Journal of Business & Technology Law

Volume 4 | Issue 1 Article 1

The New Private Ordering of Intellectual Property

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FOREWORD

ONE CONSEQUENCE OF THE RENEWED U.S. SUPREME COURT interest in patent cases in recent years is an enhanced scrutiny on patent rights generally and, in particular, on the importance of better defining contracts to govern the patent rights among the parties. The Intellectual Property Law Program of the University of Maryland School of Law, in collaboration with the Business Law Program and the *Journal of Business & Technology Law*, convened a symposium on April 18, 2008 to consider the pertinent jurisprudence to inform prudent business practices in managing patent rights by private agreements. This Issue of the *Journal* includes a separate symposium section that provides an annotated transcript of the proceedings and two articles, which address the issues raised at the symposium. This foreword is intended to provide the reader with a brief context for that day's events.

The focal points of the symposium were the discussions about the three recent Supreme Court patent cases: *eBay Inc. v. MercExchange, L.L.C.*,[1] *MedImmune, Inc. v. Genentech, Inc.*,[2] and *Quanta Computer, Inc. v. LG Electronics, Inc.*[3] Whereas *eBay* and *MedImmune* had been decided in 2006 and 2007, respectively, the Court did not issue its decision in *Quanta* until after the symposium, on June 9, 2008, so speculation about the Court's likely action in *Quanta* was a key interest. The thread that arguably runs through these patent appeals is the Court's increasingly critical view of the patent law administration by the U.S. Court of Appeals for the Federal Circuit as somewhat of an unrepentant outlier that has eschewed the legal principles that generally apply to other disciplines.

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1. 547 U.S. 388 (2006).
2. 549 U.S. 118 (2007).
3. 128 S. Ct. 2109 (2008).

Indeed, the Court in *eBay* eliminated the Federal Circuit presumption that a permanent injunction should issue once patent infringement has been found, in favor of the application of the traditional four-factor equitable test that governs injunctive relief generally.[4] In *MedImmune*, the Court reached to the jurisprudence on government coercion to justify the conclusion that Article III jurisdiction attaches even where "[t]he plaintiff's own action (or inaction) in failing to violate the law eliminates the imminent threat of prosecution . . . ."[5] During the oral arguments in *Quanta*, Chief Justice Roberts appeared to admonish that better contract drafting might have averted the controversy, by stating that "there's a lot of uncertainty, uncertainty that could have been cured by how the contract was drafted, and people prefer to live with that uncertainty and litigate rather than clear it up in the contract."[6] With these few examples, it seems likely that patent law will no longer be tolerated as a sanctuary of arcane legal doctrines, but must evolve to accommodate generalist jurisprudence and customary business principles.

To help inform our discussions in this regard, we were fortunate to have the services of notable experts and other witnesses to these historical events. Our first panel discussion, which I had the honor of moderating, addressed the issues raised by the *eBay* and *Quanta* cases. Professors F. Scott Kieff and Andrew Beckerman-Rodau provided insightful commentary on the nature of the tension between treating intellectual property rights as a mélange of liability rules or as bona fide property.

Professor Kieff, of the Washington University in St. Louis School of Law, spoke to the dangers of analyzing patent licenses with hard and fast rules:

> *[C]ontracts, intellectual property, property rights, etc.—all share some very basic means. Economic success is about private ordering. Private ordering is about flexibility to strike the deals you want on the terms you want and a little bit of flexibility for the government. Not the kind of flexibility to allow the court to enforce when it wants, but for the court to enforce deals that were struck. And not to give a firm mandate where the government says, "these are the terms of your contract and you must have these in them and you cannot contract around them." The bottom line is that some of the recent cases that we will be talking about today frustrate the good coordination and facilitate the bad coordination.*[7]

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4. *eBay*, 547 U.S. at 392.

5. *MedImmune*, 549 U.S. at 129.

6. Transcript of Oral Argument at 8, 11, 16–20, *Quanta*, 128 S. Ct. 2109 (No. 06-937).

7. Session, *eBay v. MercExchange* and *Quanta Computer v. LG Electronics*, 4. J. BUS. & TECH. L. 5, 25–26 (2008) (remarks of F. Scott Kieff).

In a similar vein, Professor Beckerman-Rodau, of Suffolk University Law School, identified the need to consider whether our core values require viewing intellectual property rights through the lens of a real property paradigm:

> *[T]his comes down, to a large extent, to whether courts are going to view patents as property. If courts view patents as property, then the innovators should be enabled and empowered to control how their intellectual property is used. If they are not going to be property, then compulsory licenses make more sense. But compulsory licensing radically undersells, or ignores, the concept of private property. And the* Quanta *case, which was referred to before, will ultimately turn on the court's fundamental view of patents: whether or not patent rights are viewed as property will dictate the result.*[8]

Mr. Thomas Woolston, CEO of MercExchange, punctuated our discussion with his personal business lesson on the impact of the patent law jurisprudence on the dynamics of technology wealth creation and commercial competitiveness:

> *[W]e have raised money on the strength of our IP, and we have hired people on the strength of our IP, and it is difficult to think that you have to put out a product placement memorandum that has a caveat stating that we have been issued patent rights, but those rights will only protect us if some big infringer does not march in and take the rights, in which case we are forced to compulsory license and then our market will be destroyed. That is kind of tough to put in a PPM. It is not what people think of as patents.*[9]

Professor Kelly Casey Mullally, of the University of Maryland School of Law, moderated our second panel discussion that focused on the *MedImmune* decision. Messrs. Gregory Castanias and Franklin E. Gibbs offered their practical perspectives of the post-*MedImmune* patent landscape. In particular, there was plentiful fodder for the discussion of client concerns over the future effectiveness of patent licenses given the susceptibility of invalidity challenges to the underlying patents, and the prudent guidance to respond to such concerns.

Mr. Castanias, Partner at Jones Day, opined that the implications of *MedImmune* on patent licenses might be more circumscribed than first thought by some, and perhaps were more significant in setting the procedural posture of the ensuing patent litigation:

> *This becomes not-so-much a question of whether there is going to be litigation, but where there is going to be litigation and who is going to get to choose. This*

8. *Id.* at 37 (remarks of Andrew Beckerman-Rodau).
9. *Id.* at 43–44 (remarks of Thomas Woolston).

> *gives more power to the potential defendant, to the non-patent holder. It is going to come up in the context of licensing discussions, it is going to come up in the context of inquiry or charge letters—where you send a letter to somebody and say, "You know, we have got a patent and we think we ought to discuss it with you."*[10]

He continued that these legal considerations must nonetheless remain grounded in the furtherance of the business objectives:

> *[U]ltimately over all this you have to do a business reality check. And this is where I am trying to bring the theme of this conference back to you, which is how you use contracts to privately order your intellectual property rights. You have to evaluate your chances of winning a validity challenge upfront. Why upset a good business deal if you do not have to?*[11]

Mr. Gibbs echoed Mr. Castanias' sentiments about the wide range of possible client responses to *MedImmune*, but emphasized the importance of tailoring the legal advice about the rapidly shifting sands of patent law to specific client needs:

> *[W]e have that class of client that wants it all. They want to know, "How can I protect myself every which way from a case like this?" For that class of clients, I find some of their ideas are running a gambit between amusing to being pretty valid alternatives.*[12]

In summary, the symposium highlighted the emerging status of contracts as the drivers of intellectual property rights and the renewed significance of private ordering in the management of patent infringement liability risks. On behalf of the symposium participants, I invite you to gain a fuller appreciation of these considerations by continuing your reading with the exciting panel exchanges reflected in the annotated transcript that follows in this volume of the *Journal of Business & Technology Law*.

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10. Session, *MedImmune v. Genentech*, 4. J. BUS. & TECH. L. 59, 71–72 (2008) (remarks of Gregory Castanias).

11. *Id.* at 77.

12. *Id.* at 79 (remarks of Franklin E. Gibbs).