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## ***Patents / Patentable Subject Matter***

### **Underlying Invention and Not Category Literally Invoked by Claim Determines Subject Matter Eligibility**

by Babak Akhlaghi

The U.S. Court of Appeals for the Federal Circuit held that the patent-eligible subject matter is determined based on the underlying invention, regardless of the statutory category literally invoked by the claim language. *CyberSource Corp. v. Retail Decisions, Inc.*, Case No. 2009-1358 (Fed. Cir., Aug. 16, 2011) (Dyk, J.).

CyberSource appealed from a decision of the district court granting summary judgment of invalidity of claims 2 and 3 of U.S. Patent Number 6,029,154 (the '154 patent) for failure to recite patent-eligible subject matter under 35 U.S.C. §101. Claim 3 recites a process for verifying the validity of credit card transactions over the Internet and claim 2 recites a computer readable medium containing program instructions for executing the same process.

Claim 3 states the following:

“3. A method for verifying the validity of a credit card transaction over the Internet comprising the steps of:

- a) obtaining information about other transactions that have utilized an Internet address that is identified with the [] credit card transaction;
- b) constructing a map of credit card numbers based upon the other transaction and;
- c) utilizing the map of credit card numbers to determine if the credit card transaction is valid.”

Applying the *Bilski* “machine-or-transformation” test, the Federal Circuit stated that process claim 3 would be patent-eligible under §101 if it is tied to a particular machine or apparatus or if it transforms a particular article into a different state or thing. The Federal Circuit found that claim 3 does not require the process to be performed by a machine and does not transform a particular article into a different state or thing. Thus, the Federal Circuit held that claim 3 is not drawn to a patent-eligible subject matter.

Turning to claim 2, the Court rejected CyberSource’s main argument that claim 2 recites a patent-eligible subject matter *per se* because it recites a “manufacturer” rather than a “process,” under the statutory language of §101. The Federal Circuit found as follows:

“Regardless of what statutory category (‘process, machine, manufacture, or composition of matter,’ 35 U.S.C. §101) a claim’s language is crafted to literally invoke, we look to the underlying invention for patent-eligibility purposes. Here, it is clear that the invention underlying both claims 2 and 3 is a method for detecting credit card fraud, not a manufacture for storing computer-readable information.”

The Federal Circuit therefore treated claim 2 as a process claim, and, similar to claim 3, analyzed claim 2 under the machine-or-transformation test. CyberSource argued that “claim 2 satisfies the machine prong of the machine-or-transformation test, since the recited ‘computer readable medium’ contains software instructions that can only be executed by ‘one or more processors of a computer system.’” The Federal Circuit disagreed, holding that “incidental use of a computer to perform the mental process of claim 3 does not impose a sufficiently meaningful limit on the claim’s scope.” As such, the Federal Circuit concluded that the “computer readable medium” recitation of claim 2 does not make otherwise unpatentable subject matter patentable.

**Patents / Obviousness**

**After-Acquired Knowledge of Unexpected Results Can Defeat Obviousness**

by Daniel Bucca, Ph.D.

In determining whether certain patent claims that were the subject of interference were obvious in view of each other, the U.S. Court of Appeals for the Federal Circuit held that unexpected results discovered after a patent has issued can be considered in an obviousness analysis. *Genetics Institute LLC v. Novartis Vaccines and Diagnostics Inc.*, Case No. 2010-1264 (Fed. Cir. Aug. 23, 2011) (Lourie, J.) (Dyk, J., concurring-in-part and dissenting-in-part).

Plaintiff Genetics Institute (GI) filed an “interfering patents” action under 35 U.S.C. §291 against Novartis Vaccines and Diagnostics in order to determine priority of invention between one GI patent and two Novartis patents. The patents are directed to truncated forms of a protein known as Factor VIII, a blood clotting protein used to treat patients with hemophilia. The question at the lower court was whether structural differences between the proteins claimed in the patents would have been obvious to a person skilled in the art. Novartis offered evidence that its truncated Factor VIII protein included an additional amino acid region that, unbeknownst to Novartis at the time of filing its application, rendered its proteins more stable in the bloodstream. The lower court relied, in part, on this evidence in concluding that no interference-in-fact was present.

On appeal, the Federal Circuit affirmed the district court’s holding that there was no interference-in-fact because the claims of the patents were not obvious in view of each other. The Court credited Novartis’ proffered unexpected results as relevant objective indicia of non-obviousness, even though the unexpected results were discovered years after the patent issued. The Court stated that the full range of an invention is not always achieved at the time of filing the patent application, and, thus, evidence of unexpected results developed after a patent issued should not be excluded from consideration.

Judge Dyk dissented from this portion of the majority’s holding. He stated that the structural similarity and overlap of the proteins claimed in the two patents rendered them *prima facie* obvious, holding that later-discovered, undisclosed benefits cannot be used to defeat this *prima facie* showing.

**Practice Note:** Patentees trying to overcome an obviousness attack should note that unexpected results need not be known at the time of filing a patent application to be considered in a secondary considerations analysis. This case is also noteworthy in light of the Court’s holding that patent term extension under 35 U.S.C. §156 does not apply on a claim-by-claim basis but to the patent as a whole;

the expiration of a patent in an interference proceeding under 35 U.S.C. §291 does not strip the Court of subject matter jurisdiction; and unexpected results do not require absolute identity of scope with the claims.

### ***Patents / Standing***

#### **Broad Assignment of “Inventions and Discoveries” Puts Auto Giants on the Road Again**

by Theresa M. Dawson

In a patent infringement action brought against eight automobile manufacturers, the U.S. Court of Appeals for the Federal Circuit concluded that the plaintiff lacked standing to assert any of the three patents at-issue. *MHL Tek, LLC v. Nissan Motor Co., et al.*, Case Nos. 10-1287, -1317, -1318 (Fed. Cir., Aug. 10, 2011) (Gajarsa, J.).

Plaintiff MHL Tek asserted infringement of U.S. Patent Nos. 5,663,496 (the '496 patent), 5,741,966 (the '966 patent) and 5,731,516 (the '516 patent). The patents relate to a tire pressure monitoring system. The '496 and '966 patents were divisionals of the same application (the Parent Application). The '516 patent was not related to the '496 or '966 patents, but all three patents named the same two inventors.

Two days after the Parent Application was filed, the inventors assigned “the entire right, title and interest ... in and to *the inventions and discoveries* in” the Parent Application to third-party Animatronics, Inc. Animatronics subsequently assigned its rights to McLaughlin Electronics. Despite their prior assignment, a week before the suit was filed, the inventors purported to assign their rights in all three patents to plaintiff MHL Tek. Later, several months after the complaint was filed, despite its prior assignment, Animatronics purportedly assigned its rights to MHL Tek.

At the lower court, the defendants moved to dismiss the action as to all three patents for lack of standing. The district court granted the defendants' motion with respect to the '496 and '966 patents, agreeing that the inventors assigned their rights in those patents to Animatronics, which had subsequently assigned its rights to McLaughlin, and, thus, MHL Tek lacked standing to sue.

The defendants then filed another motion to dismiss for lack of standing as to the '516 patent. The district court found that the '516 patent was not included within the scope of the original assignment between the inventors and Animatronics, and, thus, the district court denied the motion.

On appeal, the Federal Circuit affirmed the district court's dismissal with respect to the '496 and '966 patents. Further, the Federal Circuit reversed the district court's holding that MHL Tek had standing to assert the '516 patent. The Court concluded that the '516 patent, while not in the same family tree, was within the scope of the "inventions and discoveries" of the Parent Application because each of the limitations of the invention claimed in the '516 patent is supported in the Parent Application's written description for purposes of 35 U.S.C. §112. Thus, the Court found that the pre-suit assignment by the inventors to MHL Tek was ineffective because "the invention claimed by the '516 patent was covered by the assignment ... to Animatronics, which then assigned it to [McLaughlin ]," and, as a result, MHL Tek lacked standing.

**Practice Note:** Assignments broadly drafted to include the entire right, title and interest in "the inventions and discoveries" of one named patent application may inadvertently transfer rights in a patent that issues from an application in a different family but that covers related subject matter.

### ***Patents / Patentable Subject Matter***

#### **Two Patents Revived and Immunized from Subject Matter Ineligibility Under Post-*Bilski* "Coarse Eligibility Filter"**

by John C. Low

Administering the post-*Bilski* standard for analyzing whether subject matter is eligible for patenting under 35 U.S.C. §101, the U.S. Court of Appeals for the Federal Circuit reversed-in-part its prior holding that three patents were not eligible. *Classen Immunotherapies, Inc. v. Biogen Idec, et al.*, Case Nos. 2006-1634, -1649 (Fed. Cir., Aug. 31, 2011) (Newman, J.) (Rader, J., providing additional views) (Moore, J., dissenting).

The three patents at-issue, U.S. Patent Nos. 6,638,739 (the '739 patent"), 6,420,139 (the '139 patent") and 5,723,283 (the '283 patent), have claims of similar scope, all of which were directed to a method of immunizing mammals. The '739 and '139 patent claims required two steps, the first being screening a plurality of immunization schedules and comparing between different immunization schedules and the second being immunizing according to an immunization schedule. The claims of the '283 patent only required the first step. In other words, the immunizing in the '283 patent refers to the gathering of published data, while the immunizing of the '139 and '739 patents is the physical implementation of the mental step claimed in the '283 patent.

On appeal, the Federal Circuit reinforced the notion that the role of §101 is merely a coarse eligibility filter and that the commercial application of the technology is relevant to deciding whether an invention is so abstract as to negate §101 subject matter. Distinguishing between §101 “categories” of eligibility and §102 “conditions” of patentability, the Court endorsed the propriety of using the patentability conditions of the rest of the Patent Act to provide a more fine-grained assessment of a patent claim with subject matter that is not manifestly abstract.

The Court stated that the presence of a mental step is not in and of itself fatal to §101 eligibility and that the infinite variety of mental and physical activity negates application of a rigid rule of ineligibility. The Court held that the immunization step in the '139 and '739 patents passes them through the coarse filter of §101, while the abstraction of the '283 patent does not move principle to application. The Court also held that the claims '139 and '739 patents were “transformative,” but not those of the '283 patent. The Court remanded the case in view of the eligibility of the subject matter claimed in the '139 and '739 patents.

Chief Judge Rader provided additional views, discouraging rigorous enforcement of §101. Describing the ease of recasting claims to avoid ineligibility, Chief Judge Rader, joined by Judge Newman, stated that “when careful claim drafting or new claim formats avoid eligibility restrictions, the doctrine becomes very hollow.” Chief Judge Rader advised that “judges should tread carefully when imposing new limits on the protection for categories of human innovation.”

**Practice Note:** The test for whether a patent claim meets the test for subject-matter eligibility appears to be getting less restrictive following the Supreme Court’s *Bilski* decision. Chief Judge Rader’s editorial regarding the significance of §101 in the broader scheme of a validity analysis may mean that the Federal Circuit will become more receptive to appeals for cases disposed of as a result of successful §101 challenges.

## ***Patents / Jurisdiction***

### **The APA Waives Federal Sovereign Immunity over Declaratory Judgment Actions**

by Alexis Garcha

Addressing whether the United States Department of Agriculture (USDA) was a necessary party to a declaratory judgment action involving its patents and whether the Administrative Procedure Act (APA) waived sovereign immunity, the U.S. Court of Appeals for the Federal Circuit held that the USDA was a necessary party and that it could not shield itself from liability because the APA waives sovereign

immunity for declaratory judgment actions. *Delano Farms Co. v. The California Table Grape Comm'n and US Dep't of Agriculture (USDA)*, Case No. 2010-1546 (Fed. Cir. Aug. 24, 2011) (Bryson J.).

The case involved three patents owned by the USDA that were issued under the Plant Variety Protection Act. The patents were directed to grapevines that produce table grapes. The USDA licensed its rights to the patents to the California Table Grape Commission (the Commission). Under the license, the Commission can sublicense the patents under certain conditions.

The plaintiffs, California grape growers who purchased grapevines from the Commission under a sublicense agreement, sought a declaratory judgment that the patents were invalid and unenforceable. The district court dismissed the declaratory judgment action, finding that because the USDA had not transferred all its rights in the patents to the Commission it was a necessary party to the suit. The district court further held that the USDA could not be joined because the claims were barred by sovereign immunity.

On appeal, the Federal Circuit first reviewed whether the USDA had retained rights in the patent and was a necessary party. The Federal Circuit stated that a patentee is a necessary party to a declaratory judgment suit unless it has transferred all substantial rights in the patent to an exclusive licensee. Reviewing the license agreement, the Court found that the license did not give the Commission the right to enforce the patents against suspected infringers, that the USDA retained a royalty-free right to practice the invention and that the USDA had the right to review any sublicense agreements. Thus, the Federal Circuit agreed with the district court that the USDA had not transferred all substantial rights in the patents to the Commission and that the USDA was a necessary party.

The Federal Circuit then reviewed whether the APA waived sovereign immunity. The plaintiffs argued that section 10(a) of the APA, 5 U.S.C. §702 waived sovereign immunity for a declaratory judgment action. The Commission responded that waiver under section 702 was limited to causes of action created by the APA. The Federal Circuit rejected the Commission's argument and explained that the legislative history showed the waiver was broader and extended to actions seeking relief other than money damages. The Federal Circuit stated that, while "the immunity waiver cannot serve as a 'backdoor' to use the APA to obtain what would amount to concurrent district court jurisdiction over a monetary claim that could be brought in the Court of Federal claims," sovereign immunity did not apply to actions in which monetary damages were not being sought. The Federal Circuit reasoned that because the plaintiffs were seeking a declaration of patent invalidity and unenforceability, not monetary damages, sovereign immunity was waived by §702. The Federal Circuit found that the USDA could be joined to the suit and remanded the case to the district court.



*Patents / Reissue*

**Reissue Patent Did Not Impermissibly Recapture Surrendered Subject Matter if Reissue Claim Was Amended to Substitute in a Synonymous Term**

by Amer S. Ahmed

Reversing a lower court's decision, the U.S. Court of Appeals for the Federal Circuit held that claims of a reissue patent did not impermissibly recapture surrendered subject matter under 35 U.S.C. §251. *AIA Engineering v. Magotteaux Intern'l SA*, Case No. 2011-1058 (Fed. Cir. Aug. 31, 2011) (Lourie, J).

The patent on appeal, U.S. Patent No. RE39,998 (RE'998 patent), was a reissue of U.S. patent 6,399,176 (the '176 patent). The patents are directed to composite wear products used for crushing and grinding abrasive materials in industrial settings. During prosecution of the '176 patent, patentee-defendant Magotteaux argued to the examiner, in response to a prior art rejection, that the claimed invention was different from that of the asserted prior art because the "homogenous solid solution" was a liquid metal, whereas the prior art utilized a solution of salts of a metal. The '176 patent issued after the applicant's remarks.

Less than one year later, Magotteaux sought to reissue the '176 patent, seeking to amend claim 1 and add independent claim 12, both of which used the term "ceramic composite" instead of the term "solid solution" that was originally used in issued claim 1. The examiner did not object to these new limitations.

During prosecution of the reissue application, an anonymous party filed a protest under 37 C.F.R. §291, contending that claims 1 and 12 of the reissue application should be rejected under 35 U.S.C. §251 for impermissible recapture. The examiner, however, disagreed, finding the terms "solid solution" and "ceramic composite" synonymous, and the reissue application issued as the RE'998 patent.

AIA Engineering Ltd. later sued Magotteaux in district court for a declaratory judgment of non-infringement, invalidity and unenforceability of the RE'998 patent. Magotteaux then filed a third-party complaint against a subsidiary of AIA, alleging infringement. After the lower court construed the claims, AIA moved for summary judgment that the RE'998 patent claims improperly recaptured surrendered subject matter. The district court granted the motion, holding that the substitution of terms during reissue broadened the scope of the RE'998 claims over those in the original patent, as well as that Magotteaux had relied on the "solid solution" limitation to overcome prior art during prosecution of the '176 patent, thereby surrendering that subject matter.

The Federal Circuit disagreed. The Court held that the patentee acted as his own lexicographer and used “homogenous solid solution” as a synonym for “homogeneous ceramic composite” in the patent’s specification. The Court also held that Magotteaux did not disclaim any interpretations of “solid solution” during prosecution of the ’176 patent. The Court confirmed through the use of extrinsic evidence that a person having ordinary skill in the art would have known that it is physically impossible to make a “solid solution,” under that term’s ordinary meaning, as claimed in the ’176 patent. Therefore the Court found that the terms “homogeneous solid solution” and “homogeneous ceramic composite,” in the context of the ’176 and RE’998 patents, are synonymous, and, thus, the reissue claims were not broader than the claims of the ’176 patent in this respect.

### ***Patents / Means-Plus-Function Limitations***

#### **Federal Circuit Affirms Board Finding of Invalidity, but on Different Grounds**

by David M. DesRosier

The U.S. Court of Appeals for the Federal Circuit affirmed a rejection of two pending application claims by the Board of Patent Appeals and Interferences (the Board), albeit on alternate grounds. The Board upheld the examiner’s rejection of the claims based on anticipation, while the Federal Circuit found the claims to be indefinite. *In re Aoyama*, Case No. 10-1552 (Fed. Cir., Aug. 29, 2011) (Linn, J.) (Newman, J. dissenting).

Mitsui Bussan Logistics, Inc. is the assignee of an application directed to a supply chain management system. The two pending claims on appeal require “an order controller system including reverse logistics *means for generating transfer data*.” The examiner found that the structure corresponding to the “means for generating transfer data” limitation was a general purpose computer with software and that the claims were anticipated.

On appeal to the Board, Mitsui argued that the corresponding structure was narrower, contending that such structure was found in the flow chart of Figure 8 and the corresponding description. The Board, not finding corresponding structure in Figure 8 and its description, actually broadened the construction of “means for generating transfer data” to include structure for “generating shipping data.” Based on the Board’s broadened construction, it affirmed the examiner’s rejection based on anticipation.

On appeal, the Federal Circuit addressed the Board’s claim construction. The Court found that the Board erred in broadening the construction of “means for generating transfer data” outside of the scope of Figure 8 and its corresponding description. The Court stated, “[t]he Board erred by identifying structure

that was not clearly linked or associated by the specification or prosecution history with the function actually recited in the claims, i.e. ‘generating transfer data.’” The only portion of the specification Mitsui contended disclosed corresponding structure was Figure 8’s flow chart and the corresponding text.

The Federal Circuit agreed with the Board that Figure 8 and its corresponding text did *not* disclose sufficient structure corresponding to the means-for term, and, thus, the Court found that the claims are invalid as indefinite under 35 U.S.C. §112, ¶ 2. The Court did not foreclose an applicant’s ability to disclose corresponding structure in the form of an algorithm in a flow chart, but Figure 8 and its corresponding text merely disclosed several results to be obtained without describing how to achieve those results, *i.e.* without disclosing any algorithm. Affirming the rejections on the alternate grounds, the Court remanded the case with instructions to afford Mitsui the opportunity to amend its claims or present new evidence regarding the new grounds for rejection.

Judge Newman, in dissent, argued that the Court erred by failing to limit its review to the Board’s grounds for rejection. The Court disagreed, holding that it can affirm an agency on other grounds “when upholding the agency’s decision does not depend upon making a determination of fact not previously made by the agency.” The Court found that no new determinations of fact were made—the Board itself determined that Figure 8 and its corresponding text did not disclose any structure corresponding to the disputed term and the Board’s error in broadening the construction of that term was one of law, not fact.

### ***Patents / Priority Date***

#### **Federal Circuit Wraps Up 10-Year Patent Infringement Suit for Tobacco Curing Patents**

by W. Sutton Ansley

Putting an end to a decade-long patent dispute, the U.S. Court of Appeals for the Federal Circuit affirmed a lower court’s finding of non-infringement but reversed a finding of invalidity. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, Case No. 2010-1183 (Fed. Cir., Aug. 26, 2011) (Rader, C.J.).

Plaintiff Star Scientific sued R.J. Reynolds Tobacco Co. (RJR) for allegedly infringing U.S. patents 6,202,649 and 6,425,401, which are directed to tobacco curing methods. The method recites the creation of a “controlled environment” whereby various factors such as humidity, temperature, airflow and air composition are regulated while the leaves are being cured.

Both patents derived from a provisional application. After the provisional application was filed, but before filing the non-provisional application, the inventor developed the commercial embodiment, which the parties agreed was the best mode. The best mode was not disclosed in the applications.

At trial the district court ruled against Star Scientific, holding that its asserted patents were unenforceable for inequitable conduct. Additionally, the court granted summary judgment that the patents were invalid for indefiniteness and that the patents were not entitled to the priority date of the provisional application. On appeal, the Federal Circuit reversed the findings of unenforceability and invalidity without reviewing the priority date determination.

On remand, the district court entered a verdict, which was again based on the later, non-provisional priority date, finding non-infringement, anticipation, obviousness, failure to disclose best mode and indefiniteness.

On appeal for the second time, the Federal Circuit disagreed with the district court, which had held that the provisional application did not support the patents' disclosed air flow rate of 25,000 cubic feet per minute (CFM), as the provisional application disclosed a *minimum* airflow rate at about 28,000 CFM. The Federal Circuit stated that the "district court's reliance on specifically disclosed air flow rates improperly narrowed the scope of the provisional application based on an added example." Moreover, one of ordinary skill would know that minimum air flow "may vary" and "that the conditions in a curing barn could demand an air flow of 25,000 CFM."

With the earlier priority date established, the Federal Circuit held that there was no best mode violation, given the parties' agreement that the best mode was developed after the provisional application was filed. The Court also held that the patents were not anticipated or rendered obvious in light of the fact that the earlier priority date knocked out intervening art relied upon by the lower court.

Additionally, the Federal Circuit held that the patents were not indefinite. The Court stated that only claims which are "not amenable to construction or insolubly ambiguous" are indefinite. Moreover, the Court confirmed that "[a]bsolute clarity is not required to find a claim term definite." The Court held that a person of skill in the art would not find the term "controlled environment" indefinite, but would rather understand how to control the multiple factors necessary to practice the inventions.

Finally, the Federal Circuit affirmed non-infringement, finding that the jury was entitled to discredit Star Scientific's expert witness.

***Patents / Indefiniteness Under Section 112***

**Lower Courts Are Authorized to Correct Obvious Claim Drafting Errors During Claim Construction**

by Charles J. Hawkins

The U.S. Court of Appeals for the Federal Circuit reversed a lower court's summary judgment ruling that a patent claim was indefinite based on an obvious claim drafting error. *CBT Flint Partners, LLC v. Return Path, Inc.*, Case Nos. 10-1202, -1203 (Fed. Cir., Aug. 10, 2011) (Lourie, J.).

The plaintiff alleged infringement of two patents relating to systems for charging a fee for sending spam to e-mail recipients. In the preferred embodiment, the invention is implemented as part of an internet service provider, in which the ISP checks incoming spam to determine if the proper fees have been paid.

A single patent claim was at-issue on appeal. That claim read, in relevant part, "a computer in communication with a network, the computer being programmed to *detect analyze* the electronic mail communication sent by the sending party."

A day after issuing a claim construction ruling, the lower court granted summary judgment of invalidity of the contested patent claim, concluding that the claim was not amendable to construction and was, thus, indefinite under 35 U.S.C. §112, ¶ 2. The district court agreed with both parties that the claim contained a drafting error, referring to the "detect analyze" phrase, but concluded that because there were three possible ways to correct the error, the appropriate correction was subject to reasonable debate. The court concluded that it was not authorized to correct the drafting error.

The Federal Circuit, reviewing the grant of summary judgment *de novo*, disagreed. The Court held that the contested claim included an obvious and correctable error, the construction of which was not subject to reasonable debate and, thus, the district court was authorized to correct the error. In a patent infringement suit, stated the Federal Circuit, a court may correct an obvious error in a claim if the correction is not subject to reasonable debate based on the claim language and specification and the prosecution history does not suggest a different interpretation of the claim. This authority survived the enactment of 35 U.S.C. §§ 254 and 255. The Court stated that corrections are not appropriate if they are substantively significant and require guesswork. Further, a district court must consider any proposed correction from the point of view of one skilled in the art.

The Federal Circuit parsed the "detect analyze" phrase in light of the three possible meanings considered by the district court and then construed the contested language. The Court found that under all three

possible meanings, the scope of the contested claim would require that an e-mail be both detected *and* analyzed. Thus, a person skilled in the art would understand that all three possible corrections would result in the same claim scope. The Court found the proposed correction of the claim was not subject to reasonable debate and nothing suggested a contrary interpretation.

***Patents/ Claim Construction and On-Sale Bar***

**Combining Multiple Parts of a Whole to Create a “Plurality” Renders Any Differences Between Plural and Singular Claim Language Superfluous**

by Katherine M. Schon

The U.S. Court of Appeals for the Federal Circuit held that combining multiple sub-parts of a whole does not create a “plurality” for purposes of claim construction, as well as that a device constitutes prior art if an offer of sale is made prior to the invention being ready for patenting as long as the offer remains open through conception. *August Tech. Corp. and Rudolph Techs., Inc. v. Camtek, Ltd.*, Case No. 2010-1458 (Fed. Cir., Aug. 22, 2011) (Moore, J.).

On appeal, the Federal Circuit reviewed the district court’s construction of “wafer.” In semiconductor chip manufacturing, a silicon wafer is typically split into pieces called dies, each containing a functional circuit. The district court construed “wafer” as “a thin slice of semiconductor material with circuitry thereon that is ready for electrical testing, *or any part thereof*,” based on references made to wafers, in whole or in part, throughout the patent. Following a jury trial in which the patent was found valid and infringed, defendant Camtek appealed the district court’s construction of “wafer” arguing that “a plurality of wafers” meant more than one physically discrete wafer. Plaintiff August Technology responded that the claims did not require wafers to be physically separate from each other.

The word “wafer” was used multiple times within the claim, including in limitations requiring “a wafer test plate,” “a wafer provider” and “a plurality of known good quality wafers.” The Court rejected the district court’s construction in so far as it defined a wafer as any portion of a wafer having two or more dies. The claim distinguished between “wafer” and “wafers,” and ignoring the differences between the singular and plural terms would render them superfluous. In view of the new construction, the Court vacated the infringement finding and remanded the case for further proceedings.

The Court also considered whether an invention must be ready for patenting at the time an alleged offer for sale is made. At trial, the jury had been instructed that “[i]n order to be on ‘sale’ the NSX-80 must also have been ready for patenting at the time of the alleged offer for sale is made.” Customers placed orders

for the product prior to the critical date, but the order shipped two months after the critical date. Under these circumstances, the jury found that the NSX-80 was not on sale under 102(b).

The Federal Circuit found the jury's instruction incorrect as a matter of law. For purposes of the on-sale bar, the *Pfaff* test requires that the product be the subject of a commercial offer for sale and that the invention be ready for patenting. An invention cannot be offered for sale prior to conception, so if an offer is made and retracted prior to conception, there has been no offer for sale. However, if an offer for sale is extended and remains open, a subsequent conception will cause it to become an offer for sale as of the conception date. To find otherwise would read out the second prong of *Pfaff*.

Despite finding the instruction incorrect, the Court affirmed the district court's denial of judgment as a matter of law (JMOL) and new trial on invalidity because even if prior art, the NSX-80 would not have rendered the claims of the patent obvious.

### ***Patents / Obviousness / Pharmaceutical Formulations***

#### **Federal Circuit Affirms Non-Obviousness Summary Judgment for Novel Formulation of Prior Art Active Drug Compound**

by Clifford R. Lamar II (Dale)

The U.S. Court of Appeals for the Federal Circuit affirmed a lower court's grant of summary judgment that the Orange Book patent covering Fortical® was not obvious in view of more than 40 prior art references. *Unigene Labs., Inc. v. Apotex, Inc.*, Case No. 10-1006 (Fed. Cir., Aug. 25, 2011) (Rader, C.J.).

Fortical® is a pharmaceutical composition of salmon calcitonin, the same active ingredient in another branded drug—Miacalcin®. In fact, both Fortical and Miacalcin contain the same concentration of salmon calcitonin and are pharmaceutical nasal sprays used to treat postmenopausal osteoporosis. Miacalcin was marketed almost five years before the earliest priority date claimed for the Fortical Orange Book-listed patent, U.S. Patent No. RE40,812E (the RE'812 patent).

At the lower court, both sides moved for summary judgment regarding whether a single claim of the RE'812 patent was obvious. Apotex, the defendant at the lower court arguing obviousness, based its arguments on more than 40 prior art references, all of which had also been considered by the U.S. Patent and Trademark Office (USPTO) during prosecution. The district court found that none of the cited prior art references taught the use of "about 20 mM citric acid" to increase "shelf stability and enhanced bioavailability" in a nasal salmon calcitonin formulation, as required by claim 19 of the RE'812 patent.



On appeal, the Federal Circuit affirmed the district court's ruling of non-obviousness. Chief Judge Rader set forth the pertinent test: "The claimed invention is not obvious if a person of ordinary skill would not select and combine the prior art references to reach the claimed composition or formulation." The Court found that one of skill in the art would have had ample motivation to try to create a competing formulation to the active ingredient found in the successful drug Miacalcin, the "reference composition" for purposes of the obviousness analysis, based on design need and market demand,

The Court, however, used the citric acid limitation to reject Apotex's three main obviousness arguments. The Court distinguished the first reference because it called for much higher concentrations of citric acid to enhance bioavailability. The Court rejected the obviousness allegations relating to the second reference because, although it included a disclosure of 20.5 mM citric acid in a pharmaceutical nasal spray formulation of salmon calcitonin, it directly taught away from using this concentration of citric acid to either increase shelf stability or enhance bioavailability. Finally, the Court dismissed Apotex's obviousness arguments with regard to the third reference because it only listed citric acid as a pH buffering agent, while other sections expressly listed absorption agents and preservatives for use in pharmaceutical formulations—none of which included citric acid, let alone at "about 20 mM" of that substance.

As a result, the Court found that the "about 20.0 mM citric acid" limitation alone supported the district court's grant of summary judgment of non-obviousness.

### ***Patents / Reissue***

#### **USPTO Implements New Policy Change on Reissues in View of Recent Federal Circuit Decision**

by Babak Akhlaghi

On July 2008, MPEP §1402 was revised to state:

"An error under 35 U.S.C. 251 has not been presented where a reissue application only adds one or more claims that is/are narrower than one or more broader existing patent claims without either narrowing the broader patent claim by amendment or canceling the broader patent claim. A reissue application in which the only error specified to support reissue is the failure to include one or more claims that is/are narrower than at least one of the existing patent claim(s) without an allegation that one or more of the broader patent claim(s) is/are too broad together with an amendment to such claim(s), does not meet the requirements of 35 U.S.C. 251. Such a reissue application should not be allowed."



On April 15, 2011, however, the Federal Circuit held that patent applicants can file a reissue application that retains all original claims and adds only dependent claims. *In re Yasuhito Tanaka* (Fed. Cir., April 15, 2011). The Federal Circuit held that §251 provides “[w]henver any patent is... deemed wholly or partly inoperative or invalid... by reason of the patentee claiming more or less than he had a right to claim in the patent, the Director shall...reissue the patent...” Relying on precedent, the Federal Circuit noted that the term “less” means including fewer claims in the application than the patentee could have properly included rather than referring to claiming a narrower scope of protection than the patentee was entitled to claim. Accordingly, the Federal Circuit held that patent applicants can file a reissue application for purposes of adding only additional dependent claims.

Based on the Court’s ruling in *In re Tanaka*, in August 2011, the U.S. Patent and Trademark Office (USPTO) implemented a new policy:

“Where the only change to a patent made in an application for its reissue is the addition of a claim or claims that is/are narrower in scope than the existing patent claims, without any narrowing of the existing patent claims, the application claims are not to be rejected as failing to state an error under 35 U.S.C. §251. In addition, any rejection of record in a pending application on this basis will be withdrawn, and any new Office action issued will inform applicant of the withdrawal, and the resulting status of the application in view of the withdrawal.”

### ***Trademarks / Descriptiveness and Fraud***

#### **Credit Rating Agency Scores Low in Trademark Contest**

by Keith M. Stolte

Considering whether the federally registered trademark for credit scoring, “300-850” was invalid as merely descriptive, the U.S. Court of Appeals for the Eighth Circuit upheld a district court’s summary judgment that the mark was invalid and upheld a jury verdict concluding that the trademark registration was procured by fraud. *Fair Isaac Corp. v. Experian Information Solutions, Inc.*, Case No. 10-2281 (8th Cir., Aug. 17, 2011) (Wollman, C.J.).

The primary plaintiff, Fair Isaac Corporation (FICO), is a consumer credit rating agency that was the first to develop sophisticated algorithms for generating credit scores that reflect consumer creditworthiness. FICO’s credit scores are the most widely used scores in the industry and are calculated by applying FICO’s proprietary credit-scoring algorithms to aggregated credit data provide by credit bureaus, such as Experian, Equifax and TransUnion. FICO’s algorithms produce credit scores within a

credit-score range of 300-850. FICO applied for a federal trademark registration for “300-850” in 2004, and the mark was registered in 2006. The defendants, which are credit bureaus, created a joint venture to develop their own credit-scoring algorithms that would compete with FICO. In October 2006, FICO filed suit, asserting claims for antitrust violations and trademark infringement of its registered 300-850 mark.

FICO scored badly prior to trial. The U.S. District Court for the District of Minnesota entered summary judgment on FICO’s antitrust claims because FICO failed to demonstrate that the defendants’ conduct gave rise to any actual or imminent harm to itself. The district court also granted summary judgment to defendants on the trademark claims, holding that FICO’s “300-850” registered trademark was invalid for being merely descriptive. FICO’s score continued to plummet at trial, when the jury determined that FICO procured its “300-850” trademark registration by fraud.

FICO was unable to rehabilitate its litigation score on appeal. First, the 8th Circuit affirmed the district court’s summary judgment holdings, agreeing that “FICO has failed to demonstrate that it has suffered any antitrust injury that would entitle it to seek damages under §4 of the Clayton Act.” The court also found that the “300-850” designation was merely descriptive of the range within which FICO reports its credit scores. The court credited defendants’ evidence “that the mark conveyed the approximate range of FICO’s credit scores and that FICO had selected the mark for that reason.”

In what was perhaps a closer call, the 8th Circuit upheld the jury’s verdict that FICO obtained its trademark registration for “300-850” by committing fraud on the U.S. Patent and Trademark Office (USPTO) during prosecution. The jury found that a FICO official made a false representation to the USPTO namely, that “to the best of [her] knowledge, only the FICO score uses the 300-850 range as a *unique identifier* for credit bureau risk scores.” FICO argued that its representation to the USPTO was true because only FICO, and none of its competitors, had ever used 300-850 as a trademark. The defendants, however, argued that FICO’s use of 300-850 was not as a source identifier or trademark, but merely to descriptively identify a credit score range. The court held that “a reasonable jury could have rejected FICO’s contention and determined that the statement was false.” FICO’s outside trademark counsel also represented to the USPTO that the mark was not descriptive because “300-850 is the credit scoring scale only for [FICO’s] credit bureau-based risk products and not for ... other credit bureau-based risk products that competitors develop.” The court held that a reasonable jury could conclude from one of FICO’s competitor’s own use of the 300-850 credit score range, that counsel’s representation was false, and that a reasonable jury could properly infer that these representations were made with deceptive intent.

FICO's score dropped further when the 8th Circuit also affirmed the denial of its post-trial motion for judgment as a matter of law (JMOL) and for a new trial based on licensee estoppel. The court noted that, although the credit bureau defendants were all FICO licensees, their joint venture (which was also a defendant) was not a licensee and thus had standing to challenge the validity of the 300-850 trademark. In the end, FICO managed to increase its score a few points by persuading the court to affirm the trial court's denial of an award of attorneys' fees to defendants.

### ***Copyrights / First Sale Doctrine***

#### **Second Circuit Holds First Sale Doctrine Inapplicable to Foreign-Made Goods**

by Rose Whelan

Considering for the first time whether the first sale doctrine provides a defense to copyright infringement claims where a defendant sells goods containing copyrighted material in the U.S. that have been manufactured abroad, the Second Circuit joined the Ninth Circuit in holding that the first sale defense does not apply to goods manufactured outside the United States. *John Wiley & Sons, Inc. v. Kirtsaeng*, Case Nos. 09-4896-cv (2nd. Cir., Aug. 15, 2010) (Cabrane J.) (Murtha, J. dissenting).

The defendant was a U.S. graduate student from Thailand who subsidized the cost of his education by importing into the United States and reselling on eBay foreign editions of textbooks produced by plaintiff John Wiley & Sons (Wiley) through friends and family in Thailand. The foreign editions of the textbooks were intended for use only in foreign markets and contained labels explicitly prohibiting importation into the United States. Wiley sued the defendant for infringement, and the jury ultimately found Supap Kirtsaeng liable for willful copyright infringement of all eight works.

On appeal, Kirtsaeng argued that the district court erred in holding that the first sale doctrine was not an available defense and in failing to advise the jury of the defense. The first sale doctrine in copyright law, codified at 17 U.S.C. §109(a), permits the owner of a work "lawfully made under this title" to resell it without limitations imposed by the copyright holder. The court addressed a conflict between the first sale defense and 17 U.S.C. §602 (a)(1), which provides that importation, without the owner's permission, of a copyrighted work acquired abroad is an act of infringement.

The 2d Circuit acknowledged that §109(a)'s language specifying that it applied to work "lawfully made under this title" neither compelled or foreclosed an application of the first sale doctrine to works manufactured abroad. Acknowledging this ambiguity, the court looked to §602 (a)(1) and the Supreme Court's guidance in *Quality King Distributors, Inc. v. L'anza Research International, Inc.* holding the first

sale defense does not apply to products manufactured abroad. The court noted that application of §602 (a)(1) would be nullified in the vast majority of cases if the first sale doctrine were interpreted to apply to works manufactured abroad.

The Supreme Court's *dicta* in *Quality King*, likewise supported the 2d Circuit's interpretation. Although, in *Quality King* the Supreme Court held that the first sale doctrine does apply to works imported into the United States that are made in this country, exported abroad and then reimported, its *dicta* suggests that copies "lawfully made" under the copyright title do not encompass works made "under the laws of foreign country." Therefore, the 2d Circuit affirmed the judgment of the district court.

Judge Murtha filed a dissenting opinion concluding that the first sale doctrine should be applicable to works manufactured abroad, because the statutory text does not refer to a place of manufacture. Judge Murtha also noted that economic concerns supported his interpretation. He noted that the majority's interpretation will impose high transaction costs and lead to uncertainty in the secondary market. Additionally, he did not believe that Congress intended to provide an incentive for U.S. copyright holders to manufacture copies of their works abroad.

### ***Copyrights / Injunctive Relief***

#### **Ninth Circuit Declares that "The King" Is Dead (in Copyright Cases)**

by Rita Weeks

Merely weeks after a separate panel considered the impact of the Supreme Court's 2006 ruling in the patent infringement case *eBay Inc. v. MercExchange, L.L.C.* on copyright cases—*Perfect 10 Inc. v. Google Inc.*, Case No. 10-56316 (9th Cir., Aug. 3, 2011)—the U.S. Court of Appeals for the Ninth Circuit once again held that irreparable harm may no longer be presumed upon showing a likelihood of success when seeking preliminary or permanent injunctive relief in copyright infringement cases. *Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, Case No. 10-35987 (9th Cir., Aug. 22, 2011) (*per curiam*).

Flexible Lifeline sued the defendants for copyright infringement of certain technical drawings of aircraft maintenance stands. Flexible Lifeline also sought a preliminary injunction against Precision Lift and its founder John Tollenaere (collectively, the defendants). Finding that Flexible Lifeline was likely to succeed in its infringement suit, the district court granted the injunction relying on long-standing 9th Circuit precedent that presumes irreparable harm upon a showing of likelihood success on the merits. The defendants appealed, arguing that the court erred in granting Flexible Lifeline a presumption of

irreparable harm based upon the Supreme Court's holdings in *eBay* and *Winter v. Natural Resources Defense Council, Inc.*

The 9th Circuit agreed with the defendants. Declaring that “the *King* is dead,” the court vacated the preliminary injunction and held that “[the 9th Circuit’s] long-standing precedent finding a plaintiff entitled to a presumption of irreparable harm on a showing of likelihood of success on the merits in a copyright infringement case, as stated in *Elvis Presley [v. Passport Video]* and relied on by the district court, has been effectively overruled.”

**Practice Note:** While the 9th Circuit’s *Perfect 10* decision not determine whether the 9th Circuit’s traditional presumption of irreparable harm in trademark cases is abrogated by *eBay*, the court in this case indicated in dicta in a footnote that the overruling of the presumption very well may also apply to trademark cases, noting that the court was unaware of any trademark case in which a circuit court has upheld the presumption of irreparable harm after *eBay*.

### **Copyrights / Justiciability**

#### **UK Supreme Court Holds that U.S. Copyright Claims Are Justiciable in English Courts**

by Désirée Fields

The UK Supreme Court has held that Star Wars Stormtrooper helmets are not sculptures due to their utilitarian nature and consequently do not constitute artistic works under the Copyright, Designs and Patents Act 1988 (CDPA). The Supreme Court has also ruled that an English court could exercise jurisdiction in a claim against persons domiciled in England for copyright infringement committed outside the EU in breach of the copyright law of that foreign country. *Lucasfilm Limited and others v. Ainsworth and another* [2011] UKSC 39 (UK Supr. Ct., July 27, 2011).

In 1976, Lucasfilm commissioned Andrew Ainsworth to make helmets and armor to be worn by the Stormtrooper characters in the first Star Wars film. Lucasfilm provided Ainsworth with two drawings and a clay model of a prototype helmet from which Ainsworth made molds of the helmet. In 2004, Ainsworth set up a website selling helmets and armor made from those molds and made U.S. sales totaling between \$8,000 and \$30,000.

In 2006, Lucasfilm obtained default judgment in California against Ainsworth for \$20 million; \$10 million of which represented triple damages. The judgment was unsatisfied, however. Lucasfilm subsequently commenced proceedings in the English High Court for copyright infringement, enforcement of the

compensatory element of the U.S. judgment and, to the extent that the High Court refused to enforce that judgment, determination of its claims under U.S. copyright law.

Ainsworth contended that although the drawings were copyright works, the clay model was not a copyright work, as it was not a “sculpture.” Further, section 51 CDPA provides that making an article to a design does not amount to infringement of the copyright in the design documents or models embodying that design if that article is not an artistic work. Ainsworth’s case was that the helmets were not artistic works as they were not “sculptures.”

The High Court agreed with the defendant. In the court’s view, the helmet was not a sculpture: its primary function was utilitarian, lacking “the necessary quality of artistic creation” and accordingly, the defendant had a valid defense. It also held that the U.S. judgment was unenforceable for want of personal jurisdiction, but that Lucasfilm’s U.S. copyright claims were justiciable in England and that Ainsworth had infringed those rights.

The Court of Appeal agreed on the copyright issue and that the U.S. judgment was unenforceable, but overturned the ruling on justiciability, holding that the English court has no jurisdiction to entertain such an action.

Dismissing Lucasfilm’s appeal on copyright, the Supreme Court agreed that the helmet was not a sculpture. The court said that although imagination went into the concept of the soldiers dressed in white armor, “it was the Star Wars film that was the work of art. ... The helmet was utilitarian in the sense that it was an element in the process of production of the film.”

However, the Supreme Court overturned the Court of Appeal’s decision regarding the jurisdiction of the English court on the basis that it was satisfied that in this type of case the English court has jurisdiction, provided there is a basis for *in personam* jurisdiction over the defendant. The Supreme Court concluded by expressing the modern trend in favor of the enforcement of foreign intellectual property rights: “There are no issues of policy which militate against the enforcement of foreign copyright. States have an interest in the international recognition and enforcement of their copyrights, as the Berne Convention on the International Union for the Protection of Literary and Artistic Works shows.”

**Practice Note:** The case could have significant implications insofar as the Supreme Court found that English courts have jurisdiction to decide allegations of foreign copyright infringement claims, provided that the defendant is based in the UK. Accordingly, the holding may have opened the door to allegations of worldwide infringement claims against UK businesses for unregistered intellectual property rights in

English courts, whereas previously intellectual property rights holders would have had to bring separate claims in each jurisdiction where their rights had been infringed.

***Copyrights / Unregistered Works / Class Action***

**Second Circuit Rejects \$18M Settlement in Freelance Writers' Copyright Suit**

by Whitney D. Brown

The U.S. Court of Appeals for the Second Circuit has rejected an \$18 million settlement agreement in a class action copyright infringement lawsuit brought against database operators by freelance writers, on the grounds that the settlement failed to adequately represent those members of the class whose works were not registered with the U.S. Copyright Office. *In re Literary Works in Electronic Databases Copyright Litigation*, Case No. 05-5943 (2d Cir. August 17, 2011) (Winter, J.)

As the internet rose in popularity, works sold by freelance authors for publication in newspapers and other periodicals increasingly became reproduced electronically in electronic databases such as Westlaw and Lexis Nexis. In response to this electronic publication, a group of freelance writers sued the original print and subsequent electronic publishers, namely, The New York Times Company, Dow Jones, Inc. and database operators Reed Elsevier Inc. (owner of LexisNexis), and Thomas Corporation (owner of Westlaw). In 2001, these actions by freelance authors were consolidated into a single class action before the U.S. District Court for the Southern District of New York. The class was represented by 21 named plaintiffs, each of whom owned at least one copyright in a freelance article, and three associational plaintiffs, the National Writers Union, The Authors Guild, Inc. and the American Society of Journalists and Authors.

The district court referred the parties to mediation, beginning in January 2002. By March 2005, the parties reached a comprehensive settlement agreement, that divided the works at issue into Categories A, B and C. Category A represented works that authors registered with the U.S. Copyright Office in time to be eligible for statutory damages and attorneys' fees under the Copyright Act. Category B represented works that authors registered before December 31, 2002, but not in time to be eligible for statutory damages. Under the Copyright Act, claims in Category B are eligible to receive only actual damages suffered by the author. All other claims from freelance authors belonged to Category C. While Category C claims comprised more than 99 percent of authors' total claims, none of the 21 named plaintiffs held a work in Category C only. The Settlement Agreement reached created a "damages formula" for each category, and awarded the most damages for those works belonging to Category A, followed by Category B works and finally those works in Category C.



Upon reaching the settlement, both parties moved the district court to certify the class for settlement purposes and approve the settlement. The district court approved the settlement over the objections of class members who authored works in Category C that the settlement did not represent their interests equally with Category A and B authors. In October 2005, the Category C objectors to the settlement appealed the district court's order. The Second Circuit ruled in 2007 that the district court lacked subject-matter jurisdiction to approve the settlement of claims for infringement of unregistered works because the registration requirement of the Copyright Act is jurisdictional. Following this ruling, authors and publishers sought review from the Supreme Court. In March 2010, the Supreme Court reversed the 2d Circuit, holding that the district court had jurisdiction over the settlement because the Copyright Act imposes only a "nonjurisdictional precondition" to filing a claim. The 2d Circuit remanded the case following the Supreme Court's decision, requesting that the parties file letter briefs addressing supplemental authority on the merits.

In its second opinion on the settlement agreement, the 2d Circuit addressed the Category C objectors' arguments that the settlement impermissibly released claims beyond the factual predicate of the case, that class certification was improper because subgroups within the class have conflicting interests and that the district court erred procedurally in reaching its decision. In its August 2011 opinion, the 2d Circuit agreed with the objectors that not all class members were adequately represented. The panel found that the settlement contravened Federal Rule of Civil Procedure 23(a)(4) because the named plaintiffs failed to adequately represent the interest of class members who authored only Category C works. The panel agreed with the Category C objectors that a "subclass" of plaintiffs should have been created, and found that "only the creation of a subclasses, and the advocacy of an attorney representing each subclass" could ensure that the interests of the Category C-only authors would be adequately represented. Though the panel found it appropriate that the authors of unregistered works in Category C receive less under the settlement, since these claims are "weaker" under the Copyright Act, it objected to the settlement because it provided "no basis for assessing whether the discount applied to Category C's recovery appropriately reflects that weakness."

### ***Copyrights / Personal Jurisdiction***

#### **Third-Party Web Ads Confer Jurisdiction over Nonresident**

by Eric W. Hagen

In a decision carrying significant jurisdictional implications for commercial websites, the U.S. Court of Appeals for the Ninth Circuit reversed a dismissal for lack of personal jurisdiction, ruling that an Ohio-based celebrity gossip site was subject to California jurisdiction based on its acceptance of third-party



advertisements directed towards California residents. *Mavrix Photo, Inc. v. Brand Techs., Inc.*, Case No. 09-56134 (9th Cir., Aug. 8., 2011) (Fletcher, J.).

Plaintiff Mavrix, a celebrity photo agency, sued Brand Technologies, owner of a popular website called *celebrity-gossip.net*. The suit, filed in the U.S. District Court for the Central District of California, alleged copyright infringement based on Brand's unauthorized posting of copyrighted photos of celebrity couple Stacy Ferguson, lead singer of the Black Eyed Peas, and Josh Duhamel, an actor well-known for his role in the *Transformer* movies. The defendant, an Ohio corporation with its principal place of business in Toledo, moved to dismiss for lack of personal jurisdiction.

Brand Technologies argued that personal jurisdiction was lacking for several reasons. Brand has no offices, real property or staff in California. It is not licensed to do business in California. It has no registered agent for service of process in California, and it pays no taxes in California. Also, Brand's website courts a national audience, not one restricted to California. Mavrix argued that nonetheless, the defendant was subject to personal jurisdiction in California because its website *celebrity-gossip.net* contained third-party advertisements that targeted California residents. The 9th Circuit agreed.

Although the court held that the defendant's contacts with California "fall well short" of the "continuous and systematic general business contacts" required for establishing *general* jurisdiction, the court ultimately concluded that the defendant's actions in reposting the photos of Ferguson and Duhamel justified the exercise of *specific* jurisdiction. The pivotal issue in the court's analysis was whether Brand Technologies had purposefully directed its activities toward California. To that end, the court found "most salient" the defendant's use of the copyrighted photos as part of its commercial exploitation of the California market.

Brand Technologies' business model relies on selling advertising space on its website to third parties. More traffic to *celebrity-gossip.net* results in more hits on the advertisements, which in turn results in more money paid by advertisers. Certain third parties buy advertising space on *celebrity-gossip.net* specifically to promote hotels, vacations and jobs in California. The defendant's California user base is therefore evident, the court explained, from these California-focused advertisements. As such, the court determined that Brand's reposting of the copyrighted photos to increase traffic to the site was integral to a business strategy of growing its California audience, thereby establishing the sufficient "minimum contacts" necessary for exercising specific jurisdiction.

Notably, on the same day, the same 9th Circuit panel ruled in *CollegeSource Inc. v. AcademyOne Inc.*, Case No. 09-56528 (9th Cir., August 8, 2011) (Fletcher J.), that a nonresident defendant's purchase of

Google AdWords that included the term “California” supported a finding of purposeful direction toward California, thereby conferring personal jurisdiction. Again, the outcome hinged on the defendant’s actions in directing forum-specific traffic to its website for commercial gain.

**Practice Note:** The 9th Circuit acknowledged the burden its ruling could impose on popular commercial websites. Website companies with a national viewership need to be aware that if they profit from the actions of users in a particular state, they may be subject to personal jurisdiction in that state.

### ***Employment / Non-Competition Agreements***

#### **EMC Corp. Should Have Drafted a Better Non-Competition Clause**

by Hasan Rashid

Recognizing that plaintiff EMC Corp. could have better-worded its employment agreement, the U.S. Court of Appeals for the First Circuit affirmed the denial of EMC’s motion to enjoin a former employee under the agreement. *EMC Corp. v. Arturi*, Case No. 11-1001 (1st Cir., Aug. 26, 2011) (Souter, J.).

In 2007, Christopher Blotto signed an employment agreement containing a one-year non-competition clause with EMC, a business and technology consulting firm. Blotto left EMC two years later, on December 4, 2009. Among other reasons, Plaintiff EMC sued because Blotto and other former employees formed a competing business. On November 8, 2010, EMC moved to enjoin Blotto from competing with it, soliciting EMC’s customers and employees and possessing and using EMC’s confidential business information. On December 15, 2010, over a year after Blotto left EMC, the district court denied the first two motions and granted the motion barring Blotto’s use of confidential business information. EMC appealed the denial of the motion to no avail.

The district court and the First Circuit were bound by the precedent of the Supreme Judicial Court of Massachusetts, which precludes the equitable enforcement of an expired non-competition clause, even when the reason the clause was not previously enforced is because of the time spent for the legal process. The policy underlying this “frosty climate” for enforcement arises from the imbalance in bargaining power between an employer and employee—this imbalance demands construing an employment agreement against the employer and limiting the availability of equitable enforcement accordingly.

The court rebutted EMC’s argument that Blotto should be precluded from escaping the non-competition clause with two points. First, although an injunction was unavailable to EMC, it could nevertheless obtain

relief by proving a breach of contract and damages therefrom. Second, because Massachusetts precedent was clearly in effect at the time Blotto signed the employment agreement, EMC was forewarned and could have drafted the non-competition clause to toll its term of restriction during litigation.

The court disregarded the five unreported Massachusetts Superior Court cases EMC cited as examples of equitably extending enforcement of a non-competition clause beyond the terminal date of the restriction. In fact, the court questioned the harmony of those cases with the clear precedent of the state's highest court.

**Practice Note:** When drafting a non-competition clause and its term of restriction under the laws of Massachusetts, ensure that the period of restriction is tolled during any litigation that may delay the enforcement of such a clause.

### ***Copyrights / Transfers and Licensing***

#### **SCO Can't Claim Ownership of the UNIX Operating System**

by Ryan N. Phelan

The U.S. Court of Appeals for the Tenth Circuit upheld a district court finding that Novell, Inc. had not transferred its copyrights regarding the well-known UNIX computer operating system to The SCO Group, Inc. through a contract between the two parties during the mid-1990s. *The SCO Group, Inc. v. Novell, Inc.*, Case No. 10-4122 (Fed. Cir., Aug. 30, 2011) (O'Brien, J.)

In 1993, Novell owned the rights to the UNIX operating system source code. At that time, Novell licensed the source code and, at the same time, developed its own customized UNIX platform named UnixWare. However, in 1995, Novell sought to exit the UNIX licensing business. Novell subsequently entered an agreement with The SCO Group (SCO), under which SCO would purchase certain assets from Novell, excluding "all copyrights and trademarks, except for the trademarks UNIX and UnixWare." Because SCO believed that this provision was too restrictive, preventing SCO from selling the UNIX and UnixWare products without fear copyright infringement of the underlying source code, the parties subsequently amended that provision to read, "[a]ll copyrights and trademarks, except for the copyrights and trademarks owned by Novell as the date of the Agreement *required for SCO to exercise its rights* with respect to the acquisition of UNIX and UnixWare technologies." (Emphasis added.) A key provision was that Novell retained the right to royalties collected by SCO on sales of *original* source code UNIX licenses. SCO received only 5 percent for administrative fees for any such sale.

By 2002, the UNIX business was not as profitable as SCO had hoped. So, SCO began an “aggressive marketing” campaign by seeking licenses from users of Linux, another computer operating system, on the theory that Linux incorporated portions of the UNIX source code. Novell was not interested in pursuing this approach, and a dispute arose as to who owned the copyright to the underlying UNIX source code: Novell or SCO via the 1995 agreement.

At trial, SCO testified that the purpose of the contract amendment was to correct the error under which Novell kept the UNIX copyrights in the original contract. SCO argued that UNIX copyrights were “required” for SCO to run its business. Novell countered that the amendment was never intended to transfer the UNIX copyrights to SCO. Rather, the amendment was to pacify SCO’s fears about violating Novell’s intellectual property rights in the everyday operation of the transferred portion of the business. Novell argued that the entirety of transaction consisted of a sale of the UNIX licensing business, which SCO would continue on behalf of Novell in exchange for 5 percent of total royalties while Novell retained the copyrights and 95 percent of the royalty stream, and the sale of UnixWare and the license to use the underlying UNIX source code to develop its own copyright material.

The court recognized that copyright ownership, in general, would be required to protect the existing UNIX licenses. Novell’s interpretation that it retained ownerships of the UNIX copyrights and merely sold the right to SCO to license and develop the UNIX source code was not contrary to the original contract provision or the related amendment. The district court jury found the same. The Court of Appeals affirmed giving discretion to that finding.

**Practice Note:** Given its intangible nature, intellectual property is more indefinite than physical or tangible assets. Accordingly, transfers and licenses of intellectual property assets should first be clearly delineated and defined in contract. The metes and bounds, including ownership and control of that intellectual property, should be adequately defined as well so as to avoid later ambiguities or interpretations in any contract disputes.

### ***Trade Secrets / Appeal***

#### **Defendant Not Allowed to Appeal Denial of a 12(b)(6) Motion to Dismiss After Trial**

by Gregory D. Yoder

The U.S. Court of Appeals for the Tenth Circuit held that a defendant cannot appeal a pretrial denial of a FRCP Rule 12(b)(6) motion to dismiss after the plaintiff has successfully prevailed at trial on the claim at

issue because the sufficiency of the allegations in the complaint is irrelevant. *ClearOne Communications, Inc. v. Biamp Systems*, Case Nos. 09-4097, 10-4090 & 10-4168 (10th Cir., Aug. 8, 2011) (Briscoe, J.).

Plaintiff ClearOne purchased proprietary source code from a third party in 2000. In 2001, one of ClearOne's employees with knowledge of the source code, and who had signed confidentiality and noncompetition agreements with ClearOne, began working for defendant Biamp. Another defendant, Wideband, then hired the same employee and began licensing the source code to Biamp. As a result, ClearOne filed a complaint for misappropriation of trade secrets under the Utah Uniform Trade Secret Act (UUTSA), among other claims. A jury awarded ClearOne \$956,000 in compensatory damages for lost profits and \$694,000 for unjust enrichment. Biamp then filed three appeals, addressing five issues.

In its motion to dismiss, Biamp argued that ClearOne failed to state a claim for misappropriation because Biamp lacked knowledge of the proprietary object code that was embedded in the products Biamp was selling. Object code is a sequence of binary number instructions for a computer which are meaningless to a human reader. Biamp only possessed the object code, not the human readable source code or the assembly code. However, the district court denied Biamp's motion to dismiss because there is no requirement of comprehension of a trade secret to state a claim for misappropriation under the UUTSA. Therefore, there was no requirement that Biamp be able to understand the underlying object code and algorithm for misappropriation. The district court ruled that additional factual development was necessary before it could definitely resolve ClearOne's misappropriation claim.

After trial, Biamp appealed the district court's denial of the motion to dismiss. The appeals court held that a Biamp could not appeal the pretrial denial of its 12(b)(6) motion to dismiss after ClearOne had successfully prevailed at trial on the claim at issue. The 10th Circuit explained that because at trial ClearOne proved, not merely alleged, facts sufficient to support relief, the sufficiency of the allegations in the complaint was irrelevant. Accordingly, the court held that after a jury verdict, a defendant must challenge the legal sufficiency of a plaintiff's claim through a motion for judgment as a matter of law (JMOL). Biamp had filed a JMOL, but it did not reassert in that motion the arguments it made in its 12(b)(6) motion, nor did Biamp appeal the denial of its motion for JMOL.

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