



Message from Our Boston Office

We started this newsletter last quarter with the idea of giving our clients and friends our insights into a wide variety of legal issues that may affect their businesses. Our second issue certainly fits that bill.

Michael Renaud and Matthew Kaplan report on a recent court decision that shows that in patent litigation, parties moving for or fighting against a permanent patent injunction cannot ignore any relevant circumstances. While the U.S. Supreme Court last year established a four-part test for granting permanent injunctive relief in patent infringement cases, this new decision from the Eastern District of Texas shows that courts still will consider many factors in determining whether to award injunctive relief.

Switching to the corporate arena, Steve Mandell writes about traits that successful biotechnology companies share – particularly a strong management team and well-qualified legal counsel.

We are pleased to announce that our Boston office continues to expand with the addition of **Matthew S. Gilman** and **David Loo**. Matt, a corporate and securities lawyer, has joined us as a partner and will assist in the growth and development of the firm's corporate and securities practice in the Boston office. David has joined us as a law clerk in our intellectual property practice and is awaiting admittance to the bar.

Thanks for reading!

in this issue

- 1 **Patent Case Emphasizes No Bright-Line Rule Applies to Injunction Remedy**
- 2 **Peppercast: Mandatory Fee Arbitration Agreements**
- 3 **A Prescription for Emerging Biotech Companies: A Strong Management Team Helps Minimize Growing Pains**

Patent Case Emphasizes No Bright-Line Rule Applies to Injunction Remedy

Last May, the U.S. Supreme Court changed the approach to awarding injunctive relief to patent holders that prevail in infringement actions. That decision, *eBay Inc. v. MercExchange, LLC*, 126 S.Ct 1837 (2006), was hailed by some observers as a blow against so-called “patent trolls” – patent holders with no intention of manufacturing the patented product or providing the patented service, but who aggressively assert patent rights in hopes of gaining licensing revenue. A recent decision in the Eastern District of Texas, however, shows that even after *eBay*, courts will take a broader view of the harms facing a licensor when a permanent patent injunction is denied, at least where the infringed patent is critical to the function of the infringing product. Patentees and accused infringers cannot ignore any relevant circumstances when moving for or fighting against a permanent patent injunction.

Background

For decades, district courts, following the mandate of the Federal Circuit, automatically granted permanent injunctions to successful patent plaintiffs in all but the most exceptional cases. In the *eBay* case, the Supreme Court ruled that permanent injunctive relief in patent actions should not be awarded unless the traditional, four-part equitable test favors the plaintiff. A district court must evaluate whether: (1) the plaintiff has suffered an irreparable injury; (2) the remedies at law are insufficient to compensate the plaintiff; (3) the balance of the hardships favors the plaintiff; and (4) the public interest would not be harmed by the injunction.

The fact-intensive nature of this evaluation is highlighted by the fact that the Federal Circuit has deferred to the district courts' discretion to craft remedies, and affirmed every appeal of a permanent injunction ruling since the *eBay* decision was issued in May 2006.

The *eBay* case involved a patent licensor attempting to obtain a permanent injunction preventing future infringement, avoiding a judicially forced licensing arrangement. The case involved eBay's "Buy It Now" feature on its online auction Web site, which a jury in the Eastern District of Virginia found infringed on MercExchange's patents for an Internet-based consignment shop. Because MercExchange did not participate in the same market as eBay and had demonstrated a willingness to license its patents, the district court reasoned that damage to MercExchange was limited to a loss of licensing fees. Because this harm could be addressed with a reasonable royalty remedy, the district court refused to grant a permanent injunction.

On appeal, the Federal Circuit applied its categorical rule granting automatic injunctions for patent infringement, and reversed the district court. In reversing the Federal Circuit, the Supreme Court emphasized the primacy of the traditional equitable test for permanent injunctions, but also cautioned against broad classifications and rejected rigid application of the licensee/competitor distinction articulated by the district court and the categorical rule applied by the Federal Circuit.

Despite the Supreme Court's caution against bright-line rules, the licensor/competitor distinction proposed in the original *eBay* district court ruling had emerged as a viable guideline in the post-*eBay* caselaw to help both patentees and accused infringers determine whether a permanent injunction is forthcoming given the facts of the case. A competitor who holds a patent enjoys a competitive advantage over other market players. When this advantage is destroyed by patent infringement, the shift in market share

and damage to the brand in the market constitute an irreparable harm that favors injunctive relief. Also, legal remedies are not sufficient to restore the rightful position of a competitor, as the district court would be faced with the daunting task of reliably compensating the patentee under the dynamics of the competitive equilibrium. Because a licensor is not a market participant in the infringing product, it does not suffer the competitive irreparable harm from continued infringement. Additionally, the licensor has a reasonable royalty remedy at law, which can usually fully compensate its injuries, since royalties are the main benefit conferred upon a patentee who seeks only to license his invention. Absent this market reconstruction problem, district courts had generally decided a reasonable royalty would remedy infringement of licensors' patents. Plaintiffs in direct competition with infringers generally were awarded injunctions, while plaintiffs who merely licensed their patents generally were not.

Court Takes Another View

However, a recent decision in the Eastern District of Texas is the first post-*eBay* ruling to clearly deviate from this guideline, and has illuminated other factors that affect a district court's decision whether or not to award a permanent injunction.

In *CSIRO v. Buffalo Tech, Inc.*, 2007 U.S. Dist. LEXIS 43832 (E.D.Tex. June 15, 2007), the district court awarded a permanent injunction to a licensor research organization against an electronics manufacturer. The plaintiff, CSIRO, held a patent on a technique essential to international standards used in the common wireless home



Peppercast: Mandatory Fee Arbitration Agreements

Michael Meeks, a partner in Pepper Hamilton's Commercial Litigation practice group and a resident of our expanding Orange County California office, and Eric Goldberg, an associate with Pepper's Philadelphia office who concentrates his practice in commercial litigation, discuss an interesting matter that arose out of the divorce proceedings between Bruce Springsteen's keyboardist, Danny Federici, and his wife Kathlynn Federici.

The matter is *Federici v. Gursej Schneider and Company*. Federici raises the issue of the enforceability of a mandatory fee arbitration agreement between Kathlynn Federici and the accounting firm she retained during the divorce.

Listen today by visiting the Commercial Litigation section of www.pepperpodcasts.com.

networking router. CSIRO had neither the capability nor the desire to practice the invention itself, and attempted unsuccessfully to solicit licenses from several manufacturers using its technology. CSIRO brought suit against Buffalo Tech. Inc., a Japanese electronics corporation that sold wireless routers that used the international standard, and was among those that refused to pay the licensee fee.

While acknowledging the trend denying permanent patent injunctions to licensors, the court emphasized other factors. In many of the cases where a licensor was denied a permanent injunction, a relatively minor portion of a larger product infringed the patent. The *CSIRO* court noted that CSIRO's patent represented a core functionality of Buffalo's device, and not a minor component. Also, unlike many patent holding companies, CSIRO was a large research institution, and the forced licensing scheme inflicted irreparable harm beyond financial damage, including loss of prestige and tying up of capital in litigation that limited the organization's ongoing research capacity.

The licensor/competitor distinction provides a guide to whether a permanent injunction will issue upon a finding of patent infringement in a particular case. However, under the Supreme Court's direction in *eBay* to avoid categorical rules, the *CSIRO* court relied on other factors in granting a permanent injunction to a licensor. The district court avoided the temptation to simply label CSIRO a licensor and deny a permanent injunction, and instead examined the irreparable harms CSIRO would face if the injunction was not granted, such as damage to its reputation and entangling of its research capital in litigation. But the *CSIRO* decision clearly distinguished the cases in which the patent comprised only a small part of a large and popular product such as eBay's online auction house or Microsoft's Windows operating system.

CSIRO sends a signal to patentees and accused infringers that many factors will be considered in deciding whether to issue a permanent injunction. As a result, parties cannot ignore any relevant circumstances when moving for or fighting against a permanent patent injunction.

Authors:

Michael T. Renaud
617.956.4327
renaudm@pepperlaw.com

Matthew A. Kaplan
302.777.6528
kaplanm@pepperlaw.com

A Prescription for Emerging Biotech Companies: A Strong Management Team Helps Minimize Growing Pains

The biotechnology industry has grown substantially in the last two decades and is more than halfway toward \$1 trillion in annual revenue. The issuance of more than 7,700 biotechnology patents each year is testimony to the vibrancy of the industry. But at the same time, biotech companies frequently fail – by one estimate, for every start-up that succeeds, 15 to 20 fail.

What do the successful companies have in common? Seasoned, flexible and responsive executives who can weather the biotech lifecycle and grow successful, profitable, businesses while minimizing the growing pains inherent in the drug discovery and development process. Here are a few traits biotech companies – and their investors – should look for in a management team.

Managers of biotech companies must have a knowledge of science and disease processes, an understanding of the IT tools used to research and develop their products, a grasp of national and international policies for drug discovery, and insight into the ethics involved in using evolving technologies. They must be willing to work to create new collaborative arrangements, and to manage those collaborations. An ability to tap potential investment sources – governmental and private – is important. And it wouldn't hurt to know the intricacies of university tech transfer offices and how to work with academia and other research organizations.

Unlike many types of companies, biotech companies frequently shift missions as they move from research to product based, commercialized organizations. To maximize company strength and unique product knowledge, the biotech management team must include leaders with practical management, marketing, administrative and production skills, who are capable of anticipating change and creating well-planned and targeted strategies for growth. At the same time, the management team must meet specific scientific milestones, which may slow the company's development.

Building a commercial infrastructure demands competence in such varied business skills as finance, accounting, HR, facilities management, distribution, the regulatory process, market access strategies, and knowing the competition. The ability to recognize opportunities to merge, strategically ally, and to buy, sell or license (and protect) intellectual property are essential to biotech success. Sufficient capital and a pool of highly qualified and capable workers also are critical to minimizing biotech growing pains.

Another important biotech management skill is knowing how to use outside resources. Excellent accountants, staffing specialists, legal counsel, specialized facilities agents, CROs and others are key elements to early and continuing success.

Legal counsel can address important issues and help prevent mistakes that can stop sustained growth. Significant legal issues confronting emerging biotech companies concern entity organization and corporate governance, HR matters (including non-disclosure, non-compete and assignment of IP rights), venture capital and corporate finance, benefits and incentives, tax, facility leasing, strategic alliances, M&A and other corporate transactions, and maximizing the value of and protecting intellectual property.

The selection of counsel should be based on the attorney's abilities to help the company grow. Selection criteria include knowledge of the applicable law and the biotech industry, a commitment to become familiar with the company's operations and goals, attorney accessibility and responsiveness, contacts that may help the company grow, and bench strength of the attorney's law firm. Just as important are the ability to communicate with and on behalf of the client, and "likeability" – confidence that the client will enjoy working with the lawyer. Fees – and the knowledge that legal work will be performed cost effectively – also are important, of course. Since the attorney, once becoming counsel for the biotech, may continue in that role for years to come, it is wise to take time upfront before deciding on the right person. If the decision in this regard is made well, the attorney could become a valuable asset for the long run.

Author:

*Steve A. Mandell
202.220.1201
mandells@pepperlaw.com*

Upcoming Events

Pepper Hamilton is a gold sponsor for The Deal's "Innovative Deal Financing Conference."

September 25, 2007 | The Harvard Club, New York City

During the conference, Pepper partner **James D. Epstein** will be speaking on the topic "Bettering Your Dividend Recap Plays." For more information, visit www.TheDeal.com/financing07.

Pepper Hamilton is sponsoring IIR's 2nd Annual Private Equity Fund of Funds Summit.

November 27-28, 2007 | Hyatt Regency, Boston

During the summit, Pepper partners **Steven D. Bortnick**, **Julia D. Corelli** and **Michael B. Staebler** will be presenting on various topics of interest to the private equity community. Visit www.iirusa.com/pefop for more information.

Pepper Hamilton is sponsoring IIR's 3rd Annual Private Equity Fund Formation and Management Conference.

November 29-30, 2007 | Hyatt Regency, Boston

During the conference, Pepper partner and Conference Chairperson **Michael B. Staebler** will be giving the opening remarks and Pepper partner **Julia D. Corelli** will be presenting on the topic "Adapting to Changes in Non-Tax Definitions." Visit www.iirusa.com/pefundformation for more information.

Pepper Hamilton LLP

Attorneys at Law

The material in this publication is based on laws, court decisions, administrative rulings and congressional materials, and should not be construed as legal advice or legal opinions on specific facts.

www.pepperlaw.com

Berwyn | Boston | Detroit | Harrisburg | New York
Orange County | Philadelphia | Pittsburgh
Princeton | Washington, D.C. | Wilmington

© 2007 Pepper Hamilton LLP. All Rights Reserved.
This publications may contain attorney advertising.