

IP Update

A look at current cases shaping intellectual property.



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PATENTS / STANDARDS

Practicing a Standard Can Be Used to Prove Infringement

The U.S. Court of Appeals for the Federal Circuit held that compliance with a mandatory or essential industry standard can support a finding of infringement, if the standard itself as drafted with the necessary specificity. *Fujitsu Limited, v. Netgear Inc.*, Case No. 10-1045 (Fed. Cir., Sept. 20, 2010) (Moore, J.).

The plaintiffs—Fujitsu, LG, and Philips (collectively Fujitsu)—sued Netgear for infringement of three patents that were purported to be essential to two wireless networking standards: the IEEE 802.11 2007 standard (802.11) and the Wi-Fi Alliance Wireless Multi-Media Specification, Version 1.1 (WMM Specification). After claim construction, Fujitsu moved for summary judgment, arguing that because Netgear complied with the standard, Netgear necessarily infringed the asserted claims.

The district court denied the motion, holding that Fujitsu must show evidence of infringement for each accused product. Fujitsu appealed.

On appeal, Netgear argued that it is legally incorrect to compare claims to a standard rather than directly to accused products. Netgear also argued that a holding that practicing a standard infringes a patent would amount to an automatic conclusion of infringement against all future accused infringers, thus depriving later litigants a fair opportunity to prove that their products did not infringe.

Fujitsu pointed out that the Court has previously approved the use of standards in assessing infringement—although the cited cases resulted in a showing of non-infringement. Fujitsu also argued that judicial efficiency results when a standard provides the necessary level of specificity.

The Federal Circuit concluded that in certain circumstances a district court may rely on an industry standard to analyze infringement. For example, if, after construing the claims, the court determines that the scope of the claims includes *any* device that practices a particular standard, that finding can support a conclusion of infringement. The Court reasoned that when an accused product operates in accordance with a standard, comparing the claims to the standard is the same as comparing the claims to the product. As a defense, an accused infringer is free to either prove that the claims do not cover all implementations of the standard or to prove that it does not practice the standard.

The Court also held that public policy weights in favor of this approach and there would be no prejudice against future litigants. The Court reasoned that if two products undisputedly operate in the same manner (*e.g.*, in accordance a mandatory standard), a finding of infringement against one should create a persuasive case against the other.

The Federal Circuit noted that in many instances an industry standard does not provide the level of specificity required to establish that compliance with standard would always result in infringement. The Court reiterated that the use of a standard to prove infringement is *only* appropriate when a patent covers every possible implementation of a standard.

Practice Note

Choosing an expert who not only understands the technology at issue but also the accused standard is now more important than ever.

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PATENTS / OBVIOUSNESS

Angiotensin Receptor Blocker Not Obvious Under Lead Compound Doctrine

The U.S. Court of Appeal for the Federal Circuit affirmed a district court's holding that Mylan failed to establish a *prima facie* case of obviousness for Daiichi's olmesartan medoxomil, which is the active ingredient in Benicar®, an angiotensin receptor blocker (ARB) used to treat high blood pressure. *Daiichi Sankyo Company, Ltd. v. Matrix Laboratories, Ltd.*, Case No. 09-1511 (Fed. Cir., Sept. 9, 2010) (Lourie, J.).

In chemical cases, the standard for determining whether a claimed compound is obvious is analyzed under what has become known as the "lead compound" doctrine. The Federal Circuit has stated in cases such as *Eisai* and *Takeda* that obviousness based on structural similarity can be proved by identification of some motivation that would have led a medicinal chemist of ordinary skill in the art to select and then modify a known compound (*e.g.*, a lead compound) in a particular way to achieve the claimed compound.

Mylan filed multiple Abbreviated New Drug Applications with Paragraph IV certifications challenging Daiichi's patent directed to olmesartan medoxomil and seeking U.S. Food and Drug Administration (FDA) approval to market generic olmesartan medoxomil. Daiichi filed suit against Mylan alleging infringement. Olmesartan medoxomil consists of an imidazole ring comprising, among other substituents, a hydrophilic group at the 4-position. Other second-generation ARBs have a lipophilic group at the 4-position of the imidazole ring.

The parties subsequently stipulated to infringement, leaving only Mylan's counterclaim that the claimed subject matter would have

been obvious in light of the following: second-generation ARBs (*i.e.*, lead compounds) in prior art U.S. Patent No. 5,137,902; example 118 in U.S. Patent 5,138,069 that allegedly provided motivation for one of ordinary skill in the art to replace a lipophilic group of the '902 compounds with the hydrophilic hydroxyalkyl group of the claimed compound; and the well-known use of medoxomil as a prodrug. The district court held that Mylan failed to establish a *prima facie* case of obviousness. The district court also found evidence of unexpected results based on olmesartan medoxomil's favorable biological properties (*e.g.*, enhanced potency) and commercial success based upon significant market penetration of Benicar® despite it being the seventh ARB on the market.

On appeal, the Federal Circuit cited to its earlier decisions and agreed with Daiichi that Mylan failed to demonstrate either that one of ordinary skill in the art would have been motivated to select the ARBs disclosed in the prior art '902 patent as lead compounds or that the skilled artisan would have modified the '902 compounds to produce olmesartan medoxomil. Mylan argued that the '902 compounds structurally are the closest prior art and "should have been dispositive of the lead compound issue." The Court stated that selection of a lead compound requires consideration of structural similarity, but also knowledge in the art of the functional properties and limitations of the prior art compounds. Of note, the Court stated that "potent and promising [compound] activity trumps mere structural relationships."

Mylan also argued that example 118 in the '902 patent provides motivation for the skilled artisan because it contains a compound with a lipophilic group. In response, the Court stated that the few compounds with a hydrophilic group are "drowned out" by the sea of compounds with lipophilic groups at the same position. The Court further stated that the district court correctly found that the prior art taught away from replacing the lipophilic group of the '902 compounds with a hydrophilic group to arrive at the olmesartan medoxomil. To support its position, the Court cited the structure-activity relationship data in the '069 patent and lipophilic, not hydrophilic, groups in other second-generation ARBs. Consistent with *KSR*, the Court considered how the skilled artisan would have viewed the prior art as a whole rather than in a vacuum.

Since the Federal Circuit affirmed the district court's findings that Mylan failed to establish either that the skilled artisan would have selected the '902 patent ARBs as lead compounds or that one of ordinary skill in the art would have modified the '902 patent ARBs at the 4-position of the imidazole ring to obtain olmesartan medoxomil, it did not address the district court's alternative grounds for holding that Mylan failed to establish a *prima facie* case of obviousness or its findings on secondary considerations.

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PATENTS / SUCCESSOR LIABILITY

Successor to U.S. Subsidiary Liable for Predecessor's Patent Damages Liability Notwithstanding Its Establishment Pursuant to Foreign Agreement Between Foreign Companies

Reversing the district court's finding of no successor liability, the U.S. Court of Appeals for the Federal Circuit held that the question of successor liability relating two U.S. corporations is controlled by United States law, notwithstanding anything to the contrary in a foreign asset purchase agreement under which the successor was created. *Funai Elec. Co., Ltd. v. Daewoo Elec. Corp.*, Case Nos. 09-1225, -1244 (Fed. Cir., Sept. 1, 2010) (Newman, J.) (Linn, J., concurring).

In 2004 Funai filed suit, alleging the infringement of six U.S. patents against four Daewoo entities: Daewoo Electronics Corp. (DEC), a corporation of South Korea; and its predecessor Korean company Daewoo Electronics Co. (DECL); a DEC and DECL U.S. subsidiary named Daewoo Electronics America, Inc. (DEAM), a Florida corporation; and its predecessor (also a DEC and DECL U.S. subsidiary) Daewoo Electronics Company of America (DECA), a California corporation.

In 2005 DECL and DECA (collectively the predecessor companies) ceased participating in the litigation and the district court entered default judgment against them, awarding Funai almost \$7 million in damages. The predecessor companies did not pay the judgment, and Funai asserted that DEC and DEAM (collectively the successor companies) should be liable for the default judgment.

After a full trial, a jury held that the successor companies willfully infringed three of Funai's asserted patents and awarded Funai just over \$7 million in damages against the successor companies. The district court, applying Korean law, concluded that the successor companies were not liable for the default judgment against the predecessor companies. Both sides appealed.

On appeal, the Federal Circuit affirmed the infringement findings, but reversed the district court's finding regarding successor liability, concluding that DEAM was liable for the default judgment against its predecessor, DECA. The Federal Circuit reasoned that that despite the fact that the predecessor company's assets were transferred from DECA to DEAM pursuant to a Korean contract

(entered into by two Korean companies), the issue raised is not one of conflict or choice of law between the United States and Korea. Instead, the "question is whether a domestic corporation incurring a judgment of a United States court is insulated from that judgment if the judgment would not be enforceable under the laws of its foreign parent." Finding that the laws of the United States "ha[ve] an overriding interest in the integrity of judgments of its courts with respect to violations of United States law by entities doing business in the United States," the Court went on to hold that United States law should apply, and under the Ninth Circuit's choice of law rules, New Jersey law requires DEAM be held liable for the default judgment entered against DECA.

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PATENTS / DAMAGES

Manufacturers of Patented Products Must Be Licensed to Recover Lost Profits

The U.S. Court of Appeals for the Federal Circuit held that a company that owns a patent, but does not itself manufacture a product covered by that patent, is not entitled to claim lost profit damages, even if its sister company manufactures a product that is covered by the patent. *Spine Solutions v. Medtronic Sofamor*, Case No. 09-1539 (Fed. Cir., Sept. 9, 2010) (Moore, J.).

The patents in suit related to intervertebral implants, or total disc replacement devices. Spine Solutions (SSI) sued Medtronic, alleging infringement of its patent. After a jury trial, SSI was awarded \$5.7 million in lost profits, an 18 percent reasonable royalty on the remaining \$9.1 million in revenue (which the district court doubled pursuant to 35 U.S.C. §284), attorneys' fees and a permanent injunction. Medtronic appealed.

The Federal Circuit first discussed the invalidity and infringement issues raised. It was undisputed that, except for a "single anchor" limitation, a prior art reference disclosed every element of the independent claim. However, the Federal Circuit disagreed that it would have been obvious to one of ordinary skill in the art to combine the "single anchor" limitation from a secondary reference with the primary prior art reference because the record failed to show that a person of skill in the art would have viewed a "single anchor" as being stable enough for a disc replacement device.

Turning to the infringement issues, Medtronic argued that one of the allegedly infringing products lacked the “single anchor” limitation because it had two anchors. The Federal Circuit agreed based on a “simple observation” of the product and, because the applicant had disclaimed use of two anchors during prosecution, reversed as to that product.

Medtronic also appealed the district court’s decision to allow SSI to add two sister companies that manufacture the patented devices as co-plaintiffs in order to claim lost profit damages. The Federal Circuit agreed with Medtronic that there was insufficient evidence that the sister companies were exclusive licensees with standing to sue for infringement. Instead, the only evidence was an implicit “understanding” between the related companies as to licensing, an understanding that was not documented by an oral or written agreement. As the Court noted there was nothing to stop SSI from licensing to a third party, the Federal Circuit concluded that “[i]f we were to find standing on these facts, this would mean that any company related to a patent owner could be treated as an exclusive licensee, so long as the patent owner allows only that company to practice the patent, regardless of any actual agreement as to exclusivity. This is plainly contrary to our case law, which specifies that a bare license ... even if it is the only license granted by the patentee, does not provide standing without the grant of a right to exclude others.” Thus, the Federal Circuit reversed the award of lost profit damages.

Finally, on the issue of willfulness, the Federal Circuit concluded that Medtronic was not “objectively reckless” so as to trigger an award of attorneys’ fees because Medtronic “raised a substantial question as to the obviousness” of the patent in suit.

Practice Note

In order to be in a position to claim lost profits as a measure of damage, a patent holding company that licenses its sister company to manufacture products covered by the patent should ensure that the sister company is exclusively licensed pursuant to a written agreement that will support independent standing.

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PATENTS / STANDING

Party Intent Controls Interpretation of Patent Assignments

Affirming a district court’s denial of a motion to dismiss a patent infringement suit for lack of standing, the U.S. Court of

Appeals for the Federal Circuit held that a successor corporation had standing to sue by giving effect to the parties’ intent, even though the inventor’s assignment transferred ownership rights to a predecessor corporation that no longer existed. *Tri-Star Electronics Int’l, Inc. v. Preci-Dip Durtal SA*, Case No. 09-1337 (Fed. Cir., Sept. 9, 2010) (Newman, J.).

In 2008, Tri-Star, a Delaware corporation, sued Preci-Dip for infringement of a patent relating to a hoodless electrical socket contact. Tri-Star was originally incorporated as an Ohio corporation in 1991. In 1998, Tri-Star Ohio merged into a newly created California corporation (Tri-Star California); Tri-Star California then merged into a newly created Delaware corporation (Tri-Star Delaware) in 2005. In 1999, the inventor of the patent executed an assignment for a continuation-in-part (CIP) application, using the same form as the parent application filed the previous year, to “Tri-Star Electronics International, Inc., its successors, legal representatives, and assigns,” which identified Tri-Star as an Ohio corporation.

Preci-Dip moved to dismiss the case for lack of standing, arguing that the inventor had assigned his patent rights to a non-existent entity, Tri-Star Ohio. The district court denied the motion to dismiss and certified the ruling for interlocutory appeal, which the Federal Circuit accepted. The Federal Circuit affirmed the district court’s holding that Tri-Star California, as the existing successor to Tri-Star Ohio, received assignment of the patent at the time of the assignment.

The Court confirmed the district court’s interpretation of the assignment as conveying ownership to Tri-Star California because it “maintains the validity of every contract provision ... and gives effect to the contract’s purpose of assigning the invention to [the inventor’s] employer.” The Court ruled that both Ohio law and Federal Circuit law state that the “intention of the parties to a contract controls its interpretation” and it was not disputed that the parties to the agreement agreed that Tri-Star California, as successor to Tri-Star Ohio, was the intended recipient of the patent ownership rights. Moreover, the “letter of the assignment” conformed with this intent by conveying ownership to “Tri-Star Electronics International, Inc., its successors, legal representatives and assigns.”

The Court also agreed with the district court’s observation that under Ohio law, a predecessor corporation continues to exist for the purpose of allowing its property to vest even after a merger, under Ohio Rev. Code Section 1701.82(A)(1)(2010). The Court found that Section 1701.82(A)(1) further supported a finding that Tri-Star Ohio continued to exist for the purpose of vesting property rights, including assignment of the patent application in the successor, Tri-Star California.

Practice Note

If there are any uncertainties relating to the proper conveyance of ownership in a patent assignment, a court's interpretation of the assignment will be controlled by the intention of the parties.

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PATENTS / LICENSING

Strict Compliance with Notice Provisions Not Required for Termination of License Agreement

Addressing whether a licensee properly terminated a patent license agreement with the inventor, the U.S. Court of Appeals for the Fifth Circuit affirmed a summary judgment victory for the licensee, agreeing that its termination was proper and did not constitute a violation of the terms of the agreement. *DuVal Wiedmann, LLC v. Inforocket.com, Inc.*, Case No. 09-50787, 2010 U.S. App. LEXIS 19460 (5th Cir., Sept. 17, 2010) (Smith, J.).

DuVal agreed in June 2001 to license a patent to Inforocket.com, a wholly owned subsidiary of Ingenio, in exchange for royalty payments. The agreement gave Ingenio the right to terminate on 60 days' prior written notice to DuVal. In April 2004, Ingenio filed a request for reexamination of the '836 patent with the U.S. Patent and Trademark Office (USPTO). In December 2007, the USPTO canceled some claims and rejected the remaining claims as unpatentable in light of prior art. DuVal amended the original claims, and in December 2008, the USPTO issued a reexamination certificate that included only the amended claims.

However, before the reexamination certificate was issued, Ingenio sent a letter to DuVal's Chapter 7 bankruptcy trustee in August 2004 terminating the agreement. DuVal filed suit against Ingenio in district court in January 2008, seeking declaratory judgment as to the parties' rights under the agreement, including if and when the agreement had been terminated. The 5th Circuit agreed with the district court and rejected DuVal's argument that, because Ingenio sent its termination notice to DuVal's bankruptcy trustee and not directly to DuVal as required by the agreement, the termination was improper. The court determined that strict compliance with the agreement's notice provisions was not required because DuVal received actual notice and was not in any way prejudiced as a result of this minimal deviation.

Furthermore, the 5th Circuit dismissed DuVal's contention that Ingenio never formally exercised its option to terminate the

agreement 60 days after giving notice as required by the termination provisions, reasoning that the agreement provided no additional procedures to indicate that termination required something more than the passage of time. Although the court agreed with the district court's determination that Ingenio did not accrue any royalty obligations during any time after it asked the USPTO to reexamine the '836 patent, it did remand the question of whether Ingenio owes any royalties to DuVal for the period of January 1, 2004 through the date of Ingenio's reexamination request.

Practice Note

If certain conditions to terminate a license agreement are desired, then the agreement should be drafted such that the conditions are expressly stated.

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PATENTS / ENFORCEABILITY

Unless Release Is Clear and Unambiguous, Look Out

The U.S. Court of Appeals for the Federal Circuit held that the release language in the context of settlement agreements and consent decrees must be clear and unambiguous to release patent invalidity claims. *Baseload Energy, Inc., v. Bryan W. Roberts*, Case No. 10-1053 (Fed. Cir., Sept. 9, 2010) (Dyk, J.).

In June of 2006, Baseload expressed interest in a joint venture agreement between Baseload and Roberts. The parties allegedly entered into an oral contract, by which Roberts agreed to assign a patent to a new venture, Sky Windpower Corp. (Sky Power), which was to be formed for this particular venture. Toward this end, a written agreement was prepared; however, it was never signed and eventually the relationship between the parties deteriorated. In May 2007, Baseload initiated an action in a district court against Roberts, seeking \$1 million in compensatory damages for breach of contract as well as compelling Roberts to perform the terms of the oral contract. In March 2008, the parties entered into a settlement agreement that included provisions releasing the claims that the parties could have brought against each other. Furthermore, the settlement agreement gave Baseload an option to acquire a non-exclusive license under the patent at a price of \$1.75 million.

In September 2008, the granted option to Baseload lapsed when Baseload was unable to raise the \$1.75 million. In October 2008, Baseload filed this action against Roberts, seeking declaratory

judgment that the patent is invalid and unenforceable. Robert moved for summary judgment asserting that Baseload's claims were barred by the release provision of the 2008 settlement agreement. The district court agreed, concluding that "unambiguous and expansive language of the Settlement Agreement barred all claims deriving from event occurring before March 18, 2008." Therefore, the district court issued a summary judgment in favor of Roberts.

Baseload appealed, asserting that the district court erred in granting summary judgment because the release provision in the settlement agreement does not clearly and unambiguously release patent invalidity claims. The Court agreed, holding that "[i]n the context of settlement agreements, as with consent decrees, clear and unambiguous language barring the right to challenge patent validity in future infringement actions is sufficient, even if invalidity had not been previously at issue and had not been actually litigated." The Court noted that in this case there is no such a clear language and there was no release of either patent infringement claims or invalidity defenses. To the contrary, the Court noted that there is a real question whether the general language of the agreement was intended to cover such disputes because "there was no issue in the breach of contract litigation concerning patent infringement or patent invalidity and unenforceability." Furthermore, the Court noted that, in light of the optional license agreement, the parties could not have intended to exclude infringement from the scope of the settlement agreement. Based on this finding, and because the language of the agreement could not be read to distinguish between the infringement and invalidity claims, the Court concluded that it necessarily follows that the defenses to infringement including invalidity defenses were also preserved.

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PATENTS / CLAIM CONSTRUCTION

Preambles as Limitations: Storm Flag on the Horizon

Addressing the issue of claim construction and whether a preamble limits the claim, the U.S. Court of Appeals for the Federal Circuit vacated and remanded a grant of summary judgment in favor of the accused infringer, finding that the lower court had erred in finding a term in the preamble as limiting the claimed invention. In a strong dissent, Judge Dyk argued that everything in a claim should limit the scope of invention. *American Medical Systems, Inc. v. Biolitec, Inc.*, Case No. 09-1323 (Fed. Cir., Sept. 13, 2010) (Bryson, J.) (Dyk, J., dissenting).

American Medical Systems appealed an order granting summary judgment of non-infringement to Biolitec. The patent in suit claims methods and devices for vaporizing tissue using laser radiation. The district court granted summary judgment based on its conclusion that Biolitec's accused device does not perform "photosensitive vaporization of tissue," a term that is recited only in the preamble of the asserted claims. American Medical appealed.

On appeal, the Federal Circuit concluded that, in this case, the preamble did not limit the asserted claims. Rather, the Court concluded that the preamble was merely a "descriptive name" for the set of limitations in the body of the claim. The Federal Circuit explained that whether a preamble is construed as a limitation depends on the facts of each case, but the general rule is that the preamble does not limit the scope of a claim when the body of the claim describes a structurally complete invention in such a way that deletion of the preamble does not affect the structure or steps of the claimed invention. The Court further explained that the preamble of a patent claim may be limiting "if it recites essential structure of steps, or if it is 'necessary to give life, meaning, and vitality' to the claim."

Judge Dyk, in dissent, suggested the Court review the issue *en banc* to eliminate its vague and confusing precedent regarding preambles. In his opinion, the Court should dispense with the current fact-based analysis of preambles and instead hold patentees to a strict rule by which each word included in a claim acts as a limitation. Under this rule, the patentee would be unable to suggest or imply one position to secure an allowance of the patent and a different, typically inconsistent position, during infringement litigation.

Practice Note

Consider limiting the length of your claim preambles and be sure that any fundamental characteristics of the invention appear in the body of the claim.

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PATENTS / CLAIM CONSTRUCTION

Court Breathes Life Back into CPR Mask Dispute

Addressing the proper construction of the term "backplate," the U.S. Court of Appeals for the Federal Circuit determined that a district court erroneously construed the term to include a tube joint. *Laryngeal Mask Co. v. AMBU A/S*, Case Nos. 10-1028, -1062 (Fed. Cir., Sept. 21, 2010) (Moore, J.).

PATENTS / INTERFERENCE

Envisioning an Invention Not Yet Made Is Not Constructive Reduction to Practice

Laryngeal sued AMBU for infringement of a patent directed to laryngeal mask airway devices, which are used to deliver anesthetic gas during surgery and to establish unobstructed airways to patients in emergency situations. The district court construed one claim term “backplate” as “the relatively rigid mask structure surrounded by the cuff and including a tube joint.” Based on this construction, the district court determined that AMBU’s accused devices did not have a tube joint and therefore granted summary judgment of non-infringement.

On appeal, Laryngeal argued that the district court improperly read a tube joint limitation into the claims. In support of its position, Laryngeal relied on the fact that the claims did not mention an airway tube, so the claim did not need to clarify how an airway tube would attach to the backplate. Laryngeal also argued that the prosecution history weighed against a tube joint limitation. During the final phase of prosecution, Laryngeal deleted the airway tube and tube joint language from the claims. Because they were deliberately deleted, Laryngeal argued it would be improper to read the limitation back into the claims. AMBU countered that “backplate” is a technical term coined by the inventor. AMBU did not argue that the plain and ordinary meaning of “backplate” includes a tube joint, but rather that the inventor acted as his own lexicographer and defined “backplate” as containing a tube joint. In support of this contention, AMBU relied on the specification statement that “the backplate 52 has a one piece, integral spoon-shape including a bowl 90 and an external tube-joint 92 oriented proximally relative to the bowl.” Additionally, AMBU relied on the fact that every figure, embodiment and description of the backplate in the patent shows a backplate separate from an airway tube with a tube joint for connection.

The Federal Circuit, admitting this was a difficult case of claim construction, concluded that backplate should not be construed to include a tube joint. To be his own lexicographer, the Court explained, “a patentee must use a special definition of the term that is clearly stated in the patent specification or file history.” Since the specification did not contain such a special definition, the Court concluded that the inventor was not acting as his own lexicographer. The Court also relied on prior art which would inform one of skill of the art to the common meaning of “backplate.” It cited two prior art patents disclosing the same inventor that disclosed a backplate. In each of these patents, the backplate did not include a tube joint. Because one skilled in the art would not conclude that backplate must have a tube joint and because the inventor did not act as his own lexicographer, the Federal Circuit found reversed the district court’s judgment for non-infringement.

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The U.S. Court of Appeals for the Federal Circuit reversed a priority decision by the Board of Patent Appeals and Interferences (the Board), finding that the priority document failed to meet the written description requirement under § 112. *Goeddel v. Sugano*, Case Nos. 09-1156, -1157 (Fed. Cir., Sept. 7, 2010) (Newman, J.).

The two interference proceedings related to claims to recombinant human fibroblast interferon (hFIF). “Mature” hFIF produced in the human body has 166 amino acid residues and is formed by cleaving the first 21 amino acids of the hFIF “precursor,” which is made up of 187 amino acids. The interference counts were directed to the mature form of hFIF without the 21 amino acid presequence and the DNA sequence encoding the mature hFIF.

Sugano relied on its Japanese application to predate Goeddel’s earliest priority date. The Japanese application disclosed the amino acid sequence of the full-length, 187 amino acid hFIF precursor, but did not explicitly identify the boundary between the 21 amino acid presequence and the 166 amino acid mature hFIF. Instead, the Japanese application cited a journal article which disclosed the first 13 amino acids of the mature hFIF protein.

The Board awarded the priority to Sugano. The Board found that the mature hFIF protein was “readily apparent” in view of the Japanese application’s description of the hFIF precursor and the journal article disclosing the starting point the mature hFIF protein. The Board also held that one skilled in the art “should have been able to envision” the DNA molecule encoding the 166 amino acid mature hFIF protein.

The Federal Circuit disagreed and rejected the Board’s reasoning that the Japanese application constituted constructive reduction to practice because a person of skill in the art could “envision” the invention. The Court held that “in the context of interference priority, [§ 112] requires that the subject matter of the counts be described sufficiently to show that the applicant was in possession of the invention,” which, in this case meant the possession of the 166 amino acids, mature and active form of hFIF. The Japanese application, on the other hand, described the 187 amino acid hFIF precursor only, but not the mature hFIF protein or DNA molecules coding the mature hFIF protein. With respect to the Federal Circuit precedents cited by Sugano, including as *Enzo Biochem* and *University of Rochester*, the Court noted that these cases did not hold that “envisioning an invention not yet made is a constructive reduction to practice of that invention.” Therefore, the Japanese application did

not constitute constructive reduction to practice because it failed to meet the written description requirement under §112.

Practice Note

To establish constructive production to practice in an interference proceeding, the priority document must meet two separate and distinct requirements: written description and enablement. While the issue of enablement was not explicitly discussed, the Federal Circuit seemed to be somewhat sympathetic to Sugano's arguments on enablement. Nonetheless, the Japanese application was insufficient to establish constructive reduction to practice because "possession" of the claimed invention, under the written description requirement, was not shown.

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PATENTS / OBVIOUSNESS

Be Careful What You Argue For

The U.S. Court of Appeals for the Federal Circuit affirmed a district court's findings of non-obviousness of four Eli Lilly & Co. patents, as well as a finding of invalidity of certain claims in two other Lilly patents for lack of written description. The Court also rejected Teva Pharmaceuticals USA Inc.'s bid to overturn a permanent injunction barring it from launching a copy of Lilly's osteoporosis drug Evista® before March 2014. *Eli Lilly & Co. v. Teva Pharmaceuticals USA Inc.*, Case Nos. 10-1005, -1033 (Fed. Cir., Sept. 1, 2010) (Rader, C.J.).

Lilly's drug Evista is a treatment for postmenopausal osteoporosis. The active ingredient of Evista is raloxifene hydrochloride, which is classified as an antiestrogen. Antiestrogens, such as tamoxifen, block the effects of endogenous estrogen by competing with estrogen in receptor binding and are used to treat estrogen-dependent breast cancers. However, antiestrogens may have their own stimulatory estrogenic effect (referred to as intrinsic estrogenicity) on the uterus, particularly when endogenous levels of estrogen are low, such as in postmenopausal women. Increased intrinsic estrogenicity has been associated with an increased risk of endometrial cancer.

Raloxifene was first synthesized in the late 1970s. Pre-clinical and Phase I studies revealed it had low intrinsic estrogenicity, but appeared to have poor bioavailability, in part due to rapid conjugation to a different form. A published Phase II study reported that raloxifene did not show any antitumor activity, and

recommended against further evaluations of the drug. However, Lilly determined that the rapid conjugation did not necessarily preclude efficacy and found that the conjugated form might be converted back to the parent compound under physiological conditions. Lilly undertook a Phase II study that showed raloxifene's efficacy in inhibiting post-menopausal bone loss.

Lilly owns three families of patents directed to raloxifene: the "Bone Loss Patents," the "Low Dose Patent" and the "Particle Size Patents." The Bone Loss Patents are directed to a method of inhibiting post-menopausal bone loss by administering "an effective amount of" raloxifene. The Low Dose Patent is directed to the same method, but administration of 60 mg/day of raloxifene. The Particle Size Patents disclose that, within the claimed size range, raloxifene particles provide "surprisingly consistent in vivo absorption/bioavailability characteristics" as well as manufacturing benefits.

Teva filed Abbreviated New Drug Application (ANDA) No. 78-193 with the U.S. Food and Drug Administration (FDA) for generic raloxifene. After an 11-day bench trial, the district court ruled that Teva failed to show the Bone Loss Patents and the Low Dose Patent were obvious and that the Particle Size Patents were invalid for failure to comply with the written description requirement of §112.

The Federal Circuit was unconvinced that Teva's three primary prior art references rendered the Bone Loss and Low Dose Patents obvious, finding that in view of publications reporting concerns regarding raloxifene's bioavailability, an ordinary artisan would not have had a reasonable expectation of successfully using raloxifene to treat any human condition.

Teva argued that because Lilly pursued raloxifene as a potential treatment, this indicates a person of ordinary skill would have had a reasonable expectation of success because "Lilly scientists ... had to have a basis for reasonably believing raloxifene would work in humans" before pursuing costly clinical trials and research. Teva also argued the Bone Loss Patents and Low Dose Patent failed to meet the enablement requirement because of the prevailing view that raloxifene would not work in humans. The Court rejected this argument because the Bone Loss Patents included information regarding raloxifene's bioavailability that were not found in the prior art, specifically, Lilly's studies showing that conjugation of raloxifene might not affect its efficacy in treating bone loss and the details of Lilly's then-ongoing human clinical trials of raloxifene. In addressing both of these arguments, the Federal Circuit admonished Teva for conflating Lilly scientists with those of ordinary skill in the art, because they "had both knowledge and credentials superior to the ordinary artisan."

During the litigation, Teva altered the particle size specification of its bulk raloxifene, avoiding the limitations of the Particle Size Patents. However, Lilly contended that upon processing the artificially large particles fracture into smaller particles that fall within the size range claimed in the Particle Size Patents. The district court determined that the question of infringement turned on an issue of claim construction, namely, “whether the particle size patents claim only size measurements made on bulk raloxifene before it is formulated or, by contrast, whether the patents also claim the particle size of raloxifene within a formulated tablet, as measured after extraction from the tablet.” The district court concluded that the limitation “in particulate form” as used in the Particle Size Patents should be construed broadly to include raloxifene particles both before and after formulation and concluded that the breadth of the limitation rendered the Particle Size Patents invalid for failure to comply with the written description requirement. The Federal Circuit affirmed.

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PATENTS / PATENT-ELIGIBLE SUBJECT MATTER

Board Continues to Reject Computer-Related Method Claims

A series of recent decisions provides some insight into how the U.S. Patent and Trademark Office, in particular the Board of Patent Appeals and Interferences (the BPAI or Board), is handling §101 issues in the wake of last summer’s *Bilski* decision in which the U.S. Supreme Court held that the U.S. Court of Appeals for the Federal Circuit had improperly made the so-called “machine-or-transformation” test the sole test for determining patent-eligible subject matter.

In *Ex parte Kelkar*, Appeal No. 09-004635 (BPAI, Sept. 24, 2010) (Adams, APJ), the claims related to a method for determining similarity between portions of gene expression profiles and related program product claims. The Board determined that the method claims failed both prongs of the so-called machine-or-transformation test. Although the preamble stated the method was “in a computer,” this was considered to be a field-of-use limitation that did not impart eligibility. The Board also concluded the method claims were directed to an ineligible abstract idea; a mathematical algorithm. Although the algorithm was applied to a defined type of data, the Board concluded that limiting the use of a formula to a particular technological environment did not impart eligibility. As to the recordable medium (so-called Beauregard) claims, the Board agreed with the examiner that the recited “code

stored on a recordable media” read on a “carrier wave storage” and therefore encompassed ineligible transitory subject matter.

Ex parte MacKenzie, Appeal No. 09-007332 (BPAI, Oct. 5, 2010) (Courtenay, APJ) involved an appeal of rejections under §§102 (anticipation) and 103 (obviousness) of the Code, but the Board instead rejected the claims under §101. The Board found the cryptographic method claims ineligible for being “fundamentally directed to a mathematical algorithm.” This finding was also extended to apparatus claims on appeal, describing them as merely combining the mathematical algorithm with generic structures. Additionally, the apparatus claims were indicated as “not limited to a tangible practical application” and not “limited so as to not encompass substantially all practical applications ... even in one field of use.”

In *Ex parte Venkata*, Appeal No. 09-007302 (BPAI, Oct. 6, 2010) (Homere, APJ), the claims related to a service discovery system. Although the preamble was directed to a “system,” the Board agreed with the examiner that the claims encompassed “software per se,” which is considered non-statutory material, and not patent eligible.

Practice Note

These appeals illustrate how the Board is approaching a determination of patent eligibility in view of the Supreme Court’s *Bilski* decision. However, it is noted that the briefing in these appeals was completed prior to the Supreme Court’s *Bilski* decision and without the benefit of the subsequent guidance provided by the U.S. Patent and Trademark Office (USPTO) to aid applicants in presenting at least computer media claims and computer-implemented method claims that are patent eligible.

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TRADEMARKS / DISTINCTIVENESS

Exotic Dancing Attire May Be Inherently Distinctive, but the Chippendales “Cuffs & Collar” Costume Is Not

Addressing whether the well-known Chippendales “Cuffs & Collar” costume is inherently distinctive for adult entertainment services, the U.S. Court of Appeals for the Federal Circuit affirmed the refusal to register the mark, finding that the costume was not inherently distinctive, but is a “mere variant or refinement” of the Playboy Bunny costume. In *re Chippendales USA, Inc.*, Case No. 09-1370 (Fed. Cir., Oct. 1, 2010) (Dyk, J.).

Chippendales has provided adult entertainment services for women in the form of dancing men wearing an “abbreviated tuxedo” costume—wrist cuffs and a bowtie collar without a shirt—since 1979. The applicant applied to register its “Cuffs & Collar” trade dress for “adult entertainment services, namely exotic dancing for women” in 2000. Chippendales had alleged that its trade dress possessed both inherent distinctiveness and acquired distinctiveness. The U.S. Patent and Trademark Office (USPTO) issued a registration for the trade dress in 2003, although the examining attorney determined that the trade dress was only entitled to registration based on acquired distinctiveness. In 2005, the applicant filed a second application to register its “Cuffs & Collar” trade dress for the same services, based upon inherent distinctiveness. The examining attorney found that the trade dress was not inherently distinctive and refused registration.

On appeal, the Trademark Trial and Appeal Board considered whether Chippendales’s “Cuffs & Collar” trade dress, or a variation of it, was in common use—precluding inherent distinctiveness. Applying the standard in *Seabrook Foods v. Bar-Well Foods*, the Board determined that applicant’s Cuffs & Collar was a common basic shape or design because exotic dancers commonly wear costumes or uniforms such as “a doctor wearing a stethoscope, or a construction worker wearing a utility belt, or a cowboy wearing chaps and a ten-gallon hat.” Last, the Board determined that the Cuffs & Collars trade dress was not unique or unusual in the field of use because it was inspired by the well-known Playboy Bunny suit. Chippendales appealed.

On appeal, the Federal Circuit considered whether the Cuffs & Collars suit was product packaging trade dress, which can be inherently distinctive, or product design trade dress, which cannot. It determined that costume was “trade dress” as it is part of the packaging of the product—*i.e.*, “adult entertainment services, namely, exotic dancing for women.” Further, the Federal Circuit applied the three relevant factors of the *Seabrook Foods* test to determine whether the Cuffs & Collars was inherently distinctive, namely: whether it is a common shape or design, whether the symbol is common in the particular field of use and whether it is a mere refinement of or variation on existing trade dress within the relevant field of use. If trade dress satisfies any one of the tests, it is not inherently distinctive.

The Federal Circuit noted that the second factor was not applicable and that the Board erred to the extent that it suggested that any costume would lack inherent distinctiveness within the live adult entertainment industry. “Simply because the live adult entertainment industry generally involves revealing and provocative costumes does not mean that there cannot be any such costume that is inherently distinctive.” Thus, the “mere

refinement or variation” test could not be met by showing that costumes generally are common in the industry.

However, the Court determined that the Board was correct in concluding that applicant’s Cuffs & Collar trade dress was not inherently distinctive under *Seabrook Foods*, finding that it was a variation of the Playboy Bunny outfit. In so finding, the Court noted that the Playboy Bunny outfit had been widely used for almost 20 years before Chippendales’ first use of its Cuffs & Collar trade dress, had acquired multiple trademark registrations (one which was registered 15 years prior to the applicant’s first use of its Cuffs & Collar trade dress) for related services that and there was a “pervasive association” between the Playboy brand and adult entertainment.

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TRADEMARKS / CONTRIBUTORY INFRINGEMENT

Contrary to Fourth Circuit, Eighth Circuit Finds No Confusion from “Stuffing” Towel Dispensers With Non-Branded Toweling

In direct contrast to a decision by the U.S. Court of Appeals for the Fourth Circuit from one month prior (see *IP Update*, Vol. 13, No. 9) in a case brought by the same plaintiff, Georgia-Pacific Consumer Products (GP) and involving the same claims for contributory trademark infringement, the U.S. Court of Appeals for the Eighth Circuit recently affirmed a district court’s grant of summary judgment against GP, finding no likelihood of confusion by consumers. *Georgia-Pacific Consumer Products LP v. Myers Supply, Inc.*, Case No. 09-2980 (8th Cir., Sept. 15, 2010) (Benton, J.) (Beam, J. concurring-in-part and dissenting-in-part).

Plaintiff GP designs and manufactures paper products and dispensers. In 2002, GP introduced its “enMotion” brand automated touchless paper towel dispenser, designed to use GP’s proprietary, “fabric-like” paper toweling. The dispensers bear GP’s marks “enMotion,” “Georgia-Pacific” and a stylized “GP.” GP leases the enMotion dispensers to janitorial supply distributors, who sublease them to end users such as hotels and restaurants. The leases and subleases expressly provide that only enMotion brand paper toweling may be used in the dispensers. A sticker and warranty card inside the dispensers state that only GP-brand towels may be used.

GP has brought several suits in efforts to halt the “stuffing” of enMotion dispensers with non-GP branded paper toweling. GP brought claims of contributory trademark infringement and unfair competition against one of its competitors, von Drehle, in the U.S. District Court for the Eastern District of North Carolina when von Drehle began manufacturing and selling to distributors an inferior paper toweling for use in GP’s enMotion dispensers. The 4th Circuit vacated and remanded a district court’s grant of summary judgment to defendant, finding that to the extent that defendant knowingly created its towels for use in GP’s enMotion machines and supplied them to distributors knowing that they would be used as such, the defendant may be liable for trademark infringement. The 4th Circuit agreed with GP that its reputation may suffer if it could not control the quality of toweling used in the enMotion dispensers.

GP also sued a distributor of von Drehle’s paper toweling, Myers Supply, in the U.S. District Court for the Western District of Arkansas. The court entered judgment for Myers on GP’s contributory trademark infringement after a bench trial. The court determined that although Myers knew its customers were stuffing the enMotion dispensers with non-GP brand towels, there was no infringement because GP failed to show likelihood of confusion. On appeal, GP argued that the district court improperly dismissed its survey evidence, which had also been offered in the 4th Circuit case. The 8th Circuit affirmed the district court’s holding for defendant. In so doing, the 8th Circuit agreed that GP’s survey evidence, allegedly showing a confusion level of 23 percent, was entitled to little probative weight in light of its methodological flaws. Myers also offered a survey that showed an 11 percent confusion level, which is a level that has been found sufficient for trademark infringement liability in prior cases. However, the 8th Circuit noted that the probative value of both surveys were outweighed by multiple forms of evidence indicating that it is a common and acceptable practice to “stuff” paper towels of one brand in an unleased dispenser bearing the marks of a different brand. One of GP’s regional managers testified that this was an acceptable practice, and GP’s own catalogues indicated that GP sold paper towels to fill dispensers made by other companies.

Practice Note

Although GP lost in the 8th Circuit, suppliers who sell universal type paper toweling for use in GP’s proprietary enMotion dispensers may face liability for contributory trademark infringement if GP can demonstrate that consumers do associate the quality of non-GP brand towels with GP based upon the GP marks displayed on the dispenser.

The 8th Circuit decision suggests that a defendant may successfully counter survey results indicating an appreciable amount of consumer confusion by presenting solid evidence that prevailing practices in the particular industry at issue work to eliminate consumer confusion.

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TRADEMARKS / INVALIDITY

European Court of Justice Rules That Shape Of Lego Brick Cannot Be Protected As Trademark

Confirming that a shape cannot be registered as a trademark if all of its essential characteristics merely perform a technical function, the European Court of Justice held that Lego’s iconic three-dimensional trademark for a Lego brick was invalid under Article 7(1)(e)(ii) of CTM Regulation 40/94 EEC (now replaced by 2009/207/EC) because its shape is necessary to obtain a technical result. *Lego Juris A/S v OHIM and MEGA Brands, Inc.*, Case No. C-48/09 P (ECJ, Sept. 14, 2010).

Mega Brands applied for a declaration of invalidity against Lego’s three-dimensional trademark for a red Lego brick arguing that the registration was invalid, *inter alia*, because it was a sign that consisted exclusively of a shape which was necessary to obtain a technical result contrary to Article 7(1)(e)(ii) of the CTM Regulation. In 2004, the Cancellation Division of the Office for Harmonisation in the Internal Market (OHIM) declared the mark invalid. OHIM’s Grand Board of Appeal and the EU General Court dismissed Lego’s appeals. Lego took the case to the ECJ.

Upholding the decisions of the three lower tribunals, the ECJ emphasized that the purpose of s.7(1)(e)(ii) of the CTM Regulation was to prevent granting a perpetual monopoly which would permanently impair the opportunity for competitors to market goods whose shapes incorporated the same technical solution. The ECJ held that a shape could not be registered as a trademark if all its essential characteristics performed a technical function. While recognizing that all shapes of goods were to a certain extent functional, the ECJ found that the bar to registration only applied to signs which consisted “exclusively” of the shape of goods which were “necessary” to obtain a technical result. Therefore, the shape of goods would not be denied registration solely on the ground that it had functional characteristics. However, the mere presence of minor arbitrary elements in a three-dimensional design whose essential characteristics were dictated by the technical solution to which the sign gave effect did not prevent a shape from being refused registration.

The existence of alternative shapes which could achieve the same technical result was not relevant in determining a shape's functionality. Once the essential characteristics of the goods were identified, it was only necessary to assess whether those characteristics performed a technical function. This could be assessed by taking into account documents relating to prior patents describing the functional elements of the shape concerned. OHIM's Grand Board of Appeal considered prior patents owned by Lego's predecessor, finding that the most important element of the Lego brick consisted of two rows of studs on the upper surface of the brick and that all other elements apart from its color were functional.

Practice Note

The ECJ provided no guidance on the meaning of "essential" and "non-essential" characteristics or "minor arbitrary elements," which will make it difficult to assess whether a particular product shape will be granted trademark protection. In practice, obtaining registration for a shape will remain difficult leaving companies to explore possible alternative protection for a limited period through patents or designs. For enterprises in a similar situation as Lego, when attempting to block rivals from selling "slavish copies" in the EU, consideration should be given to EU unfair competition law (as opposed to purely trademark law). In this case, the judges noted that unfair competition was not raised as an aspect of the dispute.

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COPYRIGHT / FIRST SALE DOCTRINE

No Sale? No First Sale Doctrine Defense

Under the first sale doctrine, a copyright owner has the exclusive right to make and authorize a first sale of copies of his copyrighted work. Once a first sale has occurred, the purchaser of a particular copy sold is free to resell that copy without authorization of the copyright owner, and whoever purchases that resold copy is entitled to do the same. The first sale doctrine garnered a lot of attention in 2008 with the highly publicized Ninth Circuit decision in *Omega v. Costco*, (see *IP Update*, Vol. 11, No. 10). (An appeal in that case is now pending before the U.S. Supreme Court.) Now, another decision out of the U.S. Court of Appeals for the Ninth Circuit has once again focused attention on this doctrine in ruling that an online reseller of the famous Autodesk software was liable for copyright infringement. In this case, the 9th Circuit concluded that the reseller was not permitted to rely on the first sale doctrine defense since he was only a licensee, not an owner, of the software. *Timothy S. Vernor v. Autodesk, Inc.*, Case No. 09-35969 (9th Cir., Sept. 10, 2010) (Callahan, J.).

The plaintiff, Vernor, resold, on eBay, several used copies of Autodesk's AutoCAD software that he had purchased from an Autodesk customer. The customer received those copies pursuant to Autodesk's software license agreement (SLA), which each customer must accept before installing the software. Unlike the *Omega* case (involving resale of imported foreign-made goods), where the copies were made and first sold (in the United States or overseas) was not at issue. Rather, the central issue was whether the copies had been "sold" or "licensed" by Autodesk to the customer from whom the defendant bought them. If the copies were sold, then both the original customer and Vernor were "owners" of the copies and would be entitled to resell them under the first sale doctrine. Relying on a 1977 9th Circuit decision involving film prints (*United States v. Wise*), the district court held that Autodesk had sold—rather than licensed—the copies to the customer because Autodesk's customers received indefinite possession of their copies with no obligation to return them to Autodesk. Autodesk appealed.

In reversing, the 9th Circuit rejected the district court's narrow reading of *Wise* that a first sale occurs whenever recipients are entitled to keep their copies indefinitely. The court viewed indefinite possession as a relevant but non-dispositive factor. According to the court, if a copy is received pursuant to a written agreement, *Wise* calls for consideration of several factors, including whether the agreement was a license, whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication or required the recipient to keep possession of the copy for the agreement's duration. The court also discussed three post-*Wise* 9th Circuit software cases in which it distinguished between owners and licensees. Viewing the case law collectively, the court concluded that under the circumstance present in obtaining a copy of Autodesk software, a software user is a licensee rather than an owner of a copy. Autodesk specified that the user is only granted a license, significantly restricted the user's ability to transfer the copy and imposed notable use restrictions. Specifically, the court found that the SLA only granted the customer a nonexclusive and nontransferable license to use the software with Autodesk, retaining title to the software and prohibited the customer from renting, leasing or transferring the software without Autodesk's prior consent.

Since the original customer was only a licensee, the court ruled that the original customer could not rely on the first sale doctrine when it sold its copies to Vernor; Vernor likewise had no authority to resell the copies to others on eBay.

Practice Note

It has long been the practice of the software industry to make software products available to users on the basis of a license rather than a sale. Thus, the 9th Circuit's ruling in *Vernor* should be welcomed by the software industry. On the other side of the issue, customers of software products should be aware that just because

they paid for their software does not mean that they “own” the copies and can freely transfer or resell to others.

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COPYRIGHT / PUBLIC PERFORMANCE

Digital Music Downloads Are Not Public Performances

The U.S. Court of Appeals for the Second Circuit, affirming a district court, found that a download of a musical work does not constitute a public performance of that work. In that same case, the court vacated the district court’s assessment of license fees. *United States of America v. American Society of Composers, Authors and Publishers (ASCAP)*, Case Nos. 09-0539; -0542; -0566; -0692; -0572 (2d Cir., Sept. 28, 2010) (Walker, J.).

ASCAP licenses non-dramatic, public performance rights in copyrighted musical works and almost half of all the musical works played online. Yahoo! and RealNetworks each sought and received separate licenses from ASCAP, granting each the right to perform all of the works in the ASCAP repertory for a single fee, *i.e.*, a fixed fee that does not change based on the volume of the music actually used. The Yahoo! and RealNetworks licenses provide their subscriber/internet users with music and music videos “on demand” and make available to users performances of music, music videos, television programming and similar content. Yahoo! and RealNetworks also offer users the opportunity to download recordings of musical works. Each download is a transmission of an electronic file containing a digital copy of a musical work that is sent from an online server to a local hard drive.

ASCAP maintained that the digital downloads of musical works are “public performances,” and subject to an additional license fee, arguing that the downloads “transmit or otherwise communicate a performance” within the definition of “public performance” found in §101 of the Copyright Act. Under their existing licenses, Yahoo! and RealNetworks already pay copyright holders of musical works for licenses to distribute and reproduce their work online. They argued that paying a separate fee to the copyright holder for public performance would force them to pay two separate licenses for the same act to the same copyright holder and that the additional license fees could require them to pay up to \$100 million in additional royalties.

Following a 2001 revision to a 1941 consent decree in an antitrust action brought against ASCAP, the U.S. District Court for the Southern District of New York (SDNY) has served as the “rate court” for ASCAP; *i.e.*, parties may ask the SDNY to set a fair rate for a license to publicly perform copyrighted works. The district court issued three such rulings that are pertinent here—in 2007, 2008 and 2009—each time concluding that a download of a digital file containing a musical work does *not* constitute a public performance. In its 2008 decision, the SDNY also created a fee formula (multiplying a royalty rate by the percentage of revenue attributable to the performance of music) for the blanket licenses payable to ASCAP by Yahoo! and RealNetworks. Using its formula, the district court applied a royalty rate of 2.5 percent of total revenues, a rate proposed by neither side, to the dispute. ASCAP appealed the ruling on public performance, and Yahoo! and RealNetworks cross-appealed the payment formula ruling.

The 2d Circuit affirmed the district court ruling on the separate “performance” royalty issue, finding that the Copyright Act’s definition of a “public performance” does not include digital downloads of musical works in which no performance is perceived during the data transfer. Rather, the court noted that under the §101 definition, “transmitting a performance to the public” refers to the performance created by the act of transmission, not simply transmitting a recording of a performance. The 2d Circuit noted that digital downloads differ from stream transmission of musical works—which all parties agree constitute public performances—because this transmission “like television or radio broadcast, is a performance because there is playing of the song that is perceived simultaneously with the transmission.” In contrast, a digital download does not “immediately produce a sound,” and only after a file has been successfully downloaded to a user’s local hard drive can he or she perceive the performance by playing the downloaded song.

The court remanded the calculation of a reasonable fee, finding that the district court did not adequately support the reasonableness of its method of calculating the 2.5 percent royalty rate. The 2d Circuit noted that in calculating any fee formula, the district court must “strive to use measurements that are as consistent and as precise as practicable.”

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COPYRIGHT LICENSING / CONTRACTS

Broad but Definite License Agreement on Eminem Masters Means \$\$

The U.S. Court of Appeals for the Ninth Circuit, reversing a district court decision, held that Eminem's record label improperly calculated royalties in connection with the exploitation of Eminem's sound recordings as digital downloads and ringtones. *F.B.T. Productions, LLC v. Aftermath Records*, Case Nos. 09-55817, -56069, (9th Cir., Sept. 3, 2010) (Silverman, J.).

Plaintiff F.B.T. signed Eminem in 1995 and acquired exclusive rights to his sound recordings. In 1998, F.B.T. transferred the rights to Eminem's artistic services to Aftermath. Pursuant to the agreement between F.B.T. and Aftermath, F.B.T. was entitled to between 12 percent and 20 percent of the adjusted retail price of all "full price records sold in the United States ... through normal retail channels." The agreement also provided that, "notwithstanding the foregoing," F.B.T. was entitled to 50 percent of Aftermath's net receipts "on masters licensed by us ... to others for their manufacture and sale of records *or for any other uses*" (emphasis added). The parties entered into subsequent agreements, but the aforementioned provisions remained unchanged. In 2006, F.B.T. sued Aftermath after an audit disclosed that Aftermath had been calculating F.B.T.'s royalties for permanent digital downloads and ringtones as "records sold" and not "masters licensed." At trial, the district court denied F.B.T. summary judgment, and the jury found in favor of Aftermath. Aftermath was also awarded it over \$2 million in attorneys' fees. F.B.T. appealed.

The 9th Circuit reversed. The court held that the district court erroneously determined that the royalty provisions were ambiguous. Even if a transaction arguably fell within the "records sold" provision, the parties' use of the term "notwithstanding" entitled F.B.T. to a 50 percent royalty if Aftermath licensed an Eminem master to a third party for "any" use. The court explained that just because a provision is broad, it is not necessarily ambiguous.

To determine whether permanent digital downloads and ringtones were "licensed" (as opposed to sold) to third parties, the court looked to the Copyright Act and 9th Circuit case law to differentiate a "sale" (involving a transfer in title or a sale of all exclusive intellectual property rights in a work) and a "license" (whereby a copyright owner retains title, limits the uses of the work and is periodically compensated for the grant of such right). Because it was undisputed that Aftermath retained ownership of the Eminem sound recordings at all times, retained the right to prohibit the download distributors from exploiting the recordings and received

periodic payments from the distributors based on the number of downloads, the court concluded that Aftermath's agreements with third-party download vendors are "licenses" to use the Eminem master recordings. Accordingly, the 9th Circuit concluded F.B.T. was entitled to a 50 percent royalty on all such downloads.

Based on its findings, the 9th Circuit reversed and remanded; it also vacated the award of Aftermath's attorneys' fees.

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COPYRIGHT / FAIR USE

Ravens' Fair Use Defense Won't Fly

The U.S. Court of Appeals for the Fourth Circuit, reversing the district court, found that the NFL's Baltimore Ravens' unauthorized use of its previously adjudicated infringing logo design in highlight film was not a fair use. *Bouchat v. Baltimore Ravens Limited Partnership*, Case No. 08-2381 (4th Cir., Sept. 2, 2010) (Michael, J.).

Frederick Bouchat is the owner of a copyright in a "Flying B Logo" drawing that he created in 1995 and proposed for use as the Ravens' team logo. In its first three seasons—1996, 1997, and 1998—the team used a "strikingly similar" logo design on its football helmets, on its field, and on tickets, flags, hats and other promotional materials. Bouchat filed a lawsuit alleging copyright infringement, which ultimately resulted in a jury verdict finding the Baltimore Ravens liable for infringement; a Fourth Circuit decision affirmed the jury verdict. A second decision by the 4th Circuit affirmed a jury award of zero damages. A third lawsuit brought by Bouchat sought damages from NFL licensees who used the Flying B logo. The 4th Circuit ruled in favor of the licensees, finding that Bouchat was "precluded from obtaining actual damages from them."

Now, in his fourth lawsuit, Bouchat sought an injunction prohibiting all current uses of his logo design, including in highlight film footage of the team from the 1996, 1997 and 1998 seasons, and photographs featuring the early logo in the Ravens' corporate lobby, where team history is displayed. Bouchat further sought the destruction of all items exhibiting the Flying B logo. The district court determined that defendants' depictions of the Flying B logo from its 1996, 1997 and 1998 seasons constituted fair use, and entered judgment in favor of the Ravens. Bouchat appealed, arguing that the Ravens had failed to successfully plead the fair use defense.

COPYRIGHT / LITIGATION

Beware Non-Compliance with E-Discovery

In reversing the district court, the 4th Circuit noted the four factors listed in § 107 of the Copyright Act for determining whether a defendant's use of copyrighted material constitutes a fair use: the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; the nature of the copyrighted work; the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and the effect of the use upon the potential market for or value of the copyrighted work.

Analyzing the first factor, the 4th Circuit noted that the sale of highlight films is solely for a commercial purpose and does not align with the aim of the fair use defense, to protect uses of copyrighted material for news reporting, comment, research and other not-for-profit ends. The court rejected the district court's reasoning that use of the logo in highlight films was "historical" in nature, noting that merely labeling a use "historical" does not make it fair use. The 4th Circuit also concluded that no "transformative" purpose existed behind the depiction of the Flying B logo in the highlight films, meaning that the logo served the same purpose in these films as it did on Ravens' players' helmets, on tickets or on the field. As for the second factor, Judge Michael agreed with the district court that the "creative nature" of the work mitigated against a finding of fair use. For the third factor, "amount and substantiality of the portion used in relation to the copyrighted work as a whole," the court noted that the entire logo had been misappropriated by the Ravens, a fact that weighed against a finding of fair use. For the fourth factor ("undoubtedly the single most important element of fair use") the 4th Circuit found that if, as in this case, commercial use amounts to a mere duplication of an original in its entirety, it is more likely that market harm to the original will occur. In light of the four-factor test, the 4th Circuit reversed the district court finding of fair use for use of the Flying B logo in highlight film footage.

Turning to use of the logo in the Ravens' corporate headquarters, the court contrasted the use of the logo in this "museum-like setting" to the commercial use of the logo in the highlight film, ruling that the use of the logo in this setting undercut the factors that weighed against a finding of fair use in the highlight film context; namely, "the amount and substantiality of the portion used" and "the effect of the use on the potential market for or value of the copyrighted work." The court thus affirmed the district court's finding of fair use of the Flying B logo on items displayed in the Ravens' corporate lobby.

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The U.S. District Court for the District of Maryland, in an 89-page opinion, has provided a detailed discussion of a litigant's preservation duties and the standard a court should use in determining the sanctions resulting from the spoliation of evidence. In addition to setting forth a ruling in a case involving the rare situation where a litigant's admitted destruction of evidence was both undeniable and prejudicial to the plaintiff, Judge Grimm provided a comprehensive review of the law of each circuit on preservation and spoliation. *Victor Stanley, Inc. v. Creative Pipe, Inc.*, Civ. No. MJG-06-2662 (D. Md., Sept. 9, 2010) (Grimm, J.).

The defendant, Mark Pappas, the president of Creative Pipe, failed to implement a litigation hold; failed to preserve his external hard drive, files and emails; purposefully deleted electronically stored information (ESI) after plaintiff filed suit and again after the court ordered him to preserve such information through the issuance of several orders; ran software programs to permanently remove files; and failed to preserve ESI when replacing a server. The court ultimately granted a default judgment on the copyright infringement claim, but also found Pappas in contempt of court, and ordered that he be imprisoned for up to two years unless and until he pays the plaintiff's attorneys' fees and costs involved in litigating the discovery issues. Additionally, although the court concluded that it was unable to order defendants Pappas and Creative Pipe to pay a fine to the court, it indicated "[i]f such a sanction were reasonably available ... this case would be the poster child for demonstrating its appropriateness."

Rather than merely discussing the facts of the case in the context of the law of the District of Maryland and the U.S. Court of Appeals for the Fourth Circuit, the court referenced a more general concern of litigants "regarding the lack of a uniform national standard" on preservation obligations and the applicable sanctions for failing to preserve ESI. The court noted that corporations often must take into account the standards of numerous jurisdictions in creating document retention and preservation policies and "cannot look to any single standard to measure the appropriateness of their preservation activities, or their exposure of potential liability for failure to fulfill their preservation duties." The court therefore addressed the law of other regional circuits in its application of the law to the facts of the case, resulting in a detailed analysis akin to a law review article on the subject. Additionally, the court attached a 12-page chart setting forth the standards for each circuit (with accompanying citations) in a concise, easy-to-review format.

Practice Note

While this opinion presents a cautionary tale of what can occur if a litigant disregards his/her preservation duties, it will likely be cited as a source for litigants wanting to compare the e-discovery standards in different jurisdictions, particularly litigants who face concurrent litigation in several courts sitting in venues throughout the country. While Judge Grimm is obviously not in a position to impose a uniform standard for e-discovery, and litigants therefore still face “multiple, inconsistent standards,” his opinion provides an authoritative resource as to what those standards are.

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