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The Patent Renewals Challenge

Balancing Risk and Cost

By Paul DiGiammarino

As economic recession forces companies to cut costs and grow revenue, there is an opportunity to reduce IP overhead without impacting risk. By intelligently abandoning non-essential patents and trademarks and increasing revenue from IP sales, businesses can strengthen their balance sheets and increase competitiveness. The complex process of pruning a patent portfolio and determining what to renew and what to abandon is equal parts art and science. However, successful players in the IP space have learned that their IAM decisions can be made more precise and better grounded in business objectives. Many companies are successfully incorporating systems to help organize their patent portfolios and manage the risks inherent in them.

Economic recessions force businesses to cut costs and identify new and efficient sources of revenue. Yet many companies will pass up millions of dollars of low-hanging fruit annually in the form of reduced patent annuities and increased revenue from sales of unused patents. Reinforcing this, the USPTO 2008 Annual Report states that “the renewal rates for

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IP Strategies for a Green Economy

By B. Delano Jordan

While much has been written and said about the emergence of a new green economy, less attention has been paid to the importance of an effective patent strategy to the innovative companies bolstering such an economy. This article considers the unique aspects of clean technology and renewable energy against the backdrop of a rapidly changing patent law landscape. In particular, the article considers recent U.S. Supreme Court patent cases and how they may impact business decisions, development deals, and other transactional aspects of interest to those in the cleantech and renewable energy industry.

THE GREEN ECONOMY

With the signing of the \$787 billion American Recovery and Reinvestment Bill (the “Bill”) into law, many participants in the clean energy industry breathed a collective sigh of relief. Indeed, from the Bill’s provisions to deploy billions of dollars for energy efficiency, smart grid investments, and batteries for electric cars, to its extension of the production tax credit for wind energy, biomass, and geothermal projects, the legislation has been heralded as a crucial step in an effort to jump-start our economy. Simply put, recent developments suggest that we are likely to see a significant uptick in private capital investment, public funding, and innovation surrounding clean technology. In fact, according to a clean energy tracking service first instituted in 2002, more clean energy patents were issued in 2008 than in any year since the tracking began.

THE PATENT LAW LANDSCAPE

In recent years, U.S. patent laws have been in a state of rapid evolution. For example, in just the last few years, there have been unprecedented efforts within all three branches of government to clarify the role of patents as they relate to innovation and commerce. In the Judicial Branch, for instance, the U.S. Supreme Court has accepted patent cases at a much higher rate than it had in the 20 years since

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the Court of Appeals for the Federal Circuit ("Federal Circuit") was first given nationwide jurisdiction over patent appeals. The Supreme Court's decisions have touched on a wide range of patent law issues, and each of these issues bears a direct relationship to the energy-climate era that some believe we are entering. Particular issues include injunctive relief, declaratory judgment jurisdiction, obviousness, overseas infringement, and exhaustion. Each of these issues will be addressed below.

INJUNCTIONS

In 2006, the Supreme Court held that upon a finding of infringement, an injunction should not be automatically entered against the party found to be infringing. *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 392, 126 S.Ct. 1837 (2006). Rather, the Court reasoned, a plaintiff must demonstrate: 1) that it has suffered an irreparable injury; 2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; 3) that, considering the balance of hardships between plaintiff and defendant, a remedy in equity is warranted; and 4) that the public interest would not be disserved by a permanent injunction. *Id.* at 391. While the Court's decision in *eBay* may have initially been perceived as a significant setback to patent holders, it is important to note that the Court also cautioned that in a successful patent infringement action, a patentee's willingness to license its patents and lack of commercial activity in practicing the patents would not necessarily preclude the issuance of a permanent injunction. *Id.* at 393.

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The ramifications of the *eBay* case have been widespread, and the clean technology industry is by no means insulated from its impact. For example, in *Novozymes A/S v. Genencor International, Inc.*, 474 F. Supp. 2d 592 (D. Del. 2007), the plaintiff was a Danish corporation that owned a patent relating to alpha-amylase enzymes used in the production of fuel ethanol from starch-rich crops (*i.e.*, "biofuel"), and the defendant was a staunch competitor already found to infringe the patent. The plaintiff had licensed the technology to an indirect wholly owned U.S. subsidiary that was not a party to the case for a royalty rate of 40%. *Id.* at 596. Neither the patentee nor the subsidiary had practiced the patent, and a key issue before the court was whether the defendant should be permanently enjoined from infringing the patent. *Id.* at 612. The court looked to the *eBay* factors and concluded that each one weighed in favor of the plaintiff. In particular, even though the plaintiff had licensed the technology, the court noted that in *eBay*, "the Supreme Court ... rejected a categorical rule that a patentee's willingness to license its patent is enough to establish that the patentee would not suffer irreparable harm in the absence of an injunction." *Id.* (citing *eBay*).

Thus, *eBay* offers a number of clean technology lessons, particularly for relatively late entrants to the industry. For example, one high-level question for new cleantech companies is whether there is a risk of a finding of infringement and an issuance of a permanent injunction. If so, it may be wise for the entrant to understand the level of risk and mitigate it to the extent possible, perhaps through a design-around or the taking of a license. This issue may be especially relevant in the case of many renewable energy scenarios, where there might have been previous technological developments — for example, by biofuel enzyme manufacturers or hybrid vehicle makers — which could already be patented. In such a case,

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the likelihood of infringement may be even greater. In addition, state and local governments may need to consider this risk when evaluating whether a cleantech company can actually fulfill its proposal, and private investors might need to consider the possibility of such a risk when evaluating and underwriting financing deals.

DECLARATORY JUDGMENT

JURISDICTION

More recently, the U.S. Supreme Court determined that Article III's limitation of federal courts' jurisdiction to "Cases" and "Controversies," reflected in the "actual controversy" requirement of the Declaratory Judgment Act, 28 U.S.C. §2201(a), does not require a patent licensee to terminate or be in breach of its license agreement before it can seek a declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 120, 127 S.Ct. 764 (2007). The Court further indicated that "the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Id.* at 127. It is this "immediacy and reality" that guides the inquiry rather than the "reasonable apprehension of imminent suit" test that had been previously outlined by the Federal Circuit. Thus, in *MedImmune*, the Supreme Court effectively broadened the scope of instances in which an actual controversy could be found.

As in *eBay*, *MedImmune* has had interesting implications within the clean technology sector. For example, a recent decision in another biofuel technology case involved a patent dispute between competing

providers of fluidized bed energy systems used in ethanol plants. *Idaho Energy, LP v. Harris Contracting Co.*, No. CV07-423-N-EJL, 2008 U.S. Dist. LEXIS 77561, at *1 (D. Idaho Sept. 30, 2008). In particular, the plaintiff alleged that the defendant's representative had made statements to the plaintiff and the plaintiff's clients at renewable fuels industry events regarding the "legal ramifications" of installing the plaintiff's fluidized bed technology. *Id.* at *3. The defendant also wrote a letter to the plaintiff indicating that based on the defendant's understanding of the work the plaintiff was doing in the biofuel field, the plaintiff may require a patent license if the plaintiff's research was commercialized. *Id.* at *4. At one point in the discussions, the plaintiff indicated its interest in pursuing a license with the defendant. *Id.* at *5. While the plaintiff ultimately declined to take a license under the defendant's patents, the court relied on *MedImmune* in finding that the plaintiff had carried its burden of establishing the requisite level of immediacy and reality to warrant the issuance of a declaratory judgment. *Id.* at *13.

The *MedImmune* decision therefore suggests that a new participant in the clean technology industry would be wise to consider taking a license to technology in situations where, for example, the risk of infringement is relatively high or where the invalidity case is a close one, because the option of bringing a declaratory judgment action should still be available. On the other hand, holders of key cleantech patents may want to consider structuring their license agreements with more upfront payments to protect against subsequent challenges to their patents.

OTHER NOTABLE CASES

Other recent patent decisions handed down by the U.S. Supreme Court include *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 127

S.Ct. 1727 (2007) (obviousness), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 127 S.Ct. 1746 (2007) (overseas infringement), and most recently *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008) (exhaustion). *KSR's* holding that the Federal Circuit's teaching-suggestion-motivation test for obviousness was too limited, and that other factors such as market forces and design incentives could also serve as a basis for obviousness, could be useful to relatively late entrants faced with broad competitor patents. For example, an accused infringer in the geothermal space might be able to establish that governmental incentives rendered a particular geothermal power solution obvious. The Microsoft decision in which distributors' activities abroad were found to be outside the reach of the patentee's U.S. patent could be particularly relevant to smart grid software companies, where code might be duplicated onto computer terminals that are manufactured and sold overseas. The Court's finding in *Quanta* that patent exhaustion limits the ability of patent owners to control how customers or licensees use the patented technology, could provide a "double dipping" defense to downstream companies in the solar panel and wind turbine manufacturing chains. In particular, a downstream defendant company may argue that the patentee has already received its just benefit from a direct licensee, and therefore, should not be allowed to obtain an additional benefit.



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