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Patents / Litigation / Obviousness / Damages

Read, Not Seagate, Controls Enhanced Damages

by Paul Devinsky

In a case involving “black-box” jury forms, issues of post-KSR obviousness, damages and willfulness, the U.S. Court of Appeals for the Federal Circuit affirmed the jury verdict as to validity, damages and willfulness, but reversed and remanded the district court’s refusal to award enhanced damages or attorneys’ fees. *Spectralytics, Inc. v. Cordis Corp.*, Case No. 09-1564; 10-1004 (Fed. Cir., June 13, 2011) (Newman, J.).

Spectralytics manufactures coronary stents that are the subject of the patent in suit. In order to expand the steel tube from which the stent is made, the tube is cut into a “lace-like” pattern that permits expansion and retention of shape after insertion into the artery. The prior art process used a “Swiss-style” laser machine having a workpiece fixture that held the workpiece in a cantilevered manner, with both the workpiece fixture and the laser cutting tool rigidly mounted. Spectralytics changed the tool structure so that it was not based on suppressing vibration, but worked by essentially eliminating relative movement between the workpiece fixture and the cutting tool. It was not disputed that Spectralytics’ patented laser metal-cutting device used to manufacture such stents achieved a precision beyond the prior art laser cutting machines then in use.

Norman Noble, after a visit to Spectralytics, built a Swiss-style stent cutting machine that had the workpiece fixture carried on the laser cutting tool in a manner similar to the Spectralytics tool. It was not disputed that the stents produced by the Noble machine were significantly improved over the stents previously produced by Noble. Cordis entered into an exclusive supply contract with Noble and agreed to indemnify Noble for any patent infringement. Spectralytics filed suit against Cordis for patent infringement and later added Noble as a defendant.

The case was tried to a jury that sustained the validity of the patent, found that the defendants willfully infringed the patent and awarded damages calculated as a 5 percent royalty. The district court granted Spectralytics' motion for a permanent injunction but denied Spectralytics' motion for enhanced damages and attorneys' fees based on the jury verdict of willful infringement. Each side appealed.

Obviousness and “Teaching Away”

The defendants, pointing to the district court's statement that “if this case had been tried to the Court, the Court likely would have found the ... patent invalid,” argued that the district court abdicated its role as the ultimate decision maker in relying on the presumed jury findings. Although there was no special jury verdict from which the jury's fact finding could be ascertained, the Federal Circuit affirmed, noting its agreement with the district court that a reasonable jury could have credited Spectralytics' evidence as to the disputed positions and expert testimony regarding the prior art.

With regard to the jury's determination that the claimed invention was not obvious, the Court noted the evidence of “teaching away” by Spectralytics' expert, who testified that the prior Swiss-style machines taught away from the patented design because the prior machines dealt with the problem of vibration by attempting to suppress or deaden vibration by fastening the entire apparatus to a cast-iron support.

The defendants argued that there was no “teaching away” since the prior art did not directly warn against mounting the workpiece fixture or the laser cutting tool, nor did it teach that the claimed invention would not work. However, as explained by the Court, a “teaching away does not require that the prior art foresaw the specific invention that was later made, and warned against taking that path.” The Court also noted that “teaching away” is not an essential element of a conclusion of non-obviousness.

Copying and Commercial Success

The defendants argued that the requisite “nexus” was not established between the patented device and any commercial success. Spectralytics pointed to the evidence that Noble stated that its new machine was the reason why its product was better than competing products, as well as that Cordis described the new Noble machine as “superior” and “advanced technology,” with “cutting capabilities and precision not attainable” by the prior laser cutting

system. Thus, the Federal Circuit concluded that there was substantial evidence whereby a reasonable jury could have found copying and commercial success, and the jury could have weighed these factors in favor of non-obviousness.

Damages

Citing *Rite-Hite*, the Federal Circuit opened its damage analysis with the ominous (for defendants) observation that “a party challenging a jury damages verdict must show that the award is, in view of all the evidence, either so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonable royalty.”

The defendants argued that the royalty imposed was unreasonable because it is much larger than the cost of switching to a non-infringing available alternative. The district court concluded that the jury was not required to accept the defendants’ position that these alternative machines were available and acceptable in light of evidence to the contrary. The Federal Circuit agreed with the district court that a reasonable jury could have found that the alleged alternatives were either not acceptable or not available and that such a finding was supported by substantial evidence.

Spectrallytics’ expert testified that based on the *Georgia-Pacific* factors, the hypothetical negotiations favored a 20 percent royalty. The defendants suggested a lump sum-payment, but did not suggest any royalty rate. The evidence was that Spectrallytics had never licensed a competitor under the relevant patent and that, at the time of the hypothetical negotiation, Spectrallytics and Noble were direct competitors in the market for metal stents. It was not disputed that for the six-year damages period Noble had almost \$450 million in sales to Cordis for stents made with the infringing machine and realized a profit margin of about 67 percent. There was also testimony that Cordis would have played a role in any hypothetical license negotiation in view of its agreement to indemnify Noble for patent infringement.

The Federal Circuit agreed with the district court that the jury’s choice of a 5 percent royalty was not “outrageously high” in view of the expert testimony and was supported by substantial evidence.

Willful Infringement

Spectrallytics appealed the denial of its request for enhanced damages and attorneys’ fees, arguing that the district court misapplied the law on willfulness, and thus abused its discretion.

The Federal Circuit first observed that the district court applied *In re Seagate Technology, LLC* (see [IP Update, Vol. 10, No 8](#)) “in a more rigorous manner than is appropriate, as has been elaborated in intervening decisions” and also

that it “applied the *Seagate* criteria for determining whether infringement is willful, to the separate determination of whether to enhance damages after willful infringement is found.”

The Court explained that this was an error, because in *Seagate* the Court only held that “failure to exercise due care by obtaining an exculpatory opinion of counsel before commencing infringing activity is not of itself probative of willful infringement.” Rather, under *Seagate* “there must be ‘objective recklessness’ before failure to obtain an exculpatory opinion of counsel can establish willful infringement.” However, in terms of enhanced damages stemming from a finding of willfulness, the Federal Circuit (citing its decision in *i4i v. Microsoft*—see [IP Update, Vol. 14, No. 6](#)) explained that “the test for willfulness is distinct and separate from the factors guiding a district court’s discretion regarding enhanced damages.”

The Federal Circuit explained that, in terms of an enhanced damages analysis, “the district court could and should consider whether infringement had been investigated” and that “although a finding of willfulness is a prerequisite for enhancing damages under §284, the standard for deciding whether—and by how much—to enhance damages is set forth in *Read [v. Portec]*, not *Seagate*.”

As further explained by the Court, under *Read* the factors relevant to damage enhancement include “(1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other’s patent, investigated the patent and formed a good faith belief that it was invalid or that it was not infringed; (3) the infringer’s behavior in the litigation; (4) the infringer’s size and financial condition; (5) the closeness of the case; (6) the duration of the misconduct; (7) the remedial action by the infringer; (8) the infringer’s motivation for harm; and (9) whether the infringer attempted to conceal its misconduct.”

Noting that “*Seagate* did not change the application of the *Read* factors with respect to enhancement of damages when willful infringement under §285 is found,” the Court vacated the denial of enhanced damages and remanded the issue to “redetermine whether enhanced damages are warranted under the guidance of *Read*.”

Attorneys’ Fees

The district court did not separately analyze the attorneys’ fees issue, but denied attorneys’ fees in conjunction with denial of enhanced damages. The Federal Circuit noted that “similar considerations may be relevant to both enhanced damages and attorney fees” but that “the situations in which §284 and §285 may be invoked are not identical. For example, attorney misconduct or other aggravation of the litigation process may weigh heavily with respect to attorney fees, but not for enhancement of damages.” This issue was also remanded for redetermination.

Patents / Claim Construction

This (Retractable) Needle Is Going to Sting a Bit: Next Chapter in the Adventures of Post-Phillips Claim Construction

by David Beckwith and Paul Devinsky

The U.S. Court of Appeals for the Federal Circuit addressed the claim construction tension between broadly drafted claims, and the written description contained in the patent specification, revealing a deep split among the panel members. *Retractable Technologies, Inc. v. Becton, Dickinson Co.*, Case No. 07-CV-0250 (Fed. Cir., July 8, 2011) (Lourie, J.) (Plager, J., concurring) (Rader, J. dissenting-in-part).

Retractable Technologies (RT) sued Becton Dickinson (BD) for infringing three patents related to syringes with retractable needle technology. Following an adverse jury verdict, BD appealed on multiple grounds, including a challenge to the claim construction of the term “body,” which the district court had determined could include a multi-part structure.

The Federal Circuit affirmed in part and reversed in part, specifically rejecting the district court’s broad claim construction the term “body.” BD argued that the district court erred in ruling the syringe “body” is not limited to a one-piece structure, noting the specifications describes “the invention” as including a one-piece body. In addition, the background section of the patent criticized prior art syringes that contain a two-piece body. Finally, BD argued that claim differentiation does not apply in light of the written description’s limiting statements concerning the nature of the invention and the structure of the syringe body.

RT responded that the ordinary meaning of the term “body” should apply and is not limited to a one-piece body. RT also argued application of the claim differentiation canon based on a dependent claim that included the limitation of a one-piece body.

Judge Lourie wrote for the majority of the panel, agreeing with BD that the claim term “body” is limited to a one-piece structure as described in the specifications. The majority noted that the specification indicates what was invented, holding that the claim language should not be interpreted to extend the invention beyond that set forth in the written description. The majority also rejected RT’s claim differentiation argument as “weak” in the face of the language of the specification. The majority noted that no dependent claim recited a non-one piece structure and concluded that the language of the specification that criticized two-piece structures was of greater significance than the dependent claim to a one-piece body.

Judge Plager, concurring, warned courts to turn a deaf ear to the siren song of giving claims wide scope. In Judge Plager's opinion, the written description requirement imposes an obligation to make full disclosure of what is actually invented and to claim that and nothing more. As Judge Plager noted, "I have written elsewhere about the curse of indefinite and ambiguous claims, divorced from the written description, that we are regularly are asked to construe, and the need for more stringent rules to control the curse."

In dissent, Judge Rader focused on the ordinary meaning of the term "body" and explained that since there was no special meaning provided by the patent specification to supplant the ordinary meaning of the term "body," it was error to limit the construction to only a one-piece structure. Rader wrote, "In this case, neither party contends that 'body' has a special, technical meaning in the field of art, and thus claim construction requires 'little more than the application of the widely accepted meaning of commonly used words.'"

Practice Note: This decision reflects a fundamental division within the Federal Circuit on the importance of the written description as a limitation on claim scope, as compared to the view that the claim language itself should be of paramount importance in construction. Until there is either some post-*Phillips en banc* clarification or Supreme Court consideration of the issue, the outcome of contested constructions in such a circumstance may demand on the panel hearing the appeal.

Patents / Inequitable Conduct

Therasense Inequitable Conduct Guidelines Explained

by Christopher D. Bright and Paul Devinsky

Applying the inequitable conduct guidelines it announced in its *en banc Therasense* decision (see [IP Update, Vol. 14, No. 6](#)), the U.S. Court of Appeals for the Federal Circuit vacated a district court's holding of inequitable conduct in a 2008 decision that preceded *Therasense*. *American Calcar, Inc. v. American Honda Motor Co.*, Case Nos. 09-1503, -1567 (Fed. Cir., June 27, 2011) (Lourie, J.).

Following a jury trial, the district court held a number of Calcar's patents unenforceable due to inequitable conduct, among its other rulings. As a preliminary matter, the Federal Circuit confirmed that the jury's advisory verdict of no inequitable conduct was not binding on the district court because there is no Seventh Amendment right to a jury trial on inequitable conduct.

Although the jury rejected Honda's invalidity arguments based on certain prior art, the district court held that inequitable conduct was committed for failure to disclose this prior art to the U.S. Patent and Trademark Office (USPTO). *American Calcar* appealed.

The Federal Circuit vacated the district court's materiality finding because the district court applied the "reasonable examiner" standard, rather than the *Therasense* "but-for" materiality standard. The Federal Circuit instructed the district court to determine whether the USPTO would have granted the Calcar's patents but for Calcar's failure to disclose the prior art. The Federal Circuit also vacated the district court's intent finding because it "made no holding that any of the inventors knew that the withheld information was in fact material and made a deliberate decision to withhold it" and instead applied the sliding scale standard of intent based on materiality rejected in *Therasense*. Noting that the district court found Calcar's testimony lacking in credibility, the Federal Circuit instructed the district court to "make a specific finding on whether any of the three inventors knew that withheld information was material and whether they made a deliberate decision to withhold it."

Practice Note: The USPTO has now published a notice in the Federal Register that it proposes to modify the duty of disclosure rules by limiting the scope of materiality in a manner consistent with the "but for" standard announced in the *Therasense* decision. As stated in the notice:

Specifically, the Office is proposing to revise the materiality standard for the duty to disclose to match the materiality standard, as defined in *Therasense*, for the inequitable conduct doctrine. While *Therasense* does not require the Office to harmonize the materiality standards underlying the duty of disclosure and the inequitable conduct doctrine, the Office believes that there are important reasons to do so. The materiality standard set forth in *Therasense* should reduce the frequency with which applicants and practitioners are being charged with inequitable conduct, consequently reducing the incentive to submit information disclosure statements containing marginally relevant information and enabling applicants to be more forthcoming and helpful to the Office. At the same time, it should also continue to prevent fraud on the Office and other egregious forms of misconduct. Additionally, harmonization of the materiality standards is simpler for the patent system as a whole.

The newly proposed Rule 56(b) (37 C.F.R. 1.56(b)) would read as follows:

Sec. 1.56 Duty to disclose information material to patentability.

* * * * *

(b) Information is material to patentability if it is material under the standard set forth in *Therasense, Inc. v. Becton, Dickinson & Co.*, --- F.3d --- (Fed. Cir. 2011). Information is material to patentability under *Therasense* if:

(1) The Office would not allow a claim if it were aware of the information, applying the preponderance of the evidence standard and giving the claim its broadest reasonable construction; or

(2) The applicant engages in affirmative egregious misconduct before the Office as to the information.

* * * * *

Written comments regarding the proposed rule change should be submitted by September 19, 2011.

Patents / Written Description

Is the Claimed Stent Described in the Specification?

by Rose Whelan and Christopher Pepe

The U.S. Court of Appeals for the Federal Circuit upheld a summary judgment determination that the asserted claims of four patents were invalid for failing to comply with the written description requirement of §112, ¶1. Although the district court also found that the asserted claims were invalid for lack of enablement, the Federal Circuit did not reach that issue on appeal. *Boston Scientific Corp. v. Johnson & Johnson*, Case Nos. 10-1230, -1231, -1233, -1234 (Fed. Cir., June 7, 2011) (Moore, J.) (Gajarsa, J., concurring-in-part).

The patents-in-suit derived from applications related to drug-eluting coronary stents used in the treatment of coronary artery disease. The challenged claim language in all the patents had been added during prosecution after a competitor received European approval to sell a drug-eluting stent containing everolimus.

Three of the patents shared a common specification and generally claimed drug-eluting stents utilizing “rapamycin, or a macrocyclic lactone analog thereof” as a therapeutic agent. The specification, however, contained virtually no information regarding macrocyclic lactone analogs of rapamycin. To the contrary, the specification failed to disclose any formulae or structures of any specific analog or provide any definitions, examples or experimental models for determining whether a compound is a structurally similar analog of rapamycin. After the district court granted summary judgment that the claims were invalid for lack of written description Johnson & Johnson appealed.

In its *de novo* review, the Federal Circuit rejected the patentees’ argument that the description of macrocyclic lactone analogs was sufficient to satisfy the written description requirement as of the filing date since there was evidence that were a few macrocyclic lactone analogs known in the prior art at the time of filing. Citing *Ariad Pharm, Inc. v. Eli Lilly and Co.*, (see *IP Update*, Vol. 13, No. 4) the Court reiterated that “a sufficient description of a genus requires the disclosure of either a representative number of species falling within the scope of the genus or structural features common to the members of the genus so that one skilled in the art can ‘visualize or recognize’ the members of the genus.” The Court concluded that due to the structural complexity of rapamycin, the lack of existing knowledge in

the field at the time of filing and the unpredictability of the art, the specification did not adequately describe the tens of thousands of possible macrocyclic lactone analogs that the patents claimed.

The fourth patent claimed “rapamycin or a macrocyclic triene analog thereof” in combination with specific drug-eluting stents. This patent disclosed a genus (analogues of rapamycin), but claimed a narrower sub-genus (macrocyclic triene analogues of rapamycin) that was not disclosed *ipsis verbis* in the specification. The Court held that in such a situation, simply describing a large genus of compounds is not sufficient to satisfy the written description requirement as to particular species or sub-genuses where the specification lacks blaze marks to indicate compounds that might be of special interest besides those disclosed as preferred. The Court concluded that due to the lack of information in the patent and the nascent state of using drug-eluting stents at the time of filing, no reasonable juror could have determined that the specification reasonably conveyed to persons skilled in the art that the inventor had possession of the claimed sub-genus.

Practice Note: As this edition of *IP Update* goes to press, Johnson & Johnson has petitioned the Federal Circuit for a rehearing or rehearing *en banc*, seeking clarification as to how much prior art information must be disclosed in a patent to satisfy the written description requirement.

Patents / Obviousness

New Dosage of a Known Pharmaceutical: Obvious?

by Heather Morehouse Ettinger, Ph.D.

Addressing the obviousness of a patent claiming a new dosage of an otherwise known pharmaceutical formulation, the U.S. Court of Appeals for the Federal Circuit affirmed a decision on summary judgment finding that the prior art presented an obviousness hurdle that arguments of unexpected results and commercial success could not overcome. *Tyco Healthcare Group LP v. Mutual Pharmaceutical Company, Inc.*, Case No. 10-1513 (Fed. Cir., June 22, 2011 (Bryson, J.)).

In this Abbreviated New Drug Application (ANDA) litigation, to prevent Mutual from marketing a generic version of Tyco’s 7.5 mg temazepam formulation (RESTORIL) for the treatment of insomnia, Tyco asserted a patent having claims directed to hard gelatin capsules containing 6 mg to 8 mg of temazepam, a benzodiazepine. After the district court denied Tyco’s motion for preliminary injunction on the basis that Mutual’s formulation could not literally infringe Tyco’s patent, Mutual moved for summary judgment on non-infringement and invalidity. The district court granted Mutual’s motion with respect to invalidity, finding that the claims were obvious because 15 mg and 30 mg doses of RESTORIL had been on sale more than a year before the priority date of the Tyco patent, a prior art medical reference taught that physicians use temazepam at a dosage of between 5 mg and 15 mg for the treatment of

insomnia in the elderly and in recognition of the knowledge in the art that physicians always seek to prescribe the lowest effective dose of medications, particularly hypnotics such as temazepam. Tyco appealed

The Federal Circuit affirmed, noting a statement made by Tyco in a Supplemental NDA filed with the FDA that stated that the new dosage differed from previous formulations of RESTORIL only in dose. Thus, the Court concluded that the only difference between the prior art (*i.e.*, previous RESTORIL formulations) and the claimed invention was the dose. Further, because the range of dosages disclosed in the prior art overlapped with the claimed dosage range, the Court found the claims to be *prima facie* obvious.

Tyco's argument that the prior art did not teach the effectiveness of the claimed dosage range were unavailing as the Court noted that the claims, which are directed to a known composition, were not tied to efficacy. The court pointed to the old adage (*In re Spada*) that "[t]he discovery of a new property or use of a previously known composition, even when that property and use are unobvious from the prior art, can not impart patentability to the known composition."

The Court also made quick work of secondary considerations, noting that Tyco's claims of unexpected results were unsupported by the specification and its argument of commercial success was not sufficient to overcome the strong *prima facie* case of obviousness.

Patents / Means-Plus-Function

Going Down: Means-Plus-Function Elements on Claims to Elevator Invention Are Structural

by Charles J. Hawkins

The U.S. Court of Appeals for the Federal Circuit reversed a district court's summary judgment ruling that two contested patent claim terms were means-plus-function limitations and that the written description of the patents failed to disclose any corresponding structure. *Inventio AG v. ThyssenKrupp Elevator Americas Corp.*, Case No. 10-1525 (Fed. Cir., June 15, 2011) (Lourie, J.).

Plaintiff Inventio sued defendant ThyssenKrupp Elevator alleging infringement of two patents relating to a modernized elevator. The elevator claims are directed to a structure that allows a passenger to call an elevator and request a desired destination, all from the boarding floor. In relevant part, the patents claim and describe a "modernizing device" and "computing unit" as components that are central to the operation of the claimed modernized elevator system.

After a *Markman* hearing, the lower court concluded that the terms “modernizing device” and “computing unit” were means-plus-function claim elements, as they did not recite any structure but were purely functional. The district court then concluded that both claim terms were indefinite because the written descriptions failed to disclose corresponding structure to perform the recited functions. Inventio appealed.

The issue on appeal was whether the terms in issue are mean-plus-function limitations that fall within the ambit of §112, ¶6. Given that neither disputed claim term included the word “means,” the Federal Circuit noted that there is a rebuttable presumption that §112, ¶6 does not govern. This presumption, stated the Court, can only be overcome if ThyssenKrupp demonstrated that the claim terms fail to recite sufficiently definite structure. The parties disputed whether, for purposes of determining whether sufficient structure was recited, it was proper to view the disputed claim language in light of the written description, as Inventio argued, or whether the analysis is limited to the claim language itself, as ThyssenKrupp argued.

In view of the general principle that claims should always be interpreted in light of the written description, the Federal Circuit concluded that the same holds true for a means-plus-function analysis. In deciding whether a challenger has rebutted the presumption, the Court stated that “the focus remains on whether the claim *as properly construed* recites sufficiently definite structure to avoid the ambit of §112, ¶6.” (Emphasis added.) Under *Phillips*, the Court concluded, the proper construction of claim terms necessarily requires analysis of the entire intrinsic record.

Using this approach, the Federal Circuit found that the written description of the patent supported the conclusion that the claimed “modernizing device” was not a purely functional limitation and that ThyssenKrupp failed to overcome the presumption that the claim term was not a means-plus-function limitation. Similarly, the Court concluded that the claimed “computing unit” was also presumptively not a mean-plus-function claim element and connoted sufficiently definite structure to someone of skill in the art so as to avoid falling under §112, ¶6.

Practice Note: Prior to addressing the merits, the Court denied the appellee’s motion to strike portions of Inventio’s reply brief, stating that “filing of this motion borders on the type of frivolous and wasteful litigation tactics that we have previously frowned upon.” The Federal Circuit warned against the practice of appellee’s attempting to obtain the final word in an appeal when an appellee merely disagrees with the appellant’s legal arguments. The Court noted appellee’s “nasty tone” and excessive use of the terms “blatant” and “blatantly.”

Patents/ Licensing

Mutual Indemnification Clause Gives Rise to Attorneys’ Fees Regardless of Prevailing Party

by Michael V. Lee

In a case focusing on a licensing dispute and effect of an indemnification provision, the U.S. Court of Appeals for the Tenth Circuit reversed and remanded a district court's denial of an award of attorneys' fees. *Interstate Power Systems, Inc. v. Drake Water Technologies, Inc., et al.*, Case Nos. 10-8067, -8076 (10th. Cir., June 16, 2011) (Anderson, J.).

Drake Water Technologies (DWT) and Interstate Power Systems (IPS) entered into a license agreement in which DWT granted to IPS a sublicense to a process for treating byproduct water. IPS filed a complaint against DWT (and others) claiming failure of consideration, breach of contract, breach of warranty, promissory estoppel, misrepresentation, tortious interference with contract, business defamation and attorneys' fees. DWT filed counterclaims against IPS for breach of contract, injunctive relief and attorneys' fees. After pre-trial motions, IPS' claims for breach of contract and breach of warranty along with DWT's counterclaims for breach of contract proceeded to a jury trial. The jury found that both parties breached the license agreement, but declined to award damages. The district court also granted relief to DWT on its claims for injunctive relief and ordered that IPS relinquish title and possession of the treatment process under the license and return DWT's confidential information.

DWT moved for its attorneys' fees, contending that it was the prevailing party and basing its claim on a mutual indemnification provision in the license agreement. IPS also moved for its attorneys' fees, contending that the mutual indemnification provision does not use "prevailing party" language. The district court, applying Montana substantive law, ruled that "under the totality of the circumstances and because neither party was awarded damages, the [district court] finds that there was no 'prevailing party.' As such ... attorneys' fees will not be awarded."

The relevant language of the mutual indemnification provision provided the following: "Each party agrees to indemnify, hold harmless and defend the other party, its Affiliates, employees and agents against and any all claims, suits, losses, damages, costs, attorneys fees and expenses resulting from acts or omissions of the other party under this Agreement."

The 10th Circuit reviewed the district court's interpretation of the indemnification provision *de novo* and concluded that it "does not provide for an award of fees to the 'prevailing party,' nor does it otherwise call for a winner-take-all result." The provision "sets forth the following elements for an indemnification claim: (1) a party, its Affiliates, employees or agents; (2) must establish that it incurred claims, suits losses, damages, costs, attorneys fees or expenses; (3) resulting from acts or omissions of the other party under the Agreement." In other words, the 10th Circuit found that the provision provided "for mutual indemnification based upon a causation analysis: did a party's attorneys' fees result from an act or omission of the other party?" Accordingly, the 10th Circuit remanded the matter for further consideration by the district court of whether "the parties satisfied the elements for indemnification" under the indemnification provision.

Practice Note: If attorneys' fees are intended to be awarded to only the "prevailing party," the contract provision should be drafted to specifically require a prevailing party requirement.

Patents / Declaratory Judgment / Validity

Customer Letter Characterizing Competitor's Patent as Invalid Not Enough to Create Declaratory Judgment Jurisdiction

by Jeremy T. Elman

Addressing a host of patent invalidity issues, as well as infringement of method patents by imported products, the U.S. Court of Appeals for the Federal Circuit found that an accused infringer failed to satisfy the heavy (clear and convincing) burden necessary to invalidate a competitor's patent and also concluded that letters to the competitor's customers alleging patent invalidity were not sufficient to create a justiciable case or controversy for declaratory judgment. *Creative Compounds v. Starmark Labs*, Case No. 10-1445 (Fed. Cir., June 24, 2011) (Linn, J.)

Starmark and Creative are competitors in the creatine market. The U.S. Patent and Trademark Office (USPTO) issued patents to each party at about the same time. Soon after, Creative mailed letters to members of the nutrition industry that its patent was prior art to Starmark's patent. Creative filed suit against Starmark seeking a declaration that Starmark's patent was invalid and not infringed. Starmark answered by asserting infringement of its patent by Creative and invalidity of Creative's patent. The district court granted Starmark's motion for summary judgment on all counts and denied Creative's motions to amend. Creative appealed.

The Federal Circuit rejected Creative's numerous invalidity arguments as to Starmark's patent, finding that the district court had correctly applied the clear and convincing evidence standard necessary to prove invalidity. The Court held that Creative had failed to show that the patents of the respective parties were co-pending interfering patents with conflicting subject matter or that the present action arose under the interference statute, §291. The Federal Circuit also concluded that Creative failed to satisfy its burden of proving prior conception and diligence in reducing to practice of its invention so as to invalidate Starmark's patent under §102(g)(2) because its evidence consisted solely of an e-mail about Creative's allegedly patented method that failed to disclose the method itself. In addition, the Federal Circuit concluded that there was insufficient evidence to establish invalidity under §102(f) based on Creative's theory that Starmark derived its claimed invention from the Creative inventor because Creative relied solely on uncorroborated inventor testimony. Finally, the Federal Circuit rejected Creative's argument that Starmark's patent was invalid under §102(e) because the invention was published in a previous application. The court rejected Creative's §102(e) argument largely because creative failed to provide testimony from one skilled in the art identifying each claim element in the prior art application and explaining how each claim element is disclosed in the published application.

As to infringement of Starmark's patent, Creative denied infringement of Starmark's method claims, but the Federal Circuit affirmed the district court's application of the §271(g) exception coupled with the rebuttable presumption (under §295) that an imported product was made from the patented process if the court finds "(1) that a substantial likelihood exists that the product was made by the patented process, and (2) that the plaintiff has made a reasonable effort to determine the process actually used in the production of the product and was unable to so determine." The Court found that the burden was properly shifted to Creative to show specific evidence that its accused process did not infringe. The Federal Circuit affirmed summary judgment of infringement because Creative presented no evidence of non-infringement.

As for the issue of declaratory-judgment jurisdiction, the Court agreed with Creative's argument that because Creative had never accused Starmark of infringing its patent there is no case or controversy between Creative and Starmark and thus no subject-matter jurisdiction. While Creative did send letters to Starmark's customers, no letters were sent to Starmark and thus Starmark only had an economic interest in clarifying its customers' rights under Creative's patents, which is insufficient to create a justifiable case or controversy. Therefore, the Federal Circuit overturned the district court's grant of summary judgment of invalidity of Creative's patent.

Cert Alerts

Two New Patent Cases Join Supreme Court's Fall Docket

by Paul Devinsky

The U.S. Supreme Court has granted *certiorari* in two patent cases, which will join *Mayo v. Prometheus* case (see [IP Update, Vol. 14, No. 6](#)) on the Court's fall docket.

Hatch-Waxman Issues to Be Reviewed

The first of the new cases is *Caraco Pharm. Labs., Ltd. v. Novo Nordisk*, Case No. 10-844 (Supr. Ct., June 26, 2011). Novo Nordisk owns patents underlying the drug repaglinide (marketed under the brand name Prandin). The FDA approved three uses of Prandin—by itself, in combination with metformin, and in combination with thiazolidinediones. However, the agency initially limited the Orange Book use code to "[u]se of repaglinide in combination with metformin to lower blood glucose."

After Caraco Pharm. filed an Abbreviated New Drug Application (ANDA) with a certification as to one of the patents, it added a statement declaring that it was not seeking approval for the combination with metformin. Novo Nordisk then requested the U.S. Food and Drug Administration (FDA) broaden the use code description to "method for improving glycemic control in adults with type 2 diabetes mellitus," which the FDA agreed to do.

The FDA also required Caraco to label its product without disclaiming use with metformin. After Novo Nordisk brought an infringement suit, Caraco counterclaimed, seeking that the use code and description be changed back to the original form.

The district court granted Caraco's motion for summary judgment on the counterclaim, which would have forced the use code revision. The Federal Circuit (over a vigorous dissent) reversed (see [IP Update, Vol. 11, No. 4](#)), the majority concluding that the counterclaim provision is available only when the branded drug maker lists patents that are not related to the listed drug.

The Supreme Court granted cert to address the following question:

"Whether the counterclaim provision applies where

(1) there is 'an approved method of using the drug' that 'the patent does not claim,' and (2) the brand submits 'patent information' to the FDA that misstates the patent's scope, requiring 'correct[ion].'"

§145 Appeals / Evidence

The second case on which cert was granted stems from an appeal from the U.S. Patent and Trademark Office's Board of Patent Appeals and Interferences (the Board) that addresses the infrequently encountered issue of whether there is a heightened standard for introducing new evidence when a party takes a direct appeal of a Board decision to a district court under 35 USC §145. *Kappos v. Hyatt*, Case No. 10-1219 (Supr. Ct., June 22, 2011).

After the USPTO rejected Hyatt's claims for an improved computer memory architecture for lack of written description and enablement, Hyatt filed a §145 action in a district court against the USPTO. In response to the USPTO's motion for summary judgment, Hyatt filed a declaration supporting his belief that the written description was adequate and included new arguments. The district court excluded the declaration, agreeing with the USPTO that new evidence should be admissible in §145 action only if it could not reasonably have been provided to the agency in the first instance.

On appeal, a split panel of the Federal Circuit affirmed the evidentiary exclusion ([IP Update, Vol. 12, No. 8](#)) but, after rehearing *en banc*, the Federal Circuit reversed (7-2) the original panel decision ([IP Update, Vol. 13, No. 3](#)), concluding that the introduction of new evidence in §145 proceedings is limited only by the Federal Rules of Evidence and the Federal Rules of Civil Procedure.

The Federal Circuit rejected the USPTO's argument as to the deference owed to the agency under the Administrative Procedure Act, but agreed that "if the parties to a §145 action do not introduce any new evidence before the district

court, the court reviews the case on the same record presented to the agency and the reviewing court must apply the APA's substantial evidence standard to Patent Office fact findings." However, where new or different evidence is introduced, the district court becomes the fact-finder and must weigh the new evidence.

The Supreme Court granted cert to consider the following questions:

(1) Whether the plaintiff in a §145 action may introduce new evidence that could have been presented to the agency in the first instance, and

(2) Whether, when new evidence is introduced under §145, the district court may decide *de novo* the factual questions to which the evidence pertains, without giving deference to the prior decision of the PTO.

Trademarks / Descriptiveness

“Dashboard” Mark Merely Descriptive of Automotive Information Services by Elisabeth (Bess) Malis

In a nonprecedential disposition, the U.S. Court of Appeals for the Federal Circuit affirmed a Trademark Trial and Appeal Board decision sustaining an opposition against a party's attempted registration of the service mark DEALERDASHBOARD, on the basis that the mark is merely descriptive. *Dalton v. Honda Motor Co., Ltd.*, Case No. 11-1077 (Fed. Cir., Jun. 13, 2011) (*per curiam*).

Michael Dalton applied to register the service mark DEALERDASHBOARD in Class 35 for information services provided to auto dealerships. Dalton operated the website *DealerDashboard.com*. Dalton sent a cease and desist letter to American Honda Motor Co. when he learned that the company was using the DEALERDASHBOARD mark on its internal network in offering similar information to authorized Honda dealers. American Honda's parent company, Honda Motor Co. Ltd., responded by filing a Notice of Opposition to Dalton's pending application to register DEALERDASHBOARD. Honda alleged that the mark is generic or, at best, merely descriptive because “dashboard” is a term of art to reference a “user interface for organizing and displaying key information” on the internet. In response, Dalton argued that the mark had achieved secondary meaning and fame in the automotive industry. Dalton also asserted that Honda lacked standing to bring the opposition as a foreign corporation organized under Japanese law.

While the Trademark Trial and Appeal Board (TTAB) agreed that Honda failed to prove that the mark was generic, the TTAB sustained the opposition on the basis that the mark was merely descriptive of “internet-based business information tracking and presentation.” Further, the TTAB concluded that the Japanese parent corporation

possessed standing to oppose Dalton's application on behalf of its wholly-owned subsidiary, American Honda. Dalton appealed.

The Federal Circuit affirmed. First, the Court acknowledged that descriptiveness was properly found in light of the dictionary definitions of "dashboard" on record, as well as evidence of third parties using "dealer dashboard" to describe services similar to Dalton's applied-for services. The Court agreed that Dalton failed to submit any evidence to support acquired secondary meaning. In addition, the Court rejected Dalton's argument that several existing third-party registrations include the terms "dealer" and "dashboard," citing the "well-established" principle that third-party registrations are not conclusive evidence on the question of descriptiveness.

Finally, the Court dismissed Dalton's challenge to Honda's standing to bring the opposition, stating that a parent company may file an opposition on behalf of a wholly-owned subsidiary because it can "reasonably believe that damage to the subsidiary will naturally lead to financial injury to itself."

Trademarks / Invalidity

Fashion Designer Allowed to Prevent Use of His Name as Community Trademark, Despite Having Sold All Trademark Rights by Désirée Fields

Ruling on the proper interpretation of national legal provisions in invalidity proceedings, the Court of Justice of the European Union (CJEU) held that the holder of a name is entitled to prevent its use as a Community trademark where national law permits. The economic aspects of a right to a name may also be protected. *Edwin Co. Ltd. v. Elio Fiorucci*, Case C-263/09 (CJEU July 5, 2011).

Fiorucci SpA, an Italian company set up by fashion designer Elio Fiorucci, sold the entirety of its "creative assets," including all the trademarks which it owned (among which were numerous marks containing FIORUCCI), to Japanese clothing company Edwin in 1990. In 1999, on application by Edwin, the Office for Harmonisation in the Internal Market (OHIM) registered the word mark ELIO FIORUCCI for goods in classes 3, 18 and 25. In 2003, Fiorucci filed an application for revocation and an application for a declaration of invalidity of the mark under Articles 50(1)(c) and 52(2)(a) of the Community Trade Mark Regulation (CTM Regulation) (40/94/EEC, now replaced by 2009/207/EC).

The Cancellation Division of OHIM allowed the application for a declaration of invalidity on the basis that according to Article 8(3) of the Italian Industrial Property Code (CPI), Fiorucci's consent was required for the registration of his name as a Community trademark and that no such consent had been given. The Cancellation Division did not rule on the application for revocation. The OHIM Board of Appeal annulled the decision finding that this situation did not

fall within the scope of Article 8(3) CPI because its purpose was to prevent third parties from exploiting for commercial purposes the name of a person who had become famous in a non-commercial sector and that Fiorucci could therefore not rely on this provision. The Appeal Board rejected Fiorucci's application for revocation.

The EU General Court also rejected Fiorucci's revocation action but ruled in his favor in relation to the invalidity action, stating that there was no justification for excluding the provision of the CPI if the name of a well-known person had been registered or used as a trademark. However, the court did not grant a declaration of invalidity as to do so would usurp the role of OHIM. Edwin appealed to the CJEU.

Dismissing Edwin's appeal, the CJEU held that the wording and structure of Article 52(2) of the regulation did not, where a right to a name was claimed, restrict the provision so that it merely protected the personality interests of individuals. The CECJ said that it was clear from the wording of the provision, which provides a non-exhaustive list of four examples on the basis of which a Community trademark may be declared invalid, that the rights cited were intended to protect interests of different types. The CJEU found that the definition of "right to a name" covered commercial use of a name. It also held that the right to a name may be relied upon to protect a name as an aspect of personality as well as its economic aspects. In doing so, the CJEU upheld the General Court's decision that the holder of a name is entitled to prevent its use as a Community trademark where he has not given consent to its registration as a trademark and where national law so permits.

The CJEU also confirmed that the General Court has jurisdiction to review the legality of OHIM's decisions.

Practice Note: The decision illustrates the complexities and uncertainties that can arise when proceedings are based on rights arising under national law. Having acquired the business and trademarks from Fiorucci in the 1990s, Edwin would probably not have imagined that more than 10 years later Fiorucci would rely on Italian national law to protect his naming rights.

Trademarks / Licensing

Naked Licensing Defense Barred Where Licensee Previously Failed to Contest Trademark Validity

by Rita Weeks

Considering which of two Washington, D.C., area plumbing, heating and air conditioning (HVAC) businesses was entitled to use the marks JOHN C. FLOOD and FLOOD in connection with their services, the U.S. Court of Appeals for the District of Columbia Circuit determined that licensee estoppel applied, barring the licensee from challenging

the ownership rights of the successor in bankruptcy based on alleged naked licensing. *Flood v. John C. Flood, Inc.*, Case No. 10-7098 (D.C. Cir., Jun. 17, 2011) (Sentelle, C.J.).

Plaintiff John C. Flood (DC Flood) and defendant John C. Flood of Virginia (VA Flood) brought suit against each other to determine which company had the right to use the trademarks JOHN C. FLOOD and FLOOD for plumbing and HVAC services. DC Flood was the successor-in-interest to the original owner of the marks, who began using the marks in the D.C. area in 1984. Approximately four years later, the original proprietor of the marks expanded its operations into Virginia by incorporating VA Flood. VA Flood had permission from the proprietor to use the marks JOHN C. FLOOD and FLOOD in connection with its services, but the parties to the present litigation disputed the scope of that license. VA Flood had used the two disputed marks continuously since 1989 pursuant to that license.

In 1991, the original proprietor of the marks filed for bankruptcy reorganization, although it continued operating and using the two disputed marks until a bankruptcy trustee was appointed. In 1993, a bankruptcy trustee was appointed and FLOOD company operations ceased. Despite this appointment, some of the prior owners of the original proprietor of the marks continued offering plumbing and HVAC services under other companies using the marks JOHN C. FLOOD and FLOOD, which still belonged to the original proprietor of DC FLOOD.

The successor-in-interest, DC Flood, purchased the marks from the bankruptcy estate in 1995 and was incorporated in 1996. In 2000, VA Flood obtained two trademark registrations for JOHN C. FLOOD and another for a logo incorporating that phrase. When DC Flood learned of VA Flood's trademark registrations, DC Flood filed a petition to cancel the registrations. That cancellation proceeding was suspending pending disposition of a civil suit brought by VA Flood against DC Flood concerning rights to the marks in 2006.

At the district court, VA Flood argued that it had priority over DC Flood because VA Flood had used the disputed marks continuously since its formation in 1989, whereas DC Flood did not begin using the marks until its incorporation in 1996. VA Flood also argued that DC Flood did not acquire the FLOOD marks from the bankruptcy estate because the estate had already abandoned ownership rights when it created a "naked license" during bankruptcy. On the parties' motions for summary judgment, the district court held that DC Flood was entitled to summary judgment on all of VA Flood's claims, finding that because DC Flood is the successor-in-interest to the original proprietor of the FLOOD marks, VA Flood is barred by the doctrine of licensee estoppel from asserting its naked licensing claim to obtain priority over the marks.

The DC Circuit affirmed. First, the court held that VA Flood's abandonment claims were "irreparably harmed" by VA Flood's failure to object to the sale of the marks by the bankruptcy trustee to DC Flood in 1995. The court stated that if in 1995, VA Flood believed that the original proprietor's trademark ownership had lapsed for naked licensing or any other reason, it should have objected to the sale of the marks by the bankruptcy trustee. Instead, VA Flood tried to

purchase the marks and was outbid by DC Flood. “By offering to purchase the disputed marks,” the court noted, “[VA Flood] implicitly recognized the bankruptcy estate’s ownership [and validity] of those marks.” Further, VA Flood also failed to object to the validity of the marks in 1996, when DC Flood issued a cease and desist demand to VA Flood that VA Flood stop using the marks without the distinguishing designator “of Virginia,” a condition VA Flood replied that it would accept. While the court stated that it would not use this case as a vehicle to define the proper contours of the licensee estoppel doctrine in the circuit, based on the facts in the case, it was appropriate to apply licensee estoppel to bar VA Flood’s challenge to DC Flood’s ownership of the marks.

The court held that VA Flood was not estopped, however, from claiming rights to use the modified mark JOHN C. FLOOD OF VIRGINIA, based on alleged abandonment or some other basis of priority or ownership. Thus, the court remanded the case to the district court for determination of the ownership and priority rights of the parties concerning the modified trademark JOHN C. FLOOD OF VIRGINIA.

Copyrights / Preemption

“Hot News” Cannot Be Enjoined Under Misappropriation Claim

by Paul Devinsky

In a case that attracted significant *amici* attention, the U.S. Court of Appeals for the Second Circuit, invoking the copyright law principal of preemption, vacated an injunction against an internet news service that was based on a tort claim of misappropriation. *Barclays Capital, et al. v. TheFlyOnTheWall.com*, Case No. 10-1372 (2d Cir. June 20, 2011) (Sack, J.) (Raggi, J., concurring).

The FlyOnTheWall.com (Fly) operates a subscription-based electronic news service that compiles security firms’ stock recommendations. Fly tries to obtain and release recommendations as soon as they are released by the security firms to clients. The plaintiffs (a group of security brokerage firms) sued Fly, alleging that Fly’s republication of their recommendations violated copyright law and was also a misappropriation under New York tort law.

A district court entered a judgment for the plaintiffs, concluding Fly had infringed the plaintiffs’ copyrights in their research reports, as well as that by collecting and disseminating to its own subscribers the recommendations contained in the plaintiffs’ reports, Fly committed “hot news” misappropriation under New York tort law. The district court ordered Fly to pay statutory damages, prejudgment interest and attorneys’ fees. It also permanently enjoined Fly from “further infringement of any portion of the copyrighted elements of any research reports generated by” the plaintiffs and from “dissemination of the [plaintiff’s] recommendations until one half hour after the opening of the New York Stock Exchange or 10:00 a.m., whichever is later.” Fly appealed.

Under 2d Circuit precedent, e.g., *NBA v. Motorola* (1997), a plaintiff bringing a “hot news” state tort claim has to demonstrate the following in order to survive federal copyright law preemption and succeed on the merits: the plaintiff was generating or gathering information at a cost; the information was time-sensitive; the defendant’s use of the information was free-riding on the plaintiff’s efforts; the defendant was in direct competition with a product or service offered by the plaintiff; and the ability of the defendant to continue free-riding would “so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.” Applying this five-part test, the district court ruled in favor of plaintiffs.

The 2d Circuit lifted the injunction, holding that the plaintiffs’ “hot news” claim was preempted by federal copyright law. The court explained that although *NBA* was still good law, the five-part test was more descriptive than binding. Rather, the court concluded that “applying *NBA* and copyright preemption principles to the facts of this case, the [plaintiffs’] claim for hot news misappropriation fails.” The court reasoned that Barclays’ reports fell within the subject matter and scope of the Copyright Act and that Fly was not “free-riding” because it was essentially reporting the underlying news that plaintiffs had made various recommendations about particular investments. “The [plaintiffs] are making the news; Fly is breaking it,” the 2d Circuit explained: “[a] Firm’s ability to make news – by issuing a recommendation that is likely to affect the market price of a security – does not give rise to a right for it to control who breaks that news and how.” Rather, the 2d Circuit explained that the so-called *NBA* preemption exception was narrow and that the focus is and must remain on the importance of maintaining the uniform nationwide scheme that the Copyright Act.

Copyrights / Unprotectable Ideas / Preemption

Really, “You Don’t Mess with the Zohan”

by Clifford R. Lamar II (Dale)

In a case involving *scènes à faire* and preemption issues, the U.S. Court of Appeals for the Second Circuit affirmed a district court’s grant of summary judgment in favor of the makers of the motion picture *You Don’t Mess with the Zohan*. *Cabell v. Sony Pictures Entm’t, Inc. et al.*, Case No. 10 -2690 (2d Cir. June 24, 2011) (*per curiam*).

Robert Cabell, a comic book artist, filed suit in 2009 against actor Adam Sandler, Sony Pictures Entertainment and others for alleged federal copyright infringement and state unfair competition claims. Cabell claimed that the defendants’ film *You Don’t Mess with the Zohan* infringed his comic books, based upon alleged similarities between the main characters in the plaintiff’s comics and the defendants’ film. Cabell’s comic book character is Jayms Blonde, an openly gay ex-U.S. Navy SEAL turned hairdresser by day and crime-fighting secret agent by night. In several book cover renditions, the Jayms Blonde character is in a fighting pose and wielding a “mini-Uzi blow dryer” weapon. Defendants’ Zohan character is a heterosexual ex-Israeli Mossad agent (played by Adam Sandler) with a dream of

being a hairdresser. In several marketing posters for Defendants' movie, Adam Sandler (as the character Zohan) was shown in various poses holding an actual blow dryer with the heating element clearly shown, but in a manner as if it were a gun.

In 2010, the district court granted the defendants' motion for summary judgment on all claims and dismissed the action. The district court first separated the protectable expression material (namely the actual poses and positioning taken by the characters, the likeness of the characters and the backgrounds of the materials) from the non-protectable material (namely the ideas of wielding a blow dryer as a weapon and fighting poses, as well as the *scenes a faire* of the secret agent and crime-fighting genres). Since the protectable expression of the plaintiff's Jayms Blonde comic character was different from the defendants' movie character in almost every respect—different poses, hair, clothing, wardrobes and image backgrounds—the court ruled that the defendants had not infringed Cabell's copyrights.

The district court also ruled that the plaintiff's state law claim had been preempted by federal copyright law. Aside from the fact that the New York statute asserted by Cabell had been repealed more than a decade ago, the court applied the preemption test and found that both the "subject matter" and "general scope" prongs were satisfied because the claim was nothing more than a reiteration of the copyright claim without any qualitatively different element introduced by the state statute.

On appeal, the 2d Circuit explained that it was affirming the judgment "for substantially the reasons stated by the district court in its thorough and well-reasoned opinion. Aside from the unprotectable ideas of (1) brandishing a blow dryer as a weapon, and (2) the characters' fighting poses, there is no plausible basis for a reasonable jury to find that the parties' respective expressions of the concept of a crime-fighting hairdresser are substantially similar." The court likewise affirmed the district court's preemption ruling.

Copyrights / Attorneys' Fees

Strict Proportionality Not Required Between Attorneys' Fees and Damages

by Matthew McCloskey and Blake Wong

In a recent action for copyright infringement, the U.S. Court of Appeals for the First Circuit upheld the district court's award of attorneys' fees, noting that strict proportionality between fees and damages is not required. *Spooner v. EEN, Inc.*, Case No. 10-2393 (1st Cir., July 5, 2011) (Selya, J.).

Jason Spooner, a musician, filed suit against defendants EEN and Dan Egan for copyright infringement arising from unauthorized use of Spooner's musical compositions in TV and internet advertisements for Sugarloaf/USA ski resort.

The district court found that the defendants had willfully infringed, imposed a permanent injunction against them and awarded Spooner statutory damages of \$40,000, as well as attorneys' fees of almost \$100,000. The defendants appealed, claiming that the district court should have denied all attorneys' fees because Spooner's request for more than \$175,000 in attorneys' fees was outrageously high.

As a preliminary matter, the First Circuit recognized a jurisdictional "obstacle" arising from the fact that the defendants' appealed the fee award without the district court having decided whether to award other costs. The court explained that as a general rule, a post-verdict fee award is treated as distinct from an award of costs. However due to the language of the Copyright Act, copyright cases differ because attorney's fees are a part of the overall costs, and not a separate inquiry. Since the district court had yet to decide whether to award overall costs, at the time of filing the appeal, the narrower question of whether to award fees was not, an appealable issue. Noting that a court is duty-bound to notice and act upon defects in its subject-matter jurisdiction *sua sponte* and that jurisdictional defects can sometime be remedied by corrective measures even after an appeal is filed, the court stayed the proceedings so that the parties could address the issue. The parties corrected this jurisdictional defect by stipulating to the value of the other recoverable costs with the lower court, which entered an appropriate order, certifying the result to the 1st Circuit.

In its main analysis, the court affirmed the district court's award of fees to Spooner, based on lodestar method analysis in which reduced billed hours are multiplied by approved rates. The court noted "[t]he law ... does not demand strict proportionality between fees and damages." Such a rule, the court explained, would run contrary to the purpose of awarding attorneys' fees, which is to "afford private parties the opportunity to vindicate rights that serve some broad public good." The court recognized, though, that some fee requests may be so "gluttonously high" that courts should award no fees at all. The court cautioned that such an action, however, is "powerful medicine" and should be used in only the "most egregious cases," such as when the fee request is outrageously inflated or when the attorney has logged unnecessary hours.

In this case, the record showed that the plaintiff had "pared" down his fee request before filing it. The plaintiff had written off many hours before submitting the fee request, and the defendants did not show that the number of hours the attorney billed or the hourly rate charged were unreasonable.

Copyrights / Character Rights / Public Domain

Scarlett? Rhett? Frankly My Dear, I Don't Give a Damn

by Whitney D. Brown

The U.S. Court of Appeals for Eighth Circuit ruled that copyright holders deserve protection of characters even after images containing such characters have entered the public domain. The 8th Circuit thus affirmed a district court's permanent injunction barring movie image licensors from selling altered versions of public domain images from *Gone with the Wind*, *The Wizard of Oz* and *Tom and Jerry*. *Warner Bros. Entertainment Inc. et al. v. X One X Productions et al.*, Case No. 10-1743 (8th Cir., July 5, 2011) (Gruender, J.).

The plaintiffs own registered copyrights to the 1939 Metro-Goldwyn Mayer (MGM) films *The Wizard of Oz* and *Gone with the Wind*. Prior to completion of the films, publicity materials featuring images of the actors in costume and on the movie set were distributed to movie theaters and published in newspapers and magazines to promote the films. The publicity materials included "lobby cards," movie posters, still photographs and press books. The publicity materials did not comply with the copyright notice requirements under the 1909 Copyright Act and thus fell into the public domain. The plaintiffs also own copyrights for various animated films featuring the characters Tom and Jerry that appeared between 1940 and 1957. As with *The Wizard of Oz* and *Gone with the Wind*, promotional materials for these films were distributed without copyright notice and thus did not receive copyright protection under the then-operative 1909 Copyright Act.

The defendants acquired restored versions of promotional materials, including movie posters and lobby cards featuring characters from *The Wizard of Oz*, *Gone with the Wind* and several *Tom and Jerry* cartoon films. Characters including Scarlett O' Hara, Rhett Butler, Tin Man, Cowardly Lion, Dorothy, Tom and Jerry were used by the defendants on items such as t-shirts, figurines, playing cards and lunch boxes. In many cases, the defendants modified the images of the characters. For example, one of the defendants' products contained a character's publicity photograph with the addition of the character's signature phrase from the movie. The defendants also combined images extracted from different items of publicity material, such as publicity photographs of multiple characters, onto a single product.

The plaintiffs filed suit, alleging that the defendants had violated the plaintiffs' copyrights for the films by plastering images of characters from these films onto the items it then sold. The defendants argued that their use was permissible because prior distribution of the publicity materials without proper copyright notice, from which the images of characters were taken, had fallen into the public domain due to the failure to comply with the copyright notice requirements of the 1909 Copyright Act. The district court did not address the issue of whether the images had fallen into the public domain. Instead, the court granted the plaintiffs' motion for summary judgment on infringement on the grounds that even if the images were obtained from public domain materials, the defendants' practice of modifying the extracted images for placement on retail products infringed the plaintiffs' film copyrights. Accordingly, the district court granted a permanent injunction barring all use of images of characters from *The Wizard of Oz*, *Gone with the Wind* and *Tom and Jerry* films.

On appeal, the 8th Circuit explained that the district court had erred in failing to determine whether the materials at issue had entered the public domain. The court then turned to the issue of whether the defendants' use of images of characters from the copyrighted films in fact infringed the plaintiffs' copyrights. In finding infringement, the court concluded that the plaintiffs' copyright in *The Wizard of Oz*, *Gone with the Wind* and *Tom and Jerry* extended to the characters depicted in those films, noting that certain characters, such as Scarlett O' Hara and Rhett Butler, exhibit "consistent, widely identifiable traits in the films that are sufficiently distinctive to merit character protection under respective film copyrights." Commenting on the modifications made to some of the images by the defendants, the court noted that the "new arrangement of the extracts [from the public domain images] in the composite work is a new increment of expression that evokes the film character in way the individual items of public domain material did not," citing as an example the addition of the film line "there's no place like home" to an image of Dorothy taken from publicity material.

Notably, the 8th Circuit concluded that an exact image taken from publicity material that had fallen into the public domain and placed upon a t-shirt or other product did not constitute a violation of the plaintiffs' copyrights. The Court reversed summary judgment as to products that fit within this category, but affirmed the permanent injunction in all other respects.

Practice Note: Unauthorized use of images of film characters taken from materials that have entered the public domain can still incur copyright infringement liability, if such use evokes the film character as depicted in a film that has not yet entered the public domain.

Copyrights / Litigation

I'm Singing the Blues—Sampled Song and Procedural Mish-Mash

by Michelle C. Burke

In a case decided largely on procedural grounds (leave to file amended complaint, subject matter jurisdiction, attorneys' fees, *res judicata*), a once well-known blues and soul artist finally failed in his drawn-out attempt to obtain redress for the "looping" of his 1969 song by a 1990's hip-hop group, when the U.S. Court of Appeals for the Seventh Circuit upheld all of the district court's rulings against him in both of the cases he filed against the group. By taking too long to get his facts straight and to commit to a viable legal theory, Syl Johnson is now singing the blues again. *Johnson v. Cypress Hill*, Case Nos. 08-3810, 09-2213, 10-1733 (7th Cir., June 1, 2011) (Evans, J.).

In 1969, Twinnight Records released a record of Johnson's song "Because I'm Black." Johnson also recorded a later version in 1972. In 1993, the hip-hop group Cypress Hill released an album, "Black Sunday," containing a track titled "Interlude," which consisted of 2.5 seconds of Johnson's song, looped for the entire 77-second track. In 2003

Johnson heard the track and sued Cypress Hill for infringement of the 1972 sound recording, asking for \$29 million in damage.

Unfortunately for Johnson, it was revealed during discovery that his pleaded copyright registration did not cover the 1972 recording. This was particularly crucial to his claim because the Copyright Act does not protect sound recordings made before February 15, 1972, and the defendant used the 1969 recording for its album track. In 2008, after the defendant moved for summary judgment, the plaintiff tried to fix his case by asking for leave to amend his complaint to substitute claims for misappropriation under state law and for infringement of his copyright in the song composition (rather than its recording). The district court ruled that this amendment was too late and granted summary judgment to the defendant. The plaintiff tried again by asking the district court to vacate the summary judgment and enter an order dismissing the case for lack of subject-matter jurisdiction (since he never had a copyright in the sound recording that the defendant used). The district court also denied this motion, and then awarded attorneys' fees and costs to the defendant. Following dismissal of his first case, the plaintiff filed a second case asserting a state law misappropriation claim and a claim for infringement of the composition copyright. The district court dismissed the second case as barred by *res judicata*.

The plaintiff appealed both cases, arguing that the district court should not have denied his motion for leave to amend in the first case; the court lacked subject-matter jurisdiction over the first case and thus the entry of summary judgment was improper; attorneys' fees should not have been awarded in the first case; and the second case was not barred by *res judicata*. The court affirmed all of the appealed rulings of the district court in both cases. In doing so, the court labeled the request for amendment made on the eve of summary judgment as "exactly the sort of switcheroo we have counseled against." The court then found that the argument that the district court lacked subject-matter jurisdiction because the plaintiff did not hold a proper copyright registration when he sued was foreclosed by the Supreme Court's holding in *Reed Elsevier*. The award of attorneys' fees was affirmed on the basis that the plaintiff had "clear notice that [his] claim was frivolous and objectively unreasonable." Finally, the court found that because the district court did have subject-matter jurisdiction under *Reed Elsevier* and the facts underlying the legal theories in both of the cases were "unquestionably identical," the second case was barred by *res judicata*.

Practice Note: By failing to conduct a thorough examination of the facts and the applicable law prior to running into court, a plaintiff and his lawyers run the risk of turning what might have been a solid hit of a case into a mash-up of facts and theories that will never even make the charts.

Trade Secrets

Broad Injunctive Relief and Damage Award for Misappropriation of Trade Secrets Upheld

By Ulrika Mattsson

Considering a jury verdict holding that the defendants had misappropriated the plaintiff's trade secrets by using the plaintiff's source code to create competing audio conferencing products, the U.S. Court of Appeals for the Tenth Circuit affirmed the judgment for the plaintiff and scope of injunctive relief and the award of exemplary damages. *ClearOne Communications, Inc., v. Bowers, et al.*, Case No. 09-4092, *et al.* (10th Cir., June 27, 2011) (Briscoe, J.)

ClearOne Communications filed suit against multiple defendants, including former employees, claiming, among other things, that the defendants had misappropriated its trade secrets by using the company's Honeybee source code to make their products. ClearOne alleged that former employees established their competing company using trade secrets obtained from ClearOne. A jury found that the defendants had willfully and maliciously misappropriated ClearOne's trade secrets and awarded ClearOne millions of dollars in damages. The district court later permanently enjoined defendants "from disclosing, using or transferring in any way the trade secret owned by ... [Plaintiff] ... called the Honeybee Code (including its unique algorithms or sub-algorithms that are not in the public domain), whether in the form of source code, object code, or any other form, and any code or product substantially derived from the Honeybee Code, as well as disclosing, using, or transferring in any way the product development documentation for the Honeybee Code or any other documentation that reveals the contents of the Honeybee Code." Later, the district court found that the defendants, in connection with multiple related parties, had violated the terms of the permanent injunction. Accordingly, the district court expanded the scope of the permanent injunction to include the activities of the related parties. The defendants appealed.

In the ensuing appeal, the 10th Circuit ruled on 12 consolidated appeals. The defendants argued that the district court erred and abused its discretion in the scope of the injunctive relief awarded to ClearOne because the relief was not limited in "geographic, temporal, or prohibitive scope." The defendants also argued that the district court's post-verdict damage award, including an award of exemplary damages that was double the actual damages awarded by the jury, was impermissibly excessive.

The 10th Circuit affirmed the trial court's decision, holding that the lack of temporal restrictions on the permanent injunctive relief did not constitute an abuse of discretion and found that defendants' "post-trial contemptuous conduct" supported the injunction's unlimited duration since ClearOne "had established a cognizable danger that the [the

defendants] would commit future violations.” Further, the 10th Circuit observed that because ClearOne was likely to encounter problems collecting on the monetary judgments entered in its favor, the injunctive relief was likely the more meaningful remedy.

Finally, the court found that the district court did not abuse its discretion by awarding exemplary damages that were double the amount of actual damages imposed by the jury.

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