

2012 ROUNDTABLE SERIES

INTELLECTUAL PROPERTY

HERALDED AS AN OVERHAUL TO THE U.S. PATENT SYSTEM, THE LEAHY-SMITH AMERICA Invents Act (H.R. 1249) was signed into law a year ago this month with promises of expediting the patent process and protecting inventors. Our panel of experts discusses the law's impact on patent practices, as well as trends in copyright and trademark cases. They are Thomas A. Magnani of Arnold & Porter; Tom Friel of Cooley; Susan Hollander of K&L Gates; Eric Fastiff of Lieff Cabraser Heimann & Bernstein; Dan Johnson of Morgan Lewis; and Marc Foodman of Watson Rounds. The roundtable was co-moderated by *California Lawyer* and Jeff Kichaven of Jeff Kichaven Commercial Mediation, and reported by Paula Shi of Barkley Court Reporters.

EXECUTIVE SUMMARY

KICHAVEN: The most important statutory development of the past year was the America Invents Act (AIA). It has implications not only for patent litigation, but it sounds themes that resound through the copyright and trademark worlds as well. What is the impact of the act?

FASTIFF: As a plaintiffs attorney, to some extent, the act really just increases the cost of litigation. Instead of filing in one forum, you file in several. And they're probably going to get MDL'd [multi-district litigation] together anyways. You will spend six months at the MDL panel, with the briefing and the travel, and you end up in one forum after all. There's a lot of uncertainty, and we're waiting to see how things shake out. I'm uncertain whether the goals in terms of the joinder rules, or lack of joinder rules, will be met.

JOHNSON: Prior to this statute, you could sue multiple defendants for infringing the same patent, which enabled you to keep your costs low and the big targets in play. You could systematically settle with some of the smaller players or a big player to fund your litigation. It was enough to sue five cell phone manufacturers for a particular feature. Now, you've got to show that it's being implemented in virtually the same way, or the court will say you have a misjoinder, and you've got to sue each one individually.

KICHAVEN: If one of the goals of the AIA is to reduce the high cost of intellectual property litigation—patent litigation in particular—will it work? What are the intended and unintended consequences?

JOHNSON: From the plaintiff's side, it's much more expensive to have to sue several parties with different schedules. If you're the

defendant, it becomes less expensive. It's just one on one and, "I can play all the games I want with you." And you've got to address each one. It's much more pro defendant than pro plaintiff.

FRIEL: Defense costs have gone up. And it's very difficult—particularly in cases fought across multiple jurisdictions—to ride on someone else's coattails. The hope of the legislation was to reduce the number of defendants and in my experience that's true. It may be that the more marginal defendants have been excluded. The panel is out on whether MDL will allow suits to be put back together for at least pretrial efficiency purposes, given Congress' express intention in the statute—not with respect to MDL but with respect to district courts—to separate them. MDL is generally only for pretrial and not for trial. After the pretrial, the cases are to be sent back to their respective jurisdictions.

If the cases are in the same district, we've also seen moves to consolidate the separate cases for pretrial. Suddenly they start looking very familiar, and some defendants are voting to try invalidity issues together for cost savings and efficiency purposes. Judges are saying, "I'm not going to have ten different trials on invalidity."

FOODMAN: The legislation was strongly lobbied by large technology companies, and they were pushing to make it more difficult for plaintiffs and nonpracticing entity plaintiffs to bring those cases.

FASTIFF: But it's unleashed a lot of other consequences for defendants that they were willing to accept knowing that the plaintiffs have to incur much higher costs and make it much more difficult for them to succeed.

JOHNSON: The defense costs are going down because there are fewer multiparty cases filed where the plaintiff can indiscriminately sue 10 or 20 people. They simply can't afford it. If you are among the cast of 50, let's say, who always gets sued, that's less likely now. The rule doesn't affect joint defense agreements. There's still great opportunity to share prior art and discuss strategy. You're seeing that same cooperation. But the filings are down across the board.

FRIEL: Section 1404(a) transfers (ordered pursuant to 28 U.S.C. § 1404(a)) kicked into effect before the AIA was passed, and that

development has had a dramatic effect. Eric [Fastiff], with the AIA now in place, do you think about potential infringers in a different way? Do you triage them? Do you throw a marginal player in as a defendant, whereas, you might have before, now you don't?

FASTIFF: Our clients have serious claims that are worth a lot of money. For us it hasn't changed, but the points you and Dan [Johnson] are making are true in terms of venue and fewer defendants. The marginal defendants are dropped out. On another point, if the cases are split among jurisdictions, you will see more judicial activism, where the judges will call each other and require discovery and case management coordination. You will hear judges saying, "Let's wait to see how that judge rules on the issue." We're not going to have multiple rulings on the same issue so we end up with some sort of a conflict that will have interlocutory appeal issues.

KICHAVEN: Some of these issues impact trademark and copyright litigation as well. What are you seeing in those fields?

HOLLANDER: The trend to cancel trademarks is creating tension. In the past year, in more than 100 cases a defendant or plaintiff moved to cancel a trademark. Typically those actions are brought



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with the trademark office, but district courts also have jurisdiction to cancel trademarks. Increasingly the tendency is not to bring those actions with the trademark trial and appeal board, but to bring them in district court actions as a defense to an infringement or, for a plaintiff, to independently move to cancel a trademark as part of a declaratory judgment action, for example.

MAGNANI: In copyright, judges are much more willing and able to shift attorneys fees and court costs to the prevailing party. As a result, there are fewer frivolous, nuisance copyright claims—the plaintiffs in those cases don’t want to risk having to pay the defendant’s fees and costs as well as their own. The *Righthaven* lawsuits (e.g., *Righthaven, LLC v. Hoehn*, 792 F.Supp.2d 1138 (D. Nev. 2011)) exemplify this risk. Righthaven, referred to by some as a copyright “troll,” consolidated copyright claims from numerous newspapers and other publishers to bring copyright suits against bloggers and other small infringers. Those cases went poorly for Righthaven, and judges started awarding fees to the defendants in those cases. Righthaven threatened to file for bankruptcy and U.S. marshals were ordered to seize its assets.

FOODMAN: Susan’s [Hollander] comment about a trend toward invalidating trademarks in court is a reminder—we’ve only seen part of the AIA go into force. This month new review procedures will be launched at the patent office and through the administrative channel. These procedures may be an alternative to court or supplemental to litigation. The new challenge procedures will be available to third parties within the patent office construct, and it may be less expensive than litigation. Under the current system, the patent office isn’t taken seriously enough. Challenging a patent through it raises questions about the quality of the review and the ability of the challenger to get a full and complete hearing. For those reasons, certain parties would rather go to court where they feel they have a better chance of presenting their case to a judge and a jury instead of taking their chances at the patent office.

JOHNSON: There’s nothing to suggest that the patent office will be trained in quasi judicial, if not totally judicial, matters so that they can get it right.

FRIEL: For years the practice was not to file for reexaminations because of the results Dan [Johnson] is talking about. Recently the pendulum has shifted as reexamination filings have become more automatic. But most parties, if they really care about it and are well funded, will go everywhere. It’s just going to be more expensive.

MAGNANI: The AIA may swing the pendulum the other way. The new post-grant review proceedings will have res judicata and collateral estoppel effect. How will that play into clients’ decisions about which forum to exploit?

HOLLANDER: Statistically if you bring in an opposition or cancellation action with the trademark trial and appeal board, they’re more

inclined to go with what the examiner ruled than a district court judge will. District courts are much more inclined to look at everything anew. They’re not incredibly influenced by what the trademark office has done.

FRIEL: There’s a distribution of judicial opinions on the issue, and you can get all kinds of results. But I agree that most judges tend to think it’s their job to look at this independently, and that the clear and convincing burden of proof must mean something, but maybe not that much.

FASTIFF: In advising our clients, we like to talk about certainty and try to give them a good recommendation. With the new procedures, questions about funding, appeals, estoppel and res judicata, district courts for us are predominantly the focus of our recommendations. Particularly now that a lot of district courts have local patent rules. The goal is to expedite their process. It gives them some clarity, some timeliness boundaries where you think what’s going to happen. The patent office is going to have a hard time keeping up.

KICHAVEN: Judge Posner’s June decision in the *Apple-Motorola* litigation addresses the issue of injunctive relief. (See *Apple Inc. v. Motorola, Inc.*, 2012 WL 2376664 (N.D. Ill.)) He takes the view that perhaps injunctions are too liberally granted when, for example, one patent in a highly complicated device may be infringing. There’s a discussion of the social good in granting injunctions, and whether there are too many or not enough. Are courts striking the right balance?

JOHNSON: Ask yourself, if I have a constitutional right to exclude, how can a judge tell me not to and instead take a royalty? Now framing the question that way is highly pejorative, but the Constitution says you have a right to exclude, which seems to suggest that I’m entitled to injunctive relief. But it troubles me that the right to exclude does not mean what it used to—now it should only be granted under limited circumstances.

FRIEL: The Supreme Court in *eBay Inc. v. MercExchange, L.L.C.* (547 U.S. 388 (2006)) said there is no automatic right to exclude, that you must consider the four-factor balancing test, which includes the public interest.

FOODMAN: Injunctive relief is very valuable, and that’s one of the reasons we get patents. But Judge Posner pointed out that Motorola made that patent part of a standards pool and agreed to the pool’s set licensing terms so that it’s available for anybody to license on reasonable, nondiscriminatory terms.

MAGNANI: On one hand, you’re right, Motorola agreed to be subject to a RAND (reasonable and nondiscriminatory) obligation. But Apple wouldn’t agree to what Motorola thought was a RAND royalty. Without the threat of an injunction to encourage people to take what you believe to be a RAND royalty, how do you get them to pay it? Won’t you always get less than the RAND royalty because people know that if they go to court over it, they will have

to pay, at most, what you're asking, and there is at least a chance they may pay less?

FOODMAN: But if your patent is part of a standards pool and you are successful in enforcing your patent against an infringer who refused to take a license for the standard, and you do get less, then the infringer also opens himself up to all of those other patents in the pool on an individual basis and they may end up defending themselves against one or more additional lawsuits from the other patentees. Ultimately, the infringer may pay more than the RAND amount because he will have to take individual licenses for each of those patents rather than a group of patents probably priced at a "volume" rate. Patents in the standard pools can be junk. The standards pool can be an effort by member companies to charge the marketplace for innovations that they develop, but it doesn't prohibit anybody from including marginal patents and getting value for them. The judge didn't discuss this problem in the opinion, but he is saying, "you're willingly licensing this patent at a set price, therefore we know how to set the damages."

JOHNSON: But in the context of the right to exclude, if I'm Apple and I can knock out Motorola so they can't sell any smart phones, that is an extraordinarily powerful weapon. Then it's not about the money, it's about the market. The market issues ought to trump, because that's what these people are in business for: market acquisition.

FOODMAN: Motorola or other contributors to patent pools ought to think more carefully about putting their patents into a pool where a preset licensing rate is established. If they want to use them to exclude people, then they shouldn't make them available on reasonable and non-discriminatory terms.

JOHNSON: But look at it the other way. Let's say you want to have an open platform. It's Android. You've got patents available in an open pool, or we've got a communication protocol so that if you want to work with one particular provider you can. But if you make the decision not to, then ultimately the hammer is that you don't get to use it. That's where the power of the right to exclude lies.

MAGNANI: To your point about the constitutional right to exclude, the Constitution conveys that right "in order to promote the progress of the arts and sciences." That's where the public interest comes in. Your patent, your monopoly, should apply only insofar as it promotes the arts and sciences. Posner felt in the *Motorola* case that an injunction would not serve the public interest because it would exclude from the market devices that otherwise have tremendous value in the name of protecting inventions that he thought had dubious value in the overall device.

JOHNSON: But the argument about promoting the arts and sciences that [Thomas] Jefferson articulated was literally about making sure that people would invest the money to secure patents, not that arts and science overall needed protection from these avaricious businesses.

FASTIFF: You're seeing something interesting about market share and knocking out products when Judge Posner ends the *Apple-Motorola* case but Judge Koh actually enjoins Samsung at Apple's request regarding its tablets in a trial that's starting today. (*Apple Inc. v. Samsung Electronic. Co. Ltd.*, No. 11-CV-1846.) This is one part of a multi-piece global litigation. It's all about market share and whether you can stop a competitor from competing.

A two-tier system is emerging with patent aggregators—companies in business to gather and license patents—and major technology companies, whether it's Google or Facebook, who are spending billions to acquire patent portfolios. When Google bought Motorola, almost half of the \$12.5 billion purchase was for its patents. Accumulation of patents, companies trading the patents, selling them for a short period of time, and licensing them for use in strategic business alliances against their competitors—it's moving into the antitrust area where there is monopolization and arguments about racketeering and extortion, in terms of the patent aggregation companies. We're going to see that collision between antitrust and patents come to the forefront pretty soon.

KICHAVEN: We have had some rather lofty discussion of the way current patent jurisprudence does or does not fit into the higher purposes of patent law. Susan [Hollander], as a trademark expert, perhaps you can comment on whether current trademark jurisprudence does or does not fit into the higher purposes of trademark law.

HOLLANDER: Over the past year, trademark lawyers have been paying attention to whether courts will uphold and enforce trademark registrations. Currently on appeal with the Second Circuit is the *Louboutin* case (*Christian Louboutin S.A. v. Yves Saint Laurent Am., Inc.* 778 F.Supp.2d 445 (S.D.N.Y. 2011), pending as No.11-3303 (2d Cir.)) in which Christian Louboutin has a federal trademark registration for a red-soled shoe that is well known in the fashion world and many would say is source identifying. The court denied a preliminary injunction motion against Yves Saint Laurent for using red-soled shoes. It gave a broad opinion comparing Louboutin's attempt to prevent others from using that color to Picasso trying to prevent painters of his period from using a certain shade of blue. This opinion makes you think that to get registrations you will need to show more than one element.

KICHAVEN: The reluctance to grant the injunction in the *Louboutin* case seems intellectually to be of a piece with Judge Posner's reluctance to grant an injunction in the *Apple v. Motorola* case, because it would go too far to prevent competition in the marketplace. What trends do you see around aesthetic functionality and how that affects competition and creativity?

HOLLANDER: Aesthetic functionality means that an aspect of the product or trademark—while aesthetic—is needed to compete in the marketplace. In *Louboutin*, the argument was that even though the color red might not be necessary for the functionality of the shoe as a shoe, it's necessary for it to compete in the world of fashion. There seems to be more of an inclination to import fair use

types of defenses into trademark cases. This arguably is one of them.

KICHAVEN: Fair use is a concept that is most often associated with the copyright act, right? And now you're seeing it transported and applied in the context of the Lanham Act, the trademark statute.

HOLLANDER: In the Ninth Circuit you now have nominal fair use, which shifts the burden in terms of an infringement analysis. But we've also seen the *Toyota* case in the Ninth Circuit (*Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171 (9th Cir. 2010)). The court employed kind of a fair-use determination and said that they're using the marks to describe the plaintiff's products, and it's not causing any confusion. In the *Betty Boop* case (*Fleischer Studios, Inc. v. AVE.L.A., Inc.*, 636 F.3d 1115, withdrawn and replaced by 654 F.3d 958 (9th Cir. 2011)) the plaintiff attempted to capture a monopoly by virtue of trademark where the copyrights had expired but the trademark rights arguably had not. The court, perhaps supporting some principles of fair use, said you're not able to capture by trademark what the copyright laws will not let you do.

MAGNANI: *Fleischer Studios* is an interesting case because the original three-judge panel decision was based entirely on aesthetic functionality grounds. The court said the use of Betty Boop on a handbag is not a trademark use; it's a decorative use. The court also noted that if the plaintiff were to have trademark protection on Betty Boop's image, that would preclude anyone else from using it, which, if the copyright has expired, is something that the Constitution says the public should be allowed to do. The court cited the Supreme Court's decision in *Dastar* (*Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003)) for the notion that trademark law cannot extend the monopoly that copyright law originally granted. This tension between trademark law and copyright law is just coming to a head now as some famous copyrights expire.

KICHAVEN: So far we have focused on the U.S., but as the world becomes increasingly connected, how is that affecting your practices?

MAGNANI: The internationalization of legal strategy cuts across all these disciplines. The cases are getting bigger and more complicated, and they're being brought in multiple jurisdictions. You can no longer bring a case in the U.S. and expect that to be your sole source of relief. Plaintiffs are bringing cases in Europe in each country's court, some of which have very aggressive remedies available to plaintiffs.

HOLLANDER: You almost can't bring an action in the U.S. for infringement without looking at the international implications. Can you bring that action in other countries? Are you vulnerable in countries that matter to you on the same mark? More now than ever you have to look at how and whether you can get your regis-

trations through, and if you file a suit in the U.S. do you have the rights in China? It is not a common law country, so whoever gets the registration there first will have a monopoly.

KICHAVEN: Marc [Foodman], you are principally involved in counseling clients rather than litigating. What are you doing differently at the front end in light of these international developments?

FOODMAN: People filing patents and other forms of IP are paying a lot closer attention to China in particular given the size of the market there. Recent trademark cases in China have given companies decent enforcement results. I haven't heard of a lot of patent infringement cases going in China, but companies are filing more new patent applications there looking toward the future. As the laws and enforcement opportunities become stronger and more predictable, you will see more companies pursuing enforcement against infringers in China, and in other countries where IP rights are developing around the world.

FASTIFF: It's going to be a passing problem. In the antitrust area, when Honeywell tried to merge and EU blocked it and the U.S. DOJ approved it, that was the end of the merger. But then the DOJ economists went to the EU, and now those merger guidelines are harmonized. Where there were no courts or systems before, there are now developing courts and systems. It's a global economy, the protection of your intellectual property will be important at home and abroad, and companies and governments will be pushing to have that equality.

JOHNSON: The problem isn't where they have to go, it's how they get there and who they protect. Our system was set up so anybody who comes here with IP can get it protected. That's not true in countries that are still very insular in their willingness to focus on and protect their own.

FRIEL: The international lawyers, judges, and professors I meet with all want to know how to set up a system like ours, and yet we're continually introducing reforms to change our system. But the move is actually towards disharmonization because everybody is looking for an edge. Maybe, Susan [Hollander] and Tom [Magnani], you're seeing it in your practices too?

MAGNANI: The global marketplace poses some unique challenges to trademark practice. For example, words can mean very different things in different countries. In China, you can have transliteration issues. Dividing trademarks by geography often isn't an effective solution for disputes because the Internet is global.

More challenges are being brought in the U.S. by companies from Europe and Latin America that don't actually sell product in the U.S. yet. They would like to sell here, and believe that U.S. companies have already high-jacked their brands in the U.S. They may have famous marks in the rest of the world, but are virtually unknown in the U.S. And of course we are seeing the opposite, as well. ■