable inference of scienter, including both (1) knowledge of the withheld material information or of the falsity of the material misrepresentation, and (2) specific intent to deceive the PTO.” *Id.* at 1330. The court held that “knowledge,” “intent,” and other states of mind “may be averred generally,” so long as “the pleadings allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind.” *Id.* at 1327. While SAAT alleged inequitable conduct by Exergen’s “selective citation” of references to the patent examiner, the court stated that the fact that an applicant disclosed a reference in one application and failed to do so in a related application isn’t sufficient to meet the threshold level of deceptive intent needed to properly plead inequitable conduct. *Id.* at 1331. For these reasons, the court affirmed the district court’s denial of SAAT’s motion for leave. *Id.*

District Courts Address Challenges to Inequitable Conduct Allegations

Cases following *Exergen* have been mixed.¹ For example, in *Braun Corp. v. Vantage Mobility Int’l, LLC*, after discovery had closed, Vantage Mobility sought leave to amend its answer to allege inequitable conduct by the inventors and the plaintiff’s representative for misrepresentations and failing to disclose three highly material prior art references during prosecution of the patent-in-suit. No. 2:06-CV-50-JVB-PRC, 2010 WL 403749, at *1 (N.D. Ind. Jan. 27, 2010). Braun opposed the motion, arguing, among other things, that Vantage Mobility’s motion was futile under *Exergen*. *Id.* at *4–5.

The district court disagreed. Vantage Mobility identified the specific individuals who committed the alleged inequitable

conduct, the claims to which the allegedly withheld references related, when the individuals learned of the references, which portions of the references contained the relevant withheld material, and the manner in which the examiner would have used the withheld information in assessing the patentability of the claims, and thus passed muster. *Id.* at *5–6. Although Braun argued that Vantage Mobility’s pleading didn’t provide the requisite particularity, the district court noted that “[t]he heightened pleading requirements of Rule 9(b) do not require that [the defendant] definitively prove the merits of its claim. What is determinative here is that [the plaintiff] was given fair notice of the basis for [the defendant’s] inequitable conduct defense.” *Id.* at *5. “Given the liberal standard that applies when deciding whether to grant a motion to amend an answer, the [district court found], in the interest of justice, that the instant Motion should be granted.” *Id.* at *9.

Two decisions from the District of Delaware found inequitable conduct allegations insufficient.

In contrast, two decisions from the District of Delaware found inequitable conduct allegations insufficient. In both cases, the “circumstances” prong was found to be well pled, but the “intent” prong was held to be insufficient. In *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, Magistrate Judge Stark recommended that the patentee’s motion to dismiss and strike be granted, in part allowing the defendant to proceed on only a subset of its claims, as the alleged infringer didn’t “allege any facts to show that [the individual accused of the inequitable conduct] was aware that any of the statements he made to the PTO were false or misleading.” No. 08-309-JJF-LPS, 2009 WL 4928024, at *8 (D. Del. Dec. 18, 2009).

Similarly, in *Robert Bosch, LLC v. Pylon Mfg. Corp.*, the accused infringer sought

leave to add an inequitable conduct defense based on the assertion that one of the inventors of the patent-in-suit hadn’t reviewed a related application, but nevertheless submitted an affidavit to the PTO, stating that he had. No. 08-542-SLR, 2009 WL 3366967, at *2 (D. Del. Oct. 19, 2009). The court stated that although “candor is the hallmark of the patent system and that false statements, about even ministerial acts, can have significance as to the survival of a patent in the review process,” the district court nevertheless held that the accused infringer failed to satisfy the “intent” prong of inequitable conduct because it provided “insufficient allegations of underlying facts from which [the court] may reasonably infer that the material misrepresentation was made with a specific intent to deceive the PTO.” *Id.*

Pleading Inequitable Conduct in Light of *Exergen* and Its Progeny

Regardless of the outcome of these and other post-*Exergen* challenges to inequitable conduct allegations, *Exergen* and its progeny make clear that a pleading of inequitable conduct must be detailed regarding the circumstances of the alleged inequitable conduct to survive a patentee’s challenge. However, as demonstrated by *Power Integrations* and *Robert Bosch*, the intent pleading requirement, though not as stringent, can’t be ignored for an inequitable conduct allegation to pass muster under *Exergen*. ●

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Endnote

1. A review of all of the district court cases that have addressed *Exergen*-based challenges to inequitable conduct allegations is beyond the scope of this note. Additional district court cases that have applied *Exergen*’s standard for inequitable conduct allegations are as follows: *CIVIX-DDI, LLC v. Hotels.com, L.P.*, No. 05C6869, 2010 WL 431467 (N.D. Ill. Feb. 1, 2010); *Pall Corp. v. Cuno Inc.*, No. CV 97-7599, 2010 WL 301954 (E.D.N.Y. Jan. 20, 2010); *Semiconductor Energy Lab. Co. v. Samsung Elec. Co.*, No. 09-cv-01, 2010 WL 55847 (W.D. Wis. Jan. 5, 2010); *HTC Corp. v. IPcom GmbH & Co., K.G.*, No. 08-1897, 2009 WL 4363206 (D.D.C. Dec. 3, 2009); and *Lincoln Nat’l Life v. Transamerica Fin. Life Ins. Co.*, No. 1:08-CV-135, 2009 WL 4547131 (N.D. Ind. Nov. 25, 2009).

Copyright Misuse: An Overview

By George Carr

In recent years, the affirmative defense of “copyright misuse” has been clarified and broadly recognized, and is now fairly well established. Litigators as well as consulting counsel should be aware of this developing doctrine.

Lack of Consistent Precedent

Over the years, courts have issued contradictory decisions regarding the parties’ relative burdens of proof and whether defenses to copyright infringement are “affirmative” or not. For instance, although it’s quite settled that the copyright holder must establish the validity of the copyright as an element of its case in chief, courts have split on whether defendants’ challenges to copyright validity (such as lack of copyrightability, insufficient originality, multiple authorship, and the like) are offered to rebut the presumption of validity that arises from the issuance of a registration or constitute an affirmative defense to an infringement claim.

Recently, however, courts have begun to make definitive precedent on these topics, aided by articulate and diligent counsel for the parties before them, and consensus is building among trial and appellate courts. One of the beneficiaries of this trend toward consistency is the doctrine of copyright misuse. While it hasn’t yet been formally recognized by the U.S. Supreme Court, it’s recognized and well defined in several circuits as an affirmative defense to infringement. It’s somewhat analogous to patent misuse, which was first recognized by the Supreme Court in 1942 after years of discussion in the lower courts.

Because copyright misuse doctrine has only recently become stable, contemporary lawyers should exercise caution when citing to or relying on older cases. Older cases describe a wide variety of misconduct by the copyright holder as “copyright misuse,” without any meaningful effort to define the doctrine or differentiate it from generic “unclean hands” doctrine. This includes actions that present-day courts would interpret as invalidating the copyright entirely, such as omitting material information from the copyright registration application or re-registering a work to extend the period of copyright protection. As will be seen be-

low, copyright misuse only “suspends” the enforceability of a copyright, but it can be cured, unlike fraud on the copyright office, which invalidates the registration entirely.

Older cases even draw the boundaries of copyright misuse broadly enough to include something that might better be described as a waiver or even civil entrapment, such as a case where a copyright holder was prevented from claiming infringement by a live musical performance after it refused to provide a list of copyrighted works that should not be performed. Citation and quotation from these older authorities should be handled cautiously and may sometimes require translation to modern vocabulary or legal concepts.

***There is no
element-by-element
description of exactly
what conduct
constitutes
copyright misuse.***

Copyright Misuse

It’s now settled that “copyright misuse” is an affirmative defense, which must be pled and proven by an accused infringer. Like patent misuse, the defense arises out of a copyright holder’s attempts, whether successful or not, to unfairly claim rights broader than those granted by the copyright itself.

There is no element-by-element description of exactly what conduct constitutes copyright misuse; in this respect, it’s like unjust enrichment, unclean hands, or other equitable doctrines that maintain vagueness as a virtue. Instead, just like patent misuse, it’s broadly defined as using a copyright

to secure an exclusive right or limited monopoly not granted by the copyright office, contrary to public policy.¹ Most often, the defense applies where the rights holder has included terms in its typical license agreement that are unreasonably anticompetitive, such as prohibiting the use of competing products,² or prohibiting the licensee from independent creation of a noninfringing product that would compete with the copyrighted product or would contribute to the public good.³ The defense also applies when a rights holder attempts to mislead or defraud an infringer by unfairly threatening infringement penalties that exaggerate or misstate the law,⁴ or by claiming copyright in a work that is at least partly in the public domain.⁵

Where the affirmative defense of copyright misuse has been proven, the copyright holder is prevented from enforcing its copyright until it demonstrates that it has purged the misuse by abandoning the inappropriate conduct, and in cases where the misuse had actual anticompetitive consequences, the rights holder must prove that those consequences have dissipated.⁶ If this isn’t shown, the copyright can’t be enforced.

Tips for Transactional and Consulting Counsel

When advising copyright holders, it should be stressed that unfair, misleading, or anticompetitive conduct can effectively invalidate a copyright, even after a registration has issued. Counsel should endeavor to review license agreements, cease-and-desist letters, and other documents relating to the copyright at issue, to ensure that no misleading statements are made and that no rights to monopoly, exclusivity, or restraint of creativity or competition are provided in such a way that misuse can be credibly alleged by an infringer. Note that there is inherent tension between the copyright owner’s right to restrict use of a licensed product with the licensee’s right to have meaningful use of the product⁷ and to create similar creative products that contribute to the public good. Carefully worded license agreements are a necessity.

Enforcement counsel should take special care in alleging the scope of the copyright

registration. Any difference, even a slight one, between the registered claim and the accused work should be carefully described in the initial communication (usually a cease-and-desist letter) to the accused infringer. A rights holder who claims infringement in a musical work would be wise to reveal that the lyrics are in the public domain; a rights holder who claims infringement in a software program would be wise to reveal that some of the source code was generated by “off-the-shelf” developers’ tools. An unjustified claim of copyright in every element of the allegedly infringed work may give rise to a meritorious misuse defense, even where infringement is weakly contested.

Tips for Litigation Counsel

Counsel for plaintiff copyright holders should investigate, prior to filing a complaint, whether any previous conduct or contracts might expose the client to a claim of misuse. If so, the client may be well advised to cease and purge such conduct before filing suit to minimize the effectiveness of this defense. Also, in cases where copyright misuse may be an issue, the plaintiff’s counsel should vigorously investigate any evidence of the defendant’s related misconduct, because a defendant must itself have comparatively clean hands to claim the equitable defense of misuse.⁸ While copyright infringement itself doesn’t constitute unclean hands in the context of the misuse defense, other fraudulent, anticompetitive, or inequitable conduct will prevent an infringing defendant from asserting the defense and should be investigated before summary judgment briefing.

Counsel for accused infringers should plead misuse as an affirmative defense whenever the facts permit. (Many other useful defense theories, such as registrant fraud on the copyright office, lack of originality, or lack of copyright ownership, should be pled, when warranted by facts, as affirmative defenses, even though many scholars and practitioners believe they need not be affirmatively proven by the defense. You can be sure that the one time they are not so pled, you will find yourself before a trial judge who will rule that they should have been.) Counsel asserting the defense should also seek discovery of all communications by the plaintiff relating to the copyright and license agreements to non-parties; copyright misuse bars enforcement of the copyright, even when the defendant is not a victim of the misuse.⁹

Conclusion

Copyright misuse has reached a state of codification and uniformity where it’s useful and widely available in litigation for copyright infringement. But the stability of this doctrine means that its use has become more frequent and will continue to do so. Accordingly, the costs of bringing an infringement claim are likely to rise. Accused infringers are entitled (and likely) to assert a misuse defense early in an infringement case, and thereafter obtain discovery on the rights holder’s licensing and enforcement activity. Where such activity has been substantial, the infringer’s investigation may well uncover conduct that is sufficiently anticompetitive, or unfairly threatening, to justify denying summary judgment on liability, and in turn requiring a trial.

Copyright holders should take care in licensing their property to avoid arguably anticompetitive license terms. They should also retain counsel to review any enforcement efforts—threat letters, cease-and-desist demands, takedown notices, and the like—before they are sent to minimize the chance of any misleading statements about infringement penalties or the scope of the claimed copyright. Any such questionable conduct could form the basis of a misuse defense. ●

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Endnotes

1. Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 977 (4th Cir. 1990).
2. Practice Mgmt. Info. Corp. v. Am. Med. Assn., 121 F.3d 516, 520–521 (9th Cir. 1997).
3. Video Pipeline, Inc. v. Buena Vista Home Ent., Inc., 342 F.3d 191, 204 (3d Cir. 2003) (“Anti-competitive licensing agreements may conflict with the purpose behind a copyright’s protection by depriving the public of the would-be competitor’s creativity.”).
4. Vogue Ring Creations, Inc. v. Hardman, 410 F. Supp. 609, 616 (D.R.I. 1976).
5. F.E.L. Publ’ns, Ltd. v. Catholic Bishop of Chicago, 214 U.S.P.Q. 409, 413 n.9 (7th Cir. 1982).
6. Altmayer-Pizzorno v. L-Soft Int’l, Inc., 302 Fed. Appx. 148, 156–157 (4th Cir. 2008).
7. S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081 (9th Cir. 1989); ITOFCA, Inc. v. Mega Trans Logistics, Inc., 322 F.3d 928 (7th Cir. 2003) (discussing the scope of right to use under

license agreement).

8. Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 794 (5th Cir. 1999).

9. Lasercomb America, 911 F.2d at 979.



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Rule Against Perpetual Contracts

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terminable only for cause. Or, if the licensor doesn't initially invoke the rule when terminating the license, it can later use the rule defensively to justify its actions when sued by its licensee for wrongful termination. Nevertheless, a licensee may be able to invoke an equitable exception to this rule by demonstrating that its business depends on the continued existence of the license, that the contract terms anticipate a truly perpetual relationship, and that the harm to the licensee from cancellation outweighs any theoretical benefit that might accrue from adherence to a general prohibition on such relationships.

Not All "Perpetual" Contracts Are Truly Perpetual

Although there is a strong public policy in favor of freedom of contract, many courts hold that contracts of indefinite duration are an exception to that general rule. As explained by the Illinois Supreme Court, perpetual contracts are against public policy because:

"Forever" is a long time and few commercial concerns remain viable for even a decade. Advances in technology, changes in consumer taste and competition mean that once profitable businesses perish regularly Men and women of commerce know this intuitively and achieve the flexibility needed to respond to market demands by entering into agreements terminable at will. *Jespersen v. Minnesota Mining & Mfg. Co.*, 700 N.E.2d 1014, 1017 (Ill. 1998).

Not every contract that claims to be perpetual, however, will be viewed by the courts as void as *contra bonos mores*. For example, in some states, the parties' clearly expressed intent that the contract be treated as perpetual will be sufficient for courts to uphold the contract in accordance with its terms. See, e.g., *Zee Med. Distrib. Ass'n v. Zee Med., Inc.*, 80 Cal. App. 4th 1, 11-12 (Cal. Ct. App. 2000) ("Express indefinite contractual terms of duration for so long as the parties perform, i.e.,

until conditions for breach or termination arise, have been approved by our Supreme Court"). For this reason, it's important for licensors and licensees who contemplate asserting this rule to first determine how the courts in their jurisdiction are likely to treat the underlying agreement. As implied in the above quotation from the California court in *Zee Medical*, there is a relatively bright line for cases where the contract fails to specify any required performance standards or grounds for termination for cause. Because the absence of any such term indicates the parties didn't adequately contemplate the realities of their business relationship, courts have uniformly had no problem finding such contracts to be unacceptably indefinite in duration and therefore terminable at will.

The outcome is less clear in cases where the contract is expressly perpetual (or calls for unlimited, automatic renewals) and specifies grounds for terminating the agreement. In such situations, the courts often look to whether the stated grounds for termination are exclusive or nonexclusive, as well as whether the contract allows for one side and/or the other to create a "termination-triggering event" at its own option. See *A.T.N., Inc. v. McAirlaid's Vliesstoffe GmbH & Co. KG*, 557 F.3d 483, 487 (7th Cir. 2009). Where a contract provides a nonexclusive list of termination grounds, courts are likely to view the term as indefinite and the contract thus terminable at will. See *Jespersen*, 700 N.E.2d at 1016 ("[T]he language of the termination provision is permissive and equivocal; a party 'may' terminate for the stated grounds—the clear inference being that those grounds are not the sole or exclusive basis for termination"). Moreover, because contracts are almost always terminable for material breach, merely setting out examples of material breach in the termination section generally won't turn a perpetual contract into one of a fixed duration. See *Trient Partners I Ltd. v. Blockbuster Entm't Corp.*, 83 F.3d 704, 709 (5th Cir. 1996) ("[A]n agreement which is otherwise indefinite in duration and terminable at will cannot be converted into an agreement of definite duration by the mere transcription of such universals within the text of the contract."). On the other hand, if the stated grounds for termination are expressly exclusive

(i.e., are the only grounds on which the contract may be terminated), the courts will generally view the contract as having a fixed term. See *Lichnovsky v. Ziebart Int'l Corp.*, 324 N.W.2d 732, 737 (Mich. 1982) ("[T]he rule of construction relied on by Ziebart does not apply where the agreement, although of uncertain duration, contains a provision specifying the manner of termination.").

Every Rule Has Its Exceptions

If rigidly enforced, the rule that contracts of indefinite duration are terminable at will can have disastrous consequences for a licensee that entered into a contractual relationship only because it had received written assurance the relationship couldn't be terminated by the licensor, other than termination for cause. For example, a licensee of a trademark or trade secret whose business is built around the right to use the licensed property could have its entire business model destroyed by a licensor who attempts to use this rule to terminate the agreement without cause.

A good example of such a licensee is Deutsche Wurlitzer GmbH, which found itself defending a lawsuit for trademark infringement immediately after the purported termination at will of its perpetual trademark license. In 1985, The Wurlitzer Co.—which for many years had produced jukeboxes, pianos, and other musical equipment under its famous Wurlitzer mark—was broken up into two businesses. The Wurlitzer musical instruments business was initially retained by Wurlitzer, along with all the Wurlitzer trademarks. Deutsche Wurlitzer, a former Wurlitzer subsidiary responsible for the jukebox business, was spun off and sold to a third party. To continue the operations of the jukebox business, Deutsche Wurlitzer was granted a perpetual license to use the Wurlitzer trademark. Indeed, the right to continue using that mark on jukeboxes was arguably the most valuable asset acquired in the 1985 transaction. By the time of the referenced lawsuit, Baldwin Piano, Inc., had succeeded to the Wurlitzer musical instruments business and the Wurlitzer trademarks, as well as to the role of licensor of the mark to Deutsche Wurlitzer.

Despite the essential nature of the Wurlitzer trademark license to Deutsche Wurlitzer's ongoing business, Baldwin

decided in 2003 to cancel the license without cause, relying on the general rule—to which Illinois courts had subscribed—that perpetual contracts are terminable at will. Concomitant with termination, Baldwin filed suit in the Northern District of Illinois against Deutsche Wurlitzer for trademark infringement, seeking *inter alia*, an injunction against continued use of the Wurlitzer mark. *See Baldwin Piano, Inc. v. Deutsche Wurlitzer GmbH*, 2004 U.S. Dist. LEXIS 114 (N.D. Ill. 2004).

Considering the fame of the Wurlitzer mark for jukeboxes, the loss of the right to use the mark would have essentially destroyed Deutsche Wurlitzer’s business. Notwithstanding these commercial realities, the district court looked to Illinois common law and found the parties’ license agreement to be similar to the contract in *Jespersen*. The license agreement was thus held to be terminable at will and properly cancelled by Baldwin. *See id.*

On appeal, the Seventh Circuit took a very different view of the license agreement, one that situated the license in the larger context of the sale of the Wurlitzer jukebox business. The appellate court observed that it’s important to choose a reading of the contract “that makes commercial sense, rather than a reading that makes the deal one-sided.” *Baldwin Piano, Inc. v. Deutsche Wurlitzer GmbH*, 392 F.3d 881, 883 (7th Cir. 2004). Although the court acknowledged the need to construe the license agreement within the decisional framework of cases like *Jespersen* and *Lichnovsky*, in the end, it was the economic reality of the underlying transaction that drove the court’s decision reversing the district court’s rulings. As the 1985 spinoff of Deutsche Wurlitzer involved the sale of an ongoing concern, that transaction wouldn’t have been commercially viable unless the buyer enjoyed “protection against opportunistic behavior by Deutsche Wurlitzer’s former parent.” *Deutsche Wurlitzer*, 392 F.3d at 883. For that reason, the deal couldn’t have been intended to give Baldwin Piano “the unilateral right to pull the rug out from under the Wurlitzer-brand jukebox business.” *Id.* at 884.

The court was careful to distinguish the licensing arrangement between Baldwin and Deutsche Wurlitzer from the more common context of license agreements, namely a distribution contract or other form of partial vertical integration. In those relationships, “[a] combination

of the need for flexibility in relational contracts and the fact that both sides have an ongoing interest in accommodating the other makes a presumption of terminability sensible.” *Id.* at 885. In sharp contrast, however, the Wurlitzer agreement didn’t depend on the continued coordination of activities between Baldwin and Deutsche Wurlitzer, but rather was designed to allow the two sides to operate independently.

meats and related food products, sold its prepared vegetable division to Michaelangelo Alvarez and granted Alvarez a license to use the Scala’s name and mark in connection with the business. The agreement didn’t specify a specific duration or any grounds for termination. *Scala’s Original Beef & Sausage Co. v. Alvarez*, 93 U.S.P.Q.2d 1300, 1301-02 (N.D. Ill. 2009). Less than a year after the transac-

The general rule that contracts of indefinite duration are terminable at will may offer an IP licensor a way out of an unprofitable licensing arrangement where termination for cause is not an option.

Id. at 885-86. For these reasons, the court ruled this particular “perpetual” agreement to be an exception to the general rule that contracts of indefinite duration are terminable at will, and it ordered the district court to enter judgment in favor of Deutsche Wurlitzer.

Using These Rules in IP Litigation

As with other business arrangements, the relationship between IP licensors and licensees may become strained over time. The general rule that contracts of indefinite duration are terminable at will may offer an IP licensor a way out of an unprofitable licensing arrangement where termination for cause is not an option, and it may provide a defense to the licensor from a later claim by the licensee for wrongful termination. On the other hand, licensees should be aware of the equitable exception to this rule created by the Seventh Circuit in the *Deutsche Wurlitzer* case, as it may help provide a means of defeating a licensor’s opportunistic attempt to terminate a valuable license agreement without cause.

A recent post-*Wurlitzer* case in the Northern District of Illinois illustrates how these rules and exceptions may arise in IP litigation. In 2008, Scala’s Packaging Co., Inc. (Scala’s), a distributor of Italian

meats, terminated the license without cause and demanded that Alvarez immediately cease using the Scala’s name and mark. *Id.* at 1302. Scala’s then filed suit against Alvarez and sought a temporary restraining order (TRO) against continuing use of the Scala’s mark. *Id.*

At the TRO hearing, Scala’s argued that its termination of the agreement was valid because the lack of term and termination provisions in the license agreement made it one of indefinite duration and, thus, terminable at will. Alvarez, on the other hand, urged the court to find that his trademark license was granted in the context of a transaction that was commercially analogous to the transaction in the *Deutsche Wurlitzer* case. *See id.* at 1304. The court found the agreement at issue to be different from the *Deutsche Wurlitzer* license, as “unlike the agreement here, the agreement in [*Deutsche Wurlitzer*] contained an exclusive list of reasons for termination.” *Id.* The court found that Scala’s had a “better than negligible” chance of succeeding on the merits of its claim, but it denied the request for a TRO because of the hardship such a remedy would impose on Alvarez. *Id.* at 1306. The court, however, acknowledged the Seventh Circuit’s *Deutsche Wurlitzer* rationale by noting that an “important legal

question at the preliminary injunction (and perhaps summary judgment) stage of the case will be the extent to which the sparse terms of the agreement . . . must be informed by the economic realities and other contemporaneous circumstances at the time that the agreement was signed.” *Id.* at 1304.

Conclusion

The driving force behind the appellate decision in *Deutsche Wurlitzer* was the court’s desire to prevent the clear inequity

that would flow from allowing an arbitrary termination of the license at issue there. Although the “Wurlitzer exception” to the general rule against contracts of indefinite duration won’t apply to most intellectual property license agreements, it’s important for licensors and licensees alike to bear in mind that courts generally prefer contract interpretations that make commercial sense. Awareness of both the general rule and the equitable exception to it may save your clients from entering into a business

relationship with an unexpected outcome that could have disastrous consequences. ●

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Permanent Injunction after eBay

Continued from page 1

In *eBay*, the Supreme Court held that a patent plaintiff must demonstrate his or her entitlement to injunctive relief based on the same four factors that have traditionally applied to everyone else:

1. There is irreparable injury.
2. The remedies available at law, such as monetary damages, will be inadequate to compensate for that injury.
3. On considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted.
4. The public interest wouldn’t be served by a permanent injunction.

In reversing the Federal Circuit’s prior general rule of nearly always granting a permanent injunction following a finding of patent infringement, the Court noted that “the creation of a right is distinct from the provision of remedies for violations of that right.”² Since *eBay* was decided, the rate of permanent injunctions granted after a finding of infringement dropped from 95 percent to 72 percent, as of October 2008.³

Laches in Patent Cases

A successful laches defense bars a plaintiff from recovering damages resulting from infringements that occur prior to filing the suit. A finding of laches requires that a defendant prove “(1) the plaintiff delayed filing suit for an unreasonable and inexcusable length of time from the time the plaintiff knew or reasonably should have

known of their claim against defendant, and (2) the delay operated to the prejudice or injury of defendant.”⁴ Material prejudice to the defendant can be economic or evidentiary. Examples of economic prejudice include loss of investments that might not have occurred had the suit been brought earlier or the implementation of long-term business strategies based on the assumption that a key product is non-infringing. Evidentiary prejudice arises when the delay prevents a defendant from presenting a full and fair defense. A six-year delay from the time the patent owner acquires actual or constructive knowledge of the alleged infringing activity is presumed unreasonable, and the burden shifts to the patent owner to provide an adequate excuse for the delay.⁵

Injunctive Relief after an Extended Delay in Bringing Suit

Bright-line rules about when an extended delay may or may not prevent permanent injunctive relief haven’t developed post-*eBay*. Prior to the *eBay* decision, the Federal Circuit was clear that laches, unlike estoppel, barred pre-filing infringement damages, but not post-filing damages or injunctive relief.⁶ However, the issue hasn’t been definitively addressed in the post-*eBay* world, where infringement no longer raises a presumption that a permanent injunction should issue. A number of courts have followed the older rule that laches doesn’t bar injunctive relief, and can be read to stand for the proposition that delay in bringing suit is irrelevant to the grant or denial of a permanent injunction. Many of these cases can be distinguished from patent cases because they involve trademark infringement, where public confusion—not so much a

concern in a patent infringement context—is regarded as a strong factor in favor of injunctive relief.⁷

Nonetheless, while a laches defense as such only bars damages accrued prior to the suit, if a defendant successfully proves it, the plaintiff may have difficulty meeting the four-factor permanent injunction test required under *eBay*. In particular, facts that give rise to a successful laches defense may weigh against three of the four factors of the permanent injunction test: irreparable harm, balance of hardships, and public interest. First, an unreasonable and inexcusable delay may be evidence that the harm isn’t irreparable—if it were, why wouldn’t the plaintiff have acted sooner? Second, if the defendant has been prejudiced by the plaintiff’s delay, it will be more difficult for the plaintiff to show that the balance of hardships tips in its favor. Third, if a product has been available for a long enough time for consumers to have come to depend on it, a permanent injunction may disserve the public interest by removing that product and disrupting the marketplace—an effect that is even more dramatic for products such as drugs or medical equipment.

As with equitable defenses, decisions to grant or deny injunctive relief or to limit a defendant’s liability under a laches defense are within the district court’s discretion.⁸ In addition—consistent with the hypothesis that a sufficiently emergent situation will prompt a plaintiff to act expeditiously—instances of procrastinating plaintiffs seeking permanent injunctions, particularly on appeal, are comparatively rare. Consequently, broad classifications of cases addressing permanent injunctive relief in the face of long delays are difficult. Nevertheless, there is case law support for the hypothesis that a long delay may bar a

Advice for Patent Litigants

Although the four-factor test may result in a spectrum of outcomes, here are some factors litigants can consider when seeking to establish or defend against permanent injunctive relief in patent cases involving a lengthy delay.

Establishing eBay Factors as a Plaintiff

- A showing of ongoing economic damage will help prove irreparable harm.
- Irreparable harm is more likely to be found if the infringer is a direct competitor causing loss of profits, goodwill, market share, ability to license, or diminished brand name recognition.
- Establishing a good reason for delay (e.g., negotiating with the defendant or uncertainty as to the defendant's earlier infringement) can not only defeat the laches defense, but may also offset the effect of the delay on permanent relief.
- Evidence that the volume or scope of infringement expanded significantly closer to the filing of the action will offset the effect of the delay.
- A plaintiff should still stress the public interest in strong patent protection absent evidence that the defendant's infringing products or services are related to public health or some other critical public interest.

Avoiding Permanent Injunctive Relief as a Defendant

- A finding of laches, or at least a long delay, will weigh against the plaintiff. Because there is a six-year presumption regarding the elements of laches, a delay of six years or longer will raise serious questions as to irreparable harm to the plaintiff, and may affect other factors as well.
- Unfair prejudice, such as the loss of investment or large expenses incurred because of the delay, may tip the balance of harms in the defendant's favor.
- While not directly related to delay, a showing that the defendant isn't in direct competition with the plaintiff may lead the court to look harder at the plaintiff's proof of irreparable harm.
- A showing that access to facilities or products upon which the public has come to depend during the delay period will also help to fend off an injunction.

patent owner not only from receiving damages for infringements prior to filing suit, but also from injunctive relief. At the very least, laches will likely result in a refusal to enjoin sales of or services relating to infringing products made or sold during the pre-filing delay.

Irreparable Injury

In the context of a preliminary injunction, the Federal Circuit has held that that “[a]n unreasonable delay suggests that the plaintiff may have acquiesced in the infringing activity, or that any harm suffered by the plaintiff is not so severe as to be ‘irreparable.’”⁹ In *Richard Feiner & Co., Inc. v. Turner Entertainment Co.*, the court noted that the presumption of irreparable harm established by a prima facie case of copyright infringement can be rebutted by a delay in bringing suit. In determining whether a delay would rebut a presumption of irreparable harm, the court considered the length of the delay and the plaintiff's reason for the delay.

There is no longer a presumption of irreparable harm in patent cases after *eBay*, and a delay may be considered relevant to a finding with respect to this factor. Courts that have considered delay in bringing suit under the *eBay* framework for permanent injunctive relief have focused on the length of the delay and the plaintiffs' reasons for not commencing litigation earlier.¹⁰ For example, attempting to negotiate or enter into a business relationship with the defendant is a valid reason for delaying filing suit, but ignorance of the validity of a defendant's license is not.¹¹ The longer the delay, the more likely it will negate a finding of irreparable harm—delays of 17 months to four years have been held substantial enough to work against a finding of irreparable harm, but delays of three to eight months have been held insufficient.¹²

In addition, a delay is more likely to prevent the granting of a permanent injunction in cases where laches has been asserted or the facts may give rise to a successful laches defense.¹³ Consequently,

in cases where the delay is longer than six years and a presumption of laches arises, the delay is very likely a strong factor in a denial of permanent injunctive relief. Finally, as may be expected, delay is less likely to prevent a finding of irreparable harm where the injury is established by other evidence, such as lost sales by reason of direct competition between the parties.¹⁴

The Balance of Hardships

The balance of hardships factor weighs the impact an injunction would have on the defendant against its benefit to the plaintiff. The balance tips in a defendant's favor when a delay in filing suit means that injunctive relief would force that defendant out of business or force the defendant to incur large costs. In *eBay*, the Supreme Court looked to the Copyright Act and copyright case law for instruction on applying equitable remedies, in particular injunctive relief, in patent cases. Accordingly, reference to *Feiner* and *New Era Publications Int'l v. Henry Holt & Co., Inc.*, for the effect of delay on the irreparable harm and balance of hardship factors is appropriate.

In *New Era*, the Second Circuit held that a permanent injunction was barred by laches because of a long delay and severe prejudice to the defendant. The plaintiff's extended delay resulted in the defendant proceeding with costly publication and distribution of a book that allegedly infringed the copyrighted work. The court held that the plaintiff would be limited to a damages remedy because “a permanent injunction would result in the total destruction of the work since it is not economically feasible to reprint the book after deletion of the infringing material.”¹⁵

This reasoning seems applicable to patent cases, which may involve costly investments in technology. In *New Era*, the balance of hardships tipped in the publisher's favor because of the publisher's investment in getting a book to print. Had the suit been brought before the defendant incurred those costs, the balance would presumably have tipped in favor of permanent injunctive relief. In patent cases, defendants may make comparable or greater investments in integrating technology or research and development into their business or products. If a plaintiff delays initiating suit until a defendant has built its business, production facilities, and/or operations

around a potentially infringing element, the effect could be catastrophic. Support for this is reflected in Justice Kennedy's concurring opinion in *eBay*, where he noted that "[w]hen the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement . . . and an injunction may not serve the public interest."¹⁶

Post-*eBay* case law suggests that courts will be sensitive to the defendant's costs and investments in weighing the balance of hardships. For example, in *Sundance, Inc. v. DeMonte Fabricating, Inc.*, the district court held that the balance of harms

interest is disserved by granting the plaintiff injunctive relief. For instance, if a product serves a public need, the public may come to rely on the product if there is a delay in filing suit. If a product is later found to infringe, a permanent injunction removing from the marketplace a product that has been accepted and may even have become essential to at least some consumers may have a negative impact on the public.

The rationale that tardiness in filing suit is relevant to the public interest seems particularly applicable in cases involving drugs or medical devices. Courts have recognized the need to balance the public interest of encouraging competition and the availability of drugs and medical devices with the public interest of

causing confusion among patients and doctors about the prescription medications.²⁰ Similarly, even in a permanent injunction context where similar labeling requirements are not at issue, courts could find it in the public interest to maintain the status quo in the supply of drugs or devices upon which the public needs and relies.

Conclusion

eBay has eliminated the advantage that patent holders traditionally had in the battle for injunctive relief. A patent holder, like any plaintiff, must now come forward with proof of his or her right to an injunction under the traditional four-factor test. Laches, as such, does not give the defendant a "free pass" from an injunction. A delay in filing may in fact tip three of the four factors (irreparable harm, balance of hardships, and public interest) in a defendant's favor. In some cases, this may mean there is no injunctive relief regarding infringing goods made or sold during the pre-filing delay; in other cases, a court may use its discretion in balancing the four factors to bar all injunctive relief. ●

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Endnotes

1. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).
2. *Id.* at 392.
3. Lily Lim & Sarah E. Cravern, *Injunctions Enjoined; Remedies Restructured*, 25 SANTA CLARA COMPUTER & HIGH TECH. L. J. 787, 798 (2009).
4. *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020, 1032 (Fed. Cir. 1992) (en banc) (affirming applicability of laches in patent suits); *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 587 F.3d 1339, 1349 (Fed. Cir. 2009) (citing *Wanlass v. Fedders Corp.*, 145 F.3d 1461, 1463-64 (Fed. Cir. 1998)).
5. *Aukerman*, 960 F.2d at 1034-37.
6. *Id.* at 1040-41.
7. *Angel Flight of Georgia v. Angel Flight America, Inc.*, 522 F.3d 1200 (11th Cir. 2008) ("Laches or acquiescence do not preclude the Court's issuance of an injunction to prevent further acts of trademark confusion."); *James Burrough, Ltd. v. Sign of the Beefeater, Inc.*,

Some courts have found that the balance of hardships tips in favor of denying injunctive relief where the infringing element is a small part integrated into a defendant's product or where the redesign of a defendant's product would be too costly.

favors a defendant that could be forced out of business if injunctive relief were granted.¹⁷ Even where there is no delay in filing suit at issue, some courts have found that the balance of hardships tips in favor of denying injunctive relief where the infringing element is a small part integrated into a defendant's product or where the redesign of a defendant's product would be too costly, such as a few lines of code in a software product or a constituent part of several vehicle models.¹⁸ Where the defendant, acting without notice of the patent holder's claim against it, invests heavily in expanding its product line or marketing the infringing product extensively during a period of delay, the balance of hardships will likely favor the defendant even more.

The Public Interest

A long delay in filing may, in some cases, result in scenarios where the public

enforcing patent laws, which fosters research and development of such products. Although in cases where there is no delay in bringing suit, courts tend to find this balance favors enforcing patent rights and granting an injunction,¹⁹ a delay in filing suit that results in dependence on a necessary product may be enough to shift the balance of public interest in favor of denying an injunction.

In *Tiber Labs, LLC v. Hawthorn Pharm. Inc.*, a patent owner sought a preliminary injunction compelling the makers of allegedly infringing generics to label their products in such a way as to indicate that the products shouldn't be prescribed or distributed due to patent infringement. The court held that a delay in bringing suit negated a finding of irreparable harm and that the public interest favored maintaining the status quo in the supply of generic medications instead of disrupting and potentially

572 F.2d 574, 578 (7th Cir. 1978) (“Trademark infringement is a continuous wrong and, as such, gives rise to a claim for relief as long as the infringement persists.”). *But see* Citibank, N.A. v. Citytrust, 756 F.2d 273, 277 (2d Cir. 1985) (denying injunction for trademark infringement because delay in filing undercut a finding of irreparable injury).

8. eBay, 547 U.S. at 391; Aukerman, 960 F.2d at 1030.

9. Richard Feiner & Co., Inc. v. Turner Entertainment Co., 98 F.3d 33, 34 (Fed. Cir. 1996) (partly reversing grant of preliminary injunction for copyright infringement because of delay in bringing suit).

10. Sundance, Inc. v. DeMonte Fabricating Ltd, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan 4, 2007) (denying a motion for a permanent injunction under eBay’s four-factor rule in part because of a four-year delay in filing suit); Tivo, Inc. v. Echostar Comm’ns Corp., 446 F. Supp. 2d 664, 670 (E.D. Tex. 2006) (aff’d in part, reversed in part by 516 F.3d 1290 (Fed. Cir. 2008)) (rejecting argument that the delay in bringing suit showed a lack of irreparable harm because the reason for the delay was the plaintiff’s attempts at negotiating with the defendant).

11. *Compare* Tivo, Inc., 446 F. Supp. 2d at 670 with Feiner, 98 F.3d at 35 (delay caused by ignorance of the legal status of a competitor’s license held to suggest lack of irreparable harm).

12. High Tech Med. Inst., Inc. v. New Image Indus., Inc., 49 F.3d 1551 (Fed.Cir.1995) (a 17-month delay is a substantial delay that

militates against the issuing of a preliminary injunction); Elite Licensing, 250 F. Supp. 2d 372 (S.D.N.Y. 2003) (three-month delay didn’t warrant denial of relief); Polymer Techs., Inc. v. Bridwell, 103 F.3d 970, 976 (Fed.Cir.1996) (four-month delay didn’t rebut a presumption of irreparable harm in the context of a preliminary injunction); Rubbermaid Commercial Prods., Inc. v. Contico Int’l, Inc., 836 F. Supp 1247, 1257 (W.D.VA 1993) (delay of eight months not substantial enough to defeat finding of irreparable harm). Note, however, that most of these cases predate eBay.

13. *Compare* Sundance, Inc. v. DeMonte Fabricating Ltd, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan 4, 2007) (denying permanent injunction when cross-motions for partial summary judgment on the issue of laches were pending before the court) with 800 Adept, Inc. v. Murex Securities, 505 F. Supp. 2d 1327, n.8 1335 (M.D. Fl. 2007) (reversed in part on other grounds) (rejecting argument that the plaintiff’s delay in filing suit demonstrates a lack of irreparable harm in a case where a laches defense was never asserted).

14. Tivo, 446 F. Supp. 2d 664 (granting injunction against the defendants that were direct competitors of the plaintiffs and whose products resulted in lost market share for the plaintiffs’ primary product); 800 Adept, Inc. v. Murex Securities, 505 F. Supp. 2d 1327, n.8 1335 (M.D. Fl. 2007) (reversed in part on other grounds) (granting injunction where parties are direct competitors).

15. New Era Publications Int’l v. Henry Holt & Co., Inc., 873 F.2d at 584-85 (2d. Cir. 1989).

16. eBay, 547 U.S. at 396-97 (Kennedy, J., concurring).

17. Sundance, Inc. v. DeMonte Fabricating Ltd, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan 4, 2007) (denying motion for permanent injunction after applying eBay’s four-factor rule).

18. *See* z4 Technologies v. Microsoft Corp., 434 F. Supp. 2d 437 (E.D. Tex. 2006) (denying injunctive relief after finding of infringement because redesign of software that integrated patented technology would be too costly); Paice, L.L.C. v. Toyota Motor Corp, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006) (aff’d in part) 504 F.3d 1293 (Fed. Cir. 2007) (denying injunction under balance of hardships factor).

19. *See, e.g.*, Abbott Labs. v. Sandoz, Inc., 544 F.3d 1341, 1362-83 (Fed. Cir. 2008) (affirming grant of preliminary injunction where there was no delay in bringing suit); Sanofi-Synthelabo v. Apotex Inc., 492 F. Supp. 2d 353 (S.D.N.Y. 2007) (affirming grant of permanent injunction where there was no delay in bringing suit); *but see* Advanced Cardiovascular Sys. v. Medtronic Vascular, Inc., 579 F. Supp. 2d, 554, 561-562 (D. Del. 2008) (denying permanent injunction based in part on lack of irreparable harm and public interest in competition in the medical device market).

20. Tiber Labs, LLC, v. Hawthorn Pharm., Inc., 527 F. Supp. 2d 1373, 1381-83, (N.D. Ga. 2007).

Improper Revival as a Defense to Infringement

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misstatement, or omission of fact made to the PTO coupled with intent to deceive.⁸

Although the Federal Circuit has for the time being declined to decide whether the Patent Act permits revival for unintentional—as opposed to “unavoidable”—delay, some accusations of improper revival will hinge on this distinction. Where the improper revival is based on the difference between unavoidable and unintentional delay, some highly fact-specific (and probably colorful) excuses will be litigated. ●

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Endnotes

1. Franklin’s famous quote is attributed to a letter he wrote to Jean-Baptiste Leroy dated November 13, 1789. The Patent Act of 1790 conveyed the power to grant patents to the federal government. A history of the PTO can be found at <http://www.uspto.gov/patents/resources/index.jsp> at “General Information Concerning Patents.”

2. *See* Brief of Amicus Curiae Director of the U.S. Patent and Trademark Office at 2, Aristocrat Techs. Australia Pty, Ltd. v. Int’l Game Tech., Appeal No. 2008-1016 (Fed. Cir. 2008) (supporting reversal-in-part, filed Dec. 13, 2007).

3. Intervening rights are also possible against patents that have been reissued or reexamined. *See* 35 U.S.C. §§ 252 and 307(b).

4. Aristocrat Techs. Australia Pty Ltd. v. Int’l Game Tech., 521 F.3d 1328 (Fed. Cir. 2008) and Abstrax, Inc. v. Dell, Inc., No. 2:07CV221, 2009 WL 3254973 (E.D. Tex. Oct.

7, 2009).

5. *See* 35 U.S.C. § 273(b) (“It shall be a defense to an action for infringement under section 271 of this title with respect to any subject matter that would otherwise infringe . . . a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of the patent, and commercially used the subject matter before the effective filing date of such patent.”).

6. *See* 35 U.S.C. § 185 (if a patentee fails to obtain a foreign filing certificate under the Invention Secrecy Act, the patent “shall be invalid”).

7. Dell, Inc. v. Kappos, No. 1:09CV918 (E.D. Va. 2009).

8. *See* Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312 (Fed. Cir. 2009) (heightened pleading requirements for inequitable conduct).



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