KING & SPALDING

Intellectual Property Newsletter

Unanimous Supreme Court Ruling on Gene Patentability: Natural DNA "No"/cDNA "Yes"

Ken Sonnenfeld and Peter Dehlinger

Association for Molecular Pathology v. Myriad Genetics, Inc., Supreme Court, No. 12-398 (June 13, 2013)

http://www.law.cornell.edu/supremecourt/text/12-398

On June 13, 2013, the Supreme Court held unanimously that isolated human DNA is not patentable because it is a "product of nature." The act of isolating the material—no matter the time, technology, or ingenuity involved in doing so—does not make it patentable. The Court also ruled that synthetically created complementary DNA (cDNA) *is* "patent eligible."

The underlying suit, filed in 2009 against Myriad Genetics, Inc. (Myriad), was brought in the US District Court SDNY by a group of plaintiffs, including researchers, doctors, and breast cancer patients, and was supported by the ACLU and the Public Patent Foundation. The plaintiffs asserted that Myriad's patents on gene mutations in two human genes linked to breast, ovarian, and other cancers, BRCA1 and BRCA2, were invalid. District Court Judge Robert Sweet agreed, and struck down the patents, finding isolated DNA, fragments thereof, and corresponding cDNA's to be patent ineligible "products of nature."

On appeal to the Court of Appeals for the Federal Circuit, a 2-judge majority reversed in part, finding Myriad's claims to isolated BRCA1 and BRAC2 genes, including fragments thereof, *were* patent eligible subject matter, although the two judges in the majority did not agree on a rationale for this conclusion. All three panel judges agreed

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that cDNA's were patent eligible as clearly formed by the hand of man.

The Supreme Court considered nine DNA composition claims from the three challenged patents. A first group of claims covered isolated BRCA1 and BRCA2 genes defined by the genes' nucleotide sequences, and a second group, fragments of the genes containing at least 15 nucleotides of the claimed genes. Both the gene and gene-fragment claims were found to be patent ineligible as products of nature, in line with the district court and Fed Circuit minority decisions. Central to the Court's reasoning was its earlier *Chakrabarty* decision, where a modified bacterium was found patent eligible as "a nonnaturally occurring manufacture or composition of matter—a product of human ingenuity 'having a distinctive name, character and use.'" In the eyes of the Court, simply cleaving and isolating a gene from its natural environment did not produce a new molecule having a distinctive name, character, and use. Rather, the claimed DNA's (which are sequence dependent) focus on the genetic information encoded by the BRCA1 and BRCA 2 genes, and this information is identical to that of the gene in its native form. Regardless of the ingenuity required to identify a claimed gene sequence, the claimed gene and its fragments remain "product[s] of nature."

A third group of claims considered by the Court are cDNA's formed by reverse transcription of mRNA. Here the Court concurred with the majority and minority Fed Circuit opinions that cDNA is not a product of nature and so is patentable under §101. Although the nucleotide sequence of cDNA is dictated by nature, "its creation results in an exons-only molecule which is not naturally occurring." The Court did add an important and logical caveat, however—cDNA is patent eligible "except insofar as very short series of DNA may have no intervening introns to remove when creating cDNA. In that situation, a short strand of cDNA may be indistinguishable from natural DNA." In other words, an isolated DNA derived from a single exon or portion thereof would fall under the "product of nature" prohibition regardless of how it is produced, whether by isolation, enzymatic transcription, or chemical synthesis.

Beyond that, there is less clarity from the Court on the types of DNA compositions that *would* be patent eligible. Perhaps a useful clue to this question can be found in Judge Bryson's dissent in the Fed Circuit *Myriad* decision, since this dissent closely parallels the Supreme Court's conclusions and reasoning in *Myriad.* Judge Bryson points to two types of DNA inventions, other than cDNA's, that would fall outside the "product-of-nature" prohibition. The first is isolated DNA attached to tags or probes, and the second, sets of DNA fragments that function as primers, as long as the fragment sets are limited to species with markedly different characteristics from any found in nature. More definitive guidance on the implications of the *Myriad* decision should be forthcoming from the USPTO in the form of examination guidelines.

Finally, what does the Supreme Court's Myriad decision portend for the patentability of isolated proteins? Probably not too much, for the simple reason that an isolated protein will typically have distinctive uses and characteristics, e.g., therapeutic uses, not shared by the protein in unpurified form. Whereas DNA is predominantly an information carrier, and that function is preserved whether it is in native or purified form, proteins have complex three-dimensional structures and properties that may depend on the environment the protein is in, including in some cases, the presence of other proteins.

CAFC Reverses Denial of Permanent Injunction Based on Perceived Future Reputational Damage, Despite Lack of Evidence of Lost Sales or Market Share

John Harbin

Douglas Dynamics, LLC v. Buyers Product Co., Case Nos. 2011-1291, 2012-1046, -1057, -1087, -1088 (Fed. Cir. May 21, 2013)

http://caselaw.findlaw.com/us-federal-circuit/1631727.html

A split panel of the Federal Circuit reversed the trial court's denial of a permanent injunction based on possible damage to the patentee's reputation, despite there being no evidence of lost sales or lost market share. The dissent opined that this decision effectively revives the presumption of irreparable harm, despite the Supreme Court's *eBay* decision.

Both of the parties to the case, patentee Douglas Dynamics ("Douglas") and defendant Buyers Products ("Buyers"), make and sell snowplows, but the evidence showed Douglas makes higher quality, more expensive plows and Buyers makes lower quality, less expensive plows. The trial court compared them to Mercedes Benz and Ford Taurus automobiles. (The dissent cited a survey that distributors viewed Douglas's equipment as high quality and Buyers' as low quality.)

Douglas sued Buyers for infringing its patent on assemblies for mounting snowplows on trucks. The evidence showed Douglas had roughly 60% of the market and that Buyers entered the market in 2007 and by 2010 had 5% of the market. But the evidence showed the two were not direct competitors because Douglas served the high end of the market and Buyers the lower end, so that it was unlikely that a buyer from Douglas would consider buying one of Buyers's assemblies instead. In fact, Douglas's market share had increased roughly 1% per year during Buyers's infringement.

The jury found two of the patents valid and infringed. The trial court imposed a reasonable royalty but denied Douglas's request for a permanent injunction, finding there was no evidence that Douglas had lost any sale to Buyers or any market share, and that Douglas had failed to make a threshold showing of irreparable harm.

In a decision by Judge Rader, the CAFC reversed and instructed the trial court to enter a permanent injunction. The court held that irreparable harm may include "erosion in reputation and brand distinction." Picking up on the Mercedes vs. Ford analogy, Judge Rader opined that Mercedes would lose some of its allure and distinctiveness if others could tout similar features at a lower cost, without mentioning they are offering the features via infringement.

Also, the court found potential damage to Douglas's reputation as an innovator, opining that Douglas's reputation would suffer if customers found the same features in the products of competitors deemed less innovative, and that "as Buyers's expert agreed, Douglas's reputation would be damaged if its dealers and distributors believed it did not enforce its intellectual property rights." Also, the court noted, Douglas had never licensed the patents, intending to maintain market exclusivity.

"Exclusivity is closely related to the fundamental nature of patents as property rights. It is an intangible asset that is part of a company's reputation, and here, Douglas's exclusive right to make, use, and sell the patented inventions is under attack by Buyers's infringement.

Where two companies are in competition against one another, the patentee suffers the harm - often irreparable - of being forced to compete against products that incorporate and infringe its own patented inventions."

The court found that the evidence showed irreparable harm and that the other factors weighed in favor of an injunction. Regarding the fact that Douglas had maintained its market share, the court opined that Douglas should not "suffer some penalty for managing through great effort to maintain market share in the face of infringing competition." More relevant, the court found "is the rise in Buyers's market share from zero to about 5% in three years while infringing Douglas's patents. This record evidence underscores the

profitability of infringement and suggests that mere damages will not compensate for a competitor's increasing share of the market." The court disagreed with the trial court's characterization of the patented inventions as minor, noting Buyers had tried and failed to design around the patents.

Finally, the court disagreed with the trial court's balancing of the interests and evaluation of the public interest. On the latter point, the court agreed with the general principle that increased competition serves the public interest but not where the competition is from infringement. The court deemed this would allow the infringer to undercut prices and enter the previously untapped market of lower-priced plows.

In his dissenting opinion, Judge Mayer opined that the majority effectively resuscitates the presumption of irreparable harm, contrary to the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). The dissent found the trial court's ruling that Douglas failed to meet the *eBay* prerequisites for injunctive relief to be 'thorough and well-reasoned", noting that Douglas was unable to point to a single snowplow sale that had been lost to Buyers, and that Douglas and Buyers occupy different market segments. Because they are not direct competitors, the dissent deemed it unlikely that future sales by Buyers' would irreparably harm Douglas.

The dissent stated there was no reliable evidence that money damages were inadequate and that Douglas's argument about permanent reputational damage was belied by the record, citing (a) the trial court's finding that Douglas offered no evidence that Buyers's use of the patented technology ever caused a customer to believe that Buyers's snowplows were somehow connected with, or a version of, Douglas's snowplows and (b) the survey evidence that distributors viewed the quality of Douglas's and Buyers's plows differently. The possibility that distributors and others would view Douglas negatively if they felt it was not enforcing its IP rights is, in the dissent's view, too speculative. Douglas's investment in the technology could be recouped by a royalty.

Where infringing sales do not come from a direct competitor and there is no evidence of lost profits or market share, the dissent stated, the harm generally will not be irreparable. "Instead, where the damages caused by infringement are "quantifiable and compensable by an ongoing royalty," … there is no irreparable injury and therefore no need for injunctive relief." (Citations omitted.)

In an interesting damages ruling, the court vacated and remanded the royalty award, for two reasons. First, the trial court had applied the 'infamous' 25% rule of thumb, which the court had found to be fundamentally flawed in *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011). Second, the trial court erred by capping the rate at the infringer's profit margin, as it is not a ceiling on the royalty. The infringer can raise its prices to pay a higher royalty, the court noted, and may need to do so to compensate the patentee for using its technology. The dissent did not take issue with these rulings.

Supreme Court Rules on Pay-for-Delay Agreements

Peter Dehlinger

Federal Trade Commission v. Actavis, Inc., Supreme Court, No. 12-416 (June 17, 2013)

http://www.supremecourt.gov/opinions/12pdf/12-416_m5n0.pdf

Although the facts in this case are straightforward, the analyses of the majority and dissenting justices reflect sharply differing views on how antitrust laws should be balanced against the monopoly rights of a patent owner.

The complained of action occurred under the drug-regulatory rules established by the Hatch-Waxman Act. Solvay Pharmaceuticals, one of the respondents in this case, obtained FDA approval in 2000 on a brand-name drug called AndroGel, and three years later obtained a patent covering the

drug. Later in 2003, Actavis, Inc. filed an Abbreviated New Drug Application (ANDA) for a generic drug modeled after AndroGel, and subsequently Paddock Labs, filed another ANDA for its own AndroGel-like generic drug. Once a generic drug manufacturer files its ANDA, the Hatch-Waxman provisions require it to assure the FDA that its generic drug will not infringe the brand-name's patents. One way it can meet this requirement is to certify that any listed, relevant patent is invalid or will not be infringed by the manufacture, use or sale of the drug described in the ANDA (the so-called "paragraph IV route"). If the brand-name patentee brings an infringement suit within 45 days, the FDA must then withhold approving the generic, usually for a 30 month period, while the parties litigate validity and/or infringement in court.

Solvay initiated paragraph IV litigation against Actavis and Paddock in 2003; thirty months later, the FDA approved Actavis' first-to-file generic product. In 2006, the parties settled their patent litigation by Actavis agreeing that it would not bring their generic drug to market until March 31, 2015, 65 months before Solvay's patent expired, and Actavis also agreed to promote AndroGel to urologists, in exchange for agreed-upon payments from Solvay. Paddock and Par Pharmaceuticals, which had joined forces with Paddock in the patent litigation, agreed to similar terms. The money Solvay agreed to pay under the agreement was $12 million in total to Paddock, $60 million in total to Par, and an estimated $19-30 million annually, for nine years, to Actavis. Agreements such as these are known as "reverse payment" or "pay-to-delay" settlements.

On January 29, 2009, the FTC filed a lawsuit against all settling parties, alleging that the parties had violated Section 5 of the Federal Trade Commission Act, by unlawfully agreeing to "share in Solvay's monopoly profits, abandon their patent challenges, and refrain for nine years from launching their low-cost generic products to compete with AndroGel. The District Court held that these allegations did not set forth an antitrust law violation, and the Eleventh Circuit Court of Appeals affirmed, noting that "a reverse payment settlement is immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patents." The FTC sought certiorari, and because "different courts have reached different conclusions about the application of the antitrust laws to Hatch-Waxman-related patent settlements," the Supreme Court granted the FTC's petition.

Justice Breyer, writing for the majority, and Chief Justice Roberts, for the dissent, (in a five-to-three decision in which Justice Alito took no part) start from very different legal positions. Justice Breyer's position is that what the holder of a valid patent *can* do does not itself answer the antitrust question, because, as here, the patent may or may not be valid, and may or may not be infringed. In other words, can a patent owner immunize itself against antitrust violations through a settlement in which the patent challengers were induced *not* to pursue their patent challenge in exchange for payments whose purpose was clearly anti-competitive-- to protect Solvay's monopolistic profits? Justice Roberts, by contrast, saw no reason to question the validity of the patent or the rights of the patent owner under it. A patent owner, acting within the scope of its patent, has an obvious defense to any antitrust suit: "that its patent allows it to engage in conduct that would otherwise violate antitrust law."

The Court laid out five sets of considerations that justified giving the FTC an opportunity to prove its antitrust claim. *First*, is the rationale behind a payment of this size by Solvay consistent with traditional settlement considerations or does it instead "provide strong evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopolistic profit that would otherwise be lost in the competitive market?" *Second*, and related to the first, were there offsetting or redeeming virtues behind the reverse payment settlement? For example, were the payments justified by Solvay's wish to avoid continued litigation costs or reflect payment for services that the generics has promised to perform?

Third, the size of the reverse payment to a prospective generic is a strong indicator of market power flowing from the patent. Here the Court noted studies showing that reverse payment agreements coincide with the presence of higher-than-competitive profits. *Fourth*, the antitrust action is likely to be more administratively feasible than the Eleventh Circuit believed, in that it may not be necessary to resolve the issues of patent validity and infringement. An unexplained large reverse payment might suggest that the patentee has serious doubts about the patent's survival. "In a word, the size of the unexplained reverse payment can provide a workable surrogate for a patent's weakness, all without forcing a court to conduct a detailed exploration of the validity of the patent itself." Finally, the court needs to consider the reasons for the large reverse-payment settlement. If the basic reason is the desire to maintain and share patent-related monopoly profits, then the antitrust laws are likely to forbid the agreement.

However, the Court did not go so far as to find reverse-payment agreements presumptively unlawful, as the FTC had urged, a so-called "quick look analysis." Rather the Court adopted a "rule of reason" in which the likelihood of a reverse payment bringing about anticompetitive effects must be judged by the size of the payment, its scale in relation to future litigation costs, and whether the receiving party is performing other services.

Patent Office's First AIA Business Method Patent Review Unravels Patent that Underlay a $391 Million Damages Award

Mark H. Francis

SAP Am., Inc. v. Versata Dev. Group, Inc.,

Case CBM2012-00001, Paper 70 (PTAB June 11, 2013).

http://e-foia.uspto.gov/Foia/RetrievePdf?system=PRPS&flNm=CBM2012-00001_70

Section 18 of the 2011 America Invents Act (AIA) introduced post-grant review proceedings at the Patent Office for challenging the validity of business method patents. In its first decision under this new law, a panel of three judges on the Patent Trial and Appeal Board (PTAB) invalidated key claims of a patent that had been asserted successfully at trial.

Versata sued SAP in 2007 for alleged infringement of business method patent U.S. 6,553,350. The case proceeded to trial and a jury returned a verdict of validity and infringement. On appeal, the Federal Circuit affirmed the finding of infringement and a damages award of $391 million. While the appeal was pending, SAP petitioned the USPTO for a Section 18 proceeding to challenge the patent's validity. The request was granted with respect to SAP's §101 and §102 arguments but not its §112 arguments, and SAP subsequently dropped §102 in return for an expedited trial on its §101 issues. A hearing was held on April 17, 2013, and the USPTO issued a Final Written Decision on June 11, 2013.

The Decision first addresses the parties' dispute regarding the applicable standard for claim construction in AIA reviews. SAP argued that claims should be reviewed under the USPTO's broadest reasonable interpretation ("BRI") standard and not the *Phillips* standard that governs in federal court. The USPTO agreed, stating that the BRI standard is used throughout the Patent Office and was formally adopted for AIA reviews in 37 C.F.R. §42.300(b). The USPTO further noted that BRI is appropriate because AIA reviews— like reissue and reexamination proceedings—permit patentees to amend claims. As the first ruling of its kind, the Decision lays out in detail the USPTO's reasoning and statutory authority for adopting the BRI standard in AIA reviews.

Turning to the merits of the §101 challenge, the Decision explains that the '350 patent relates to a pricing scheme for customers and products. Traditional pricing tables with rows of customers and columns of products could be replaced with an organizational hierarchy, wherein individual customers and products could be categorized into a hierarchy of groups and, for example, pricing adjustments could be then applied to an entire group of customers or products at one time.

In view of the Supreme Court's *Benson* and *Mayo* decisions – and the parties' expert testimony— the USPTO rejected the '350 patent's claims as reflecting an abstract idea for "determining a price using organizational and product group hierarchies." The Decision focuses on a few key points: (1) even claims with computer limitations will be unpatentable when "the underlying process … [can] be performed via pen and paper;" (2) claim limitations requiring "general purpose hardware and programming" only reinforce that notion; and (3) "insignificant, conventional and routine steps are implicit in [an] abstract idea itself" (*e.g.*, storing, retrieving, sorting, eliminating, determining, etc.).

When Public Health Considerations Can Tip the Balance Away from a Permanent Injunction

Ramtin Taheri

Tyco Healthcare Group LP, et. al. v. Ethicon Endo-Surgery Inc., No. 3-10-cv-00060 (D. Conn. Mar. 28, 2013)

http://scholar.google.com/scholar_case?case=5376641270378033479&q=tyco+ethicon&hl=en&as_sdt=2,11

Plaintiffs Tyco Healthcare Group LP and United States Surgical Corporation ("Tyco") own three patents related to ultrasonic surgical tools, issued in 2000, 2002, and 2004, respectively. Tyco sued Ethicon in the District of Connecticut in 2010 for infringement of these patents. After a bench trial, the district court found Tyco's patents valid and infringed and awarded Tyco approximately $176 million in damages.

After applying the *eBay v. MercExchange* factors, the court declined to award Tyco a permanent injunction. The court first rejected Tyco's argument that it had suffered irreparable harm, noting it had not articulated why "if Tyco has endured infringement and harm to its reputation since 2004, it never sought preliminary injunctive relief." The court also found that monetary damages were fully adequate to compensate for Tyco's injury because throughout trial Tyco had been "emphatic as to its entitlement to lost profits and to a certain royalty rate."

In finding that the public interest factor cut both ways, the court noted that enforcing patent rights generally serves the public interest, but emphasized that a permanent injunction would pull many devices that are presently used in surgery off the market. The court cited the statement in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 2009 WL 920300, at *9 (D. Ariz. Mar. 31, 2009), that taking surgical tools off the market would "deny many sick patients a full range of clinically effective and potentially life saving treatments," Apparently the court was swayed by Ethicon's post-trial arguments that an injunction would require it to reintroduce its old surgical tools into the market, which would have required retraining doctors. Finally, in examining the "balance of hardships" factor, the court found that the parties were both "giants in the industry" and therefore the balance of hardships did not tip sufficiently in the plaintiff's favor.

Fed Circuit Can Hear Separate Appeals on Patent Infringement Liability Determinations

Peter Dehlinger

Robert Bosch LLC v. Pylon Manufacturing Corp., Case No. 2011-1363 (Fed. Cir. June 14, 2013)

http://docs.justia.com/cases/federal/appellate-courts/cafc/11-1363/11-1363-2013-06-14.pdf

This case examines a single question. Does 28 U.S.C. §1292(c)(2) confer jurisdiction on the Federal Circuit to entertain appeals from patent infringement liability determinations when the district court has exercised its discretion to bifurcate issues of damages and willfulness, and a trial on damages and willfulness has not yet occurred. In a divided en banc opinion, five of the nine judges agreed that it did, two the judges agreed that jurisdiction applied to damages but not willfulness, and two of the judges disagreed on both jurisdictional issues.

Robert Bosch, LLC sued Pylon Manufacturing for patent infringement and Pylon later asserted patent infringement claims against Bosch. Before trial,

Pylon moved to bifurcate the issues of liability and damages, which the court noted was "appropriate in all but exceptional patent cases." Finding that "willfulness is a damages issue, not a liability issue," the court granted the motion and stayed discovery on damages and willfulness.

Following a jury trial on liability, the court entered judgment on the liability issue. Bosch appealed, and Pylon cross-appealed, then Bosch filed a motion to dismiss both appeals on the grounds that the Federal Circuit lacked jurisdiction. The substantive and jurisdictional issues were heard by a Federal Circuit panel, and after oral argument, the court granted an en banc rehearing to determine whether it has jurisdiction over the appeal under 28 U.S.C. §1292(c)(2).

28 U.S.C. §1292(c)(2) grants the Federal Circuit jurisdiction "of an appeal from a judgment in a civil action for patent infringement which would otherwise be appealable to the United States Court of Appeals for the Federal Circuit and is final except for an accounting." After reviewing the statute's interpretation through history, the court concluded that in 1927, when Congress first employed the term "accounting" in the context of patent infringement, an accounting was well known to include both infringer's profits and patentee's lost profits. Judge Proust, writing for a five-judge majority, had no trouble in finding that §1292(c)(2) confers jurisdiction on the Federal Circuit to hear appeals from patent infringement liability determinations when a trial on damages has not yet occurred.

The question of whether §1292(c)(2) confers jurisdiction on appeals from patent liability determinations when willfulness issues are outstanding is less clear from the language of the statute. The court first noted that as a general matter, a district court has the authority to bifurcate willfulness and infringement issues. After reviewing the legislative history of the statute, the court concluded there was no basis for believing that "when Congress first gave the courts of appeals interlocutory jurisdiction over cases that are final except for an accounting, it intended to disturb the practice of determining willfulness as a part of an accounting." Accordingly, §1292(c)(2) gives the Federal Circuit jurisdiction over patent infringement liability determinations when willfulness issues are outstanding and remain undecided.

The ruling may make it easier for district court judges to justify bifurcating both damages and willfulness issues from the issue of infringement liability.

State Legislation to Curtail Patent Troll Litigation—Is Vermont onto Something?

Peter Dehlinger

The excesses of patent troll litigation in the past few years have galvanized the business community on the need for reform in this area. What started out as a manageable nuisance several years ago (about 19% of patent infringement actions in 2006 were brought by patent assertion entities (PAE's), or so-called patent trolls) has become a serious threat to industry and to the integrity of the patent system. An astonishing 62 percent of patent litigation actions brought in 2012 (2921 of the total 4,701 patent suits filed) were attributable to patent trolls, with a price tag for legal fees and license fee settlements estimated between $11 and $39 billion in 2012.

The America Invents Act (AIA), which took effect in September of last year, had two provisions expected to provide defendants some relief against trolls. The new post-grant review (PGR) proceedings will allow for speedier and relatively inexpensive challenges to the validity of asserted patents, and Section 299 limits the ability of a plaintiff in a patent infringement action to join multiple parties as defendants. Beyond the AIA, there are bills before both houses of Congress that would either erect barriers to patent troll suits, or introduce economic disincentives into the litigation process. The house currently has before it the Shield Act of 2013 (HR845) and the End Anonymous Patent Act (HR2024), while the Senate

is debating the Patent Quality Improvement Act (S.866) and the Patent Abuse Reduction Act (S.1013). GovTrack.us doesn't give any of these bills more than a 2% chance of passage.

It is therefore encouraging to see that one state, at least, has taken some legislative initiative in this area. In May of this year, Gov. Peter Shumlin, Democrat of Vermont, signed into law legislation that amends the state's consumer protection laws to protect Vermont businesses and residents from bad faith patent litigation. Vermont Bill H.299 empowers the state's Attorney General, Vermont businesses, and private citizens to bring legal action against patent holders who bring bad-faith patent infringement claims against its businesses or citizens.

The Vermont bill recognizes, first, the important role of innovation and patents in the state's efforts to build an entrepreneurial and knowledge based economy. "Attracting and nurturing small and medium sized internet technology ("IT") and other knowledge based companies is an important part of this effort and will be beneficial to Vermont's future." The bill also acknowledges its limitations in passing any law that might be seen as preempting federal patent law.

With that background, and in view of the complexity and expense of patent litigation, the new law allows targeted companies to seek recovery of their legal fees, damages and other remedies in state court if they can show that the patent owner's demand was made in bad faith. In making this determination, the law provides a lengthy list of factors for the court to consider; not surprisingly, many of the factors take direct aim at the patent troll model-- the relationship of the demand entity to the inventor, the terms of the demand letter, the business practices of the demand entity, how often and against whom the patent has already been asserted, and with what results. Aggrieved target companies will not have to bear the entire burden of exposing bad faith patent litigants; the law also allows the Vermont Attorney General to bring suit against alleged patent trolls.

Vermont's new law will almost certainly be challenged as preempting federal patent law, raising the question of whether a defendant in a patent lawsuit can assert a counterclaim under state law if the patent owner asserts a claim in bad faith. However that question is eventually decided, the Vermont law may give reformers in Congress a blueprint on how bad-faith patent litigation can be attacked through federal legislation.

King & Spalding News

Litigation Wins:

King & Spalding Team Secures Victory for Client FDS in Copyright/Trade Dress Dispute

After a two-week jury trial in the Southern District of New York, King & Spalding client Family Dollar Stores, Inc. ("FDS") was found not liable for copyright infringement, trade dress infringement and unfair competition in a suit brought by one of FDS' former vendors. The IP at issue related to the packaging design of men's thermal underwear. One of the trial team's primary challenges was overcoming the fact that FDS did use a very similar packaging design to that owned by Plaintiff. To combat this fact, the team proceeded on two critical theories: first, that Plaintiff had impliedly consented to FDS' use of the allegedly infringing design and, second, that Plaintiff was not damaged by FDS' use of its package design. Plaintiff originally sought damages in excess of $46 million, which included treble damages for willful infringement, and an award of punitive damages.

The jury returned a verdict in favor of FDS on each of Plaintiff's counts.

The trial team was led by Tim Barber and Antonio Lewis from Charlotte, Beth Jones from Atlanta, and Carol Splaine from New York. Katie McCarthy provided valuable assistance, and David Rodriguez, Carol Montuoro and Elizabeth Jones also helped before and during trial.

King & Spalding Team Wins Summary Judgment Motion of Non-Infringement for Nokia Against Nazomi Communications

http://www.law360.com/ip/articles/451296?nl_pk=4e15f5ac-d852-4d4a-b3bd-298df5ffd20a&utm_source=newsletter&utm_medium=email&utm_campaign=ip

Thought Leadership: IP Partner Katie McCarthy to Speak on Trademark Aesthetic Functionality at the PLI IP Institute in September.

http://www.pli.edu/Content/Seminar/Intellectual_Property_Law_Institute_2013/_/N-4kZ1z12ojy?ID=159064

In the Press: Two King & Spalding IP Attorneys Author Patent Troll Article in Intellectual Property Magazine

http://www.kslaw.com/imageserver/KSPublic/library/publication/2013articles/6-1-13_IP_Magazine_Dehlinger.pdf

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