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Patents / Damages

The 25 Percent Rule Is Fundamentally Flawed

Leigh J. Martinson

The U.S. Court of Appeals for the Federal Circuit held that the 25 percent rule of thumb, often used as a tool for determining a baseline royalty rate in a hypothetical negotiation, is a fundamentally flawed. *Uniloc USA, INC. and Uniloc Singapore Private Limited v. Microsoft Corporation*, Case Nos. 10-1035, -1055 (Fed. Cir., Jan. 4, 2011) (Linn, J.).

Uniloc sued Microsoft for infringement of its patent directed to combating copying of software. After the jury found that Microsoft willfully infringed the patent, the district court granted a judgment as a matter of law (JMOL) to Microsoft on the infringement issue. The jury also awarded Uniloc $388 million in damages, based on the testimony of its expert, Dr. Gemini. Using the Georgia Pacific factors and a hypothetical negotiation between the parties, Dr. Gemini opined that the damages should be roughly $564 million. After determining that a $10 baseline per unit price was appropriate, Dr. Gemini applied a 25 percent rule of thumb. He also determined that the Georgia Pacific factors ultimately did not favor adjusting the resulting $2.50 per unit royalty rate. He then applied to the $2.50 rate to the number of units sold to arrive at the total damages.

To "check" his calculation, Dr. Gemini applied the total market value rule by applying the damage figure to the total market value of all Microsoft products that included the accused "key," which was more than $19 billion. Dr. Gemini determined that his damages calculation amounted to a royalty rate of 2.9 percent when compared to gross revenue. There was no offer by Dr. Gemini of any specific line between the 25 percent rule and the present case.

Among the issues on appeal, Microsoft challenged the propriety of the 25 percent rule and the related application of the entire market value rule as a "check" on it.

The Federal Circuit considered the Daubert standard for expert testimony, noting that if an expert for a party fails to tie its theory of the facts to the case, the testimony must be excluded. The Court also noted that "any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statue." After reviewing a number of cases that focused on Daubert, the Court stated that "there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case. The 25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy this fundamental requirement." In order to be admissible, expert testimony opinion on a reasonable royalty rate must "carefully tie proof of damages to the claimed invention's footprint in the market place."

In view of the legal precedent, the Court determined that evidence relying on the 25 percent rule of thumb is inadmissible under Daubert and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue. Thus, the Court held that as a matter of Federal Circuit law, the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation.

Patents / Joint Infringement

Joint Patent Infringement Requires Agency or Contractual Obligation

Yar R. Chaikovsky and Cary Chien

The U.S. Court of Appeals for the Federal Circuit has now determined that that joint patent infringement only occurs when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps. *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Case No. 09-1372 (Fed. Cir., Dec. 20, 2010) (Linn, J.).

The issue presented was whether accused infringer Limelight exercised control and direction over an entire patented process. In this case a panel of the Federal Circuit found that the actions of Limelight's customers, who performed part of the patented process, were not attributable to Limelight. The Court found no evidence to indicate that the customers were performing any of the claimed method steps of the asserted patent as agents of Limelight.

The asserted patents deal with Content Delivery Network (CDN) technology that enables providers like Akamai and Limelight to host their customer's internet content closer to the customer's end users, resulting in faster and more reliable web-content delivery. The patents disclose a "tagging" process in which the CDN's virtual server hostname is used to cause requests for content to be delivered from the CDN's servers, not the customer's server. This "tagging" process was explicitly described in Limelight's standard customer contract.

At the trial, the Court instructed the jury that there could only be infringement if the jury found that the tagging step was performed by customers at the direction or control of Limelight. After the jury found infringement, the Federal Circuit issued its decision in *Muniauction* (see *IP Update*, Vol. 11, No. 7); the trial court granted Limelight's motion for JMOL, finding that the jury's verdict could not stand as a matter of law. Akamai appealed.

Despite the provisions in the customer contract, the Federal Circuit reasoned that Limelight's customers are not obligated to perform any "tagging." Rather, the customer needs to perform the method steps only if it decides to take advantage of Limelight's service.   Because the customers are not obligated to engage in "tagging," the Court reasoned Limelight exerted no control over its customers, and thus its customers were not acting as its agents. Furthermore, the Court reasoned that Limelight's customers were not contractually obligated to do "tagging" and were acting "principally for their own benefit and under their own control."

Practice Note: It is well-settled under BMC (see *IP Update*, Vol. 10, No. 10) that direct patent infringement requires a single party to perform every step of a claimed method. Under BMC, if more than one party is required to perform the steps of a claimed method (joint infringement), there can be no infringement unless one party exercises "control or direction" over the entire process. The Akamai opinion interprets these foundational statements of law by applying the law of agency, namely, whether the relationship between the parties is such that acts of one may be attributed to the other. Agency is the fiduciary relationship that arises when one person (a principal) manifests assent to another person (an agent) that the agent shall act on the principal's behalf and subject to the principal's control and the agent assents to act.

Patents / ITC / Exclusion Order

Federal Circuit Rejects Use of *eBay* Factors in Determining Propriety of ITC Exclusion Order
Christopher L. May

The U.S. Court of Appeals for the Federal Circuit upheld a determination of the International Trade Commission (ITC) that it was not required to apply the four-factor *eBay* test when determining if an exclusion order is justified. *Spansion, Inc. et al. v. Int'l Trade Comm'n*, Case Nos. 09-1460, -1461, -1462, -1465 (Fed. Cir., Dec. 21, 2010) (Linn, J.).

Appellee Tessera filed a complaint against multiple respondents alleging infringement of two patents by certain semiconductor chips and products containing those chips. The ITC found that the appellants had committed both direct and contributory infringement. During the pendency of the investigation, the U.S. Patent and Trademark Office (USPTO), based on an *ex parte* reexamination requested by a third party, began reexamination of both patents. The appellants argued that the ongoing reexamination mitigated against issuing an exclusion order under the four-factor *eBay* test (see *IP Update*, Vol. 9, No. 5).   The Commission disagreed, ruling that the *eBay* factors were irrelevant to its analysis of whether an exclusion order was proper, and issued limited exclusion and cease-and-desist orders.

In addition to advocating that the appeals court reverse the determinations of infringement and validity, the appellants argued that the ITC had improperly failed to take into account the *eBay* factors when determining if a limited exclusion order would be consistent with the public interest. The Federal Circuit disagreed, finding that actions were materially different from proceedings before a district court and that the *eBay* factors were inapplicable. In particular, the Court found that the Commission is required to issue an exclusion order upon finding a violation—unless one of the statutorily listed public interest factors dictate otherwise—and that the legislative history of §337 indicated that injunctive relief was intended to be the normal remedy for a violation. This, the Court explained, was different than the remedies available when proceeding before a district court, where monetary damages were available and injunctive relief was to be exercised "in accordance with the principles of equity … on such terms as the court deems reasonable."

Practice Note: The Federal Circuit opinion is likely to maintain the position of the International Trade Commission as the venue of choice for plaintiffs considering suit against defendants that import products into the United States and that are seeking maximum leverage through a speedy trial and ease of obtaining injunctive-type relief.

Patents / Inequitable Conduct

Reading the Inequitable Conduct Tea Leaves in Advance of *Therasense*

Paul Devinsky

Addressing the intent prong of inequitable conduct, the U. S. Court of Appeals for the Federal Circuit concluded that a patent owner adequately explained its failure to disclose prior art in prosecuting the patents before the U.S. Patent and Trademark Office (USPTO) and thus should not have been found to have engaged in inequitable conduct. *Lazare Kaplan International Inc. v. Photoscribe Technologies Inc.,* Case No. 09-1251, (Fed. Cir., Dec. 22, 2010) (Linn, J.).

Lazare Kaplan was the owner of a patent related to making microinscriptions on gemstones such as diamonds; the microinscriptions are used for authentication and tracking purposes. It subsequently filed applications for and obtained two more patents on related technologies: U.S. Patent Nos. 6,476,351 and 7,010,983.

Lazare sued Photoscribe, which makes inscription machines, claiming infringement of the '351 and '938 patents. The defendants denied the infringement claims and counterclaimed, alleging invalidity for anticipation by a prior art inscription machine, as well as inequitable conduct for Lazare's failure to disclose to the USPTO significant details of the prior art machine and how it worked.

After the district court granted summary judgment that certain claims of the '351 patent were not literally infringed, a jury found that the defendants did not infringe *any* of the asserted claims and also found certain claims of the '351 patent invalid. The district court subsequently found inequitable conduct as to both patents, determined that the case was exceptional under 35 U.S.C. §285 and awarded the defendants over $6 million in attorneys' fees. Lazare appealed.

In defending against the inequitable conduct charge, Lazare provided testimony by its prosecuting attorneys to the effect that disclosure of specific aspects of the prior art engraving machine would have either been cumulative or non-anticipatory. The prior art machine was capable of engraving features as small as 10 microns, while a cited prior art referral described a machine of capable of engraving features in a range of 1 to 100 microns. Notwithstanding, the district court found the nondisclosures to be highly material and held that Lazare had failed to provide an adequate rationale for failing to disclose them. Lazare appealed.

The Federal Circuit, citing *Star Scientific, Inc.* (see *IP Update*, Vol. 11, No. 9) reversed the inequitable conduct ruling, finding that the district court had erred in inferring intent to deceive.

The Federal Circuit questioned the district court's materiality judgments, but ultimately concluded that, even assuming high materiality, Lazare's counsel had provided adequate explanation for not disclosing the prior art references. As to the prior art engraving machine, the Court concluded that in view of the prosecuting attorneys explanation "there is nothing to suggest that the decision to withhold was an attempt to conceal." Rather the Court viewed "the failure to disclose what was believed to be cumulative information [to be] a mistake or exercise of poor judgment that does not support an inference of intent to deceive."

The Federal Circuit also explained that the district court's belief that a reference that discloses a range that overlaps or includes the claimed range cannot teach the claimed range. Rather, the Court explained that the wider range would be sufficient to establish a *prima facie* case of invalidity, such that Lazare's attorneys were correct to assume that the disclosure of the prior patents to the USPTO, *i.e.*, that disclosed the wide range, was adequate.

Patents / Exceptional Case Doctrine

Standard Used for Objective Baselessness Under 35 U.S.C. §285 is the Same as Objective Recklessness Under 35 U.S.C. §284

Isaac Crum

In reversing a district court ruling finding a case "exceptional" and awarding fees to a successful defendant, the U.S. Court of Appeals for the Federal Circuit held that infringement action was not objectively baseless and, thus, not "exceptional" under 35 U.S.C. §285. *iLOR LLC v. Google, Inc.*, Case Nos. 10-1117; 1172 (Fed. Cir., Jan. 11, 2011) (Dyk, J.).

iLOR filed suit against Google, alleging that a Google notebook product infringed its U.S. patent. The asserted claim required, *inter alia*, a "toolbar being displayable based on a location of a cursor in relation to a hyperlink." iLOR argued to the district court that this limitation was found in the accused products, which required the user to "right-click" on a hyperlink before the toolbar was displayed. Google argued that the "being displayable" limitation only covered methods in which the toolbar is automatically displayed based on the proximity of the cursor to a hyperlink. The district court agreed with Google and construed the limitation to require a toolbar display that was automatic based on the location of the cursor in relation to the hyperlink. iLOR appealed and, in an earlier decision, the Federal Circuit affirmed the district court's claim construction. See *iLOR, LLC v. Google, Inc.* (*IP Update*, Vol. 12, No. 1).

After its successful Federal Circuit appeal, Google moved to recover its attorneys' fees, costs and expenses under 35 U.S.C. §285. The district court granted Google's motion, holding that the case was "not close" on the merits and that iLOR had acted in subjective bad faith in bringing the case against Google. The district court awarded Google more than $660,000 in attorneys' fees, costs and expenses. iLOR appealed the district court's award of fees and its finding that the case was exceptional.

The Federal Circuit reversed, explaining that the case was not exceptional under §285. The Court explained that sanctions may be imposed only if "both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." Under this standard "a patentee's ultimately incorrect view of how a court will find does not of itself establish bad faith." Instead the "plaintiff's case must have no objective foundation, and the plaintiff must actually know this." The Court went on to explain that the objective prong under §285 "is identical to the objective recklessness standard for enhanced damages and attorneys' fees against an accused infringer for §284 willful infringement actions under *In re Seagate*." Both standards require an objective assessment of the merits based on the "record ultimately made in the infringement proceedings."

In analyzing the record and iLOR's unsuccessful claim construction arguments, the Court found that the broader claim construction proposed by iLOR was not "so unreasonable that no reasonable litigant could believe it would succeed. … Simply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless." Because iLOR's claim construction argument could be reasonably argued in light of the claim terms, specification and prosecution history, the Federal Circuit held that the district court committed clear error in holding that the case was exceptional under §285 and vacated the award of attorneys' fees.

Patents / Patentable Subject Matter

On Remand from Supreme Court, Medical Method of Treatment Claims Found to Be Patentable Subject Matter

Shilpa V. Patel

In a remand case from the U.S. Supreme Court to the U. S. Court of Appeals for the Federal Circuit, the Federal Circuit has now issued a post-*Bilski* decision finding that the claimed method of treatment claims are directed to patentable subject matter under 35 U.S.C. §101 because the recited steps satisfy the "machine-or-transformation test." *Prometheus Laboratories v. Mayo Collaborative Services*, Case No. 08-1403 (Fed. Cir., Dec. 17, 2010) (Lourie, J.).

This case had been remanded to the Federal Circuit from the Supreme Court (directly from a grant of cert.) for further consideration following the Supreme Court's decision in *In re Bilski*. (See *IP Update*, Vol. 13, No. 1.) In its first consideration of this case, the Federal Circuit held that the district court erred as matter of law in finding that Prometheus' asserted medical treatment claims were drawn to non-statutory subject matter. In that decision (see *IP Update*, Vol. 13, No. 8), the Court concluded that Prometheus' claims were drawn to statutory subject matter under the "machine-or-transformation test," which, at the time, was the definitive test for determining patentability of a process under 35 U.S.C. §101. Of course, following its review of the Federal Circuit's decision in *Bilski*, the Supreme Court held that the "machine-or-transformation" test is not the sole test for determining the patentability of a process.

The claims of the patents in issue are directed to methods for determining the optimal dosage of thiopurine drugs—*e.g.*, 6-mercaptopurine (6-MP) and azathiopurine (AZA)—used to treat gastrointestinal and non-gastrointestinal autoimmune diseases. AZA is a pro-drug that upon administration to a patient converts to 6-MP, which is further broken down to metabolites such as 6-methylmercaptopurine (6-MMP) and 6-thioguanine (6-TG). The claimed method includes the steps of "administering" a drug that provides 6-TG to a subject and "determining" the levels of the drug's metabolites in the subject. The claims also recite that the measured metabolite levels are then compared to pre-determined metabolite levels that are used to indicate a need to adjust the level of drug administered so as to minimize toxicity and maximize efficacy.

In the present remand, Prometheus argued that neither the Supreme Court's *Bilski* decision nor the fact of its remand of the instant case compel a different outcome because its claims satisfy the machine-or-transformation test and are not drawn to a mere abstraction. Prometheus argued that its claims involve a particular transformation of a patient's body and bodily sample and also the uses of machines to determine metabolite concentrations in a bodily sample. Thus (Prometheus argued), both prongs of the machine-or-transformation test are satisfied. Mayo argued that the patents-in-suit claim a natural phenomenon and are invalid because they preempt all practical use of naturally occurring correlations between metabolite levels and drug efficacy. Mayo contended that any machine or transformation present in the claims is merely insignificant post-solution activity. Mayo argued that the steps of "administering" and "determining" are merely data-gathering steps.

As it did in its initial decision, the Federal Circuit concluded that Prometheus's claims satisfy the machine-or-transformation test, even though that is no longer the only test for determining patentable subject matter. The

Federal Circuit explained that claims such as the asserted treatment claims are always transformative when a defined group of drugs is administered to a human to ameliorate effects of an unwanted condition. In the context of the claimed method, the Federal Circuit concluded that a determining step is transformative because it involves a form of manipulation or modification of a bodily sample to extract the metabolites from the sample and a determination of the concentration of the metabolites. The Federal Circuit distinguished *Prometheus* from its 1989 decision *In re Grams,* in which the claims at issue were directed to a process that combined data-gathering steps with a fundamental principle, noting that the method at issue in *Grams* was directed to steps of performing a clinical test followed by using an algorithm to determine the existence of an abnormality and possible causes for it. Thus, the Federal Circuit explained that the steps in *Grams* were not transformative.

The Federal Circuit also commented on the inclusion of a mental step in a method claim, noting that inclusion of a final “wherein” clause that may be a mental step does not negate the transformative nature of the prior steps when all steps are taken as whole. The Federal Circuit pointed out that none of the Prometheus claims in the patents-in-suit contained only mental steps.

Patents / Constitutional Standing

Licensee Can Be “Exclusive” for Standing Even Where Others Have Rights to License the Patents-In-Suit
Charles J. Hawkins

The U.S. Court of Appeals for the Federal Circuit reversed a decision by a district court, finding that a party can be an exclusive licensee for the purposes of standing even when others have the future right to grant sublicenses. *WiAV Solutions LLC v. Motorola et al.*, Case No. 10-1266 (Fed. Cir., Dec. 22, 2011) (Linn, J.).

WiAV filed a complaint in the Eastern District of Virginia alleging patent infringement against several technology giants, including Motorola, Nokia and Palm. WiAV asserted nine patents—two that it owned outright and seven to which it purported to be the exclusive licensee from Mindspeed.

The defendants sought to dismiss the seven Mindspeed patents for lack of constitutional standing. The district court agreed and concluded that WiAV lacked constitutional standing to assert the Mindspeed patents because several third parties have a limited right to license the patents. WiAV appealed.

On appeal, the Federal Circuit considered whether WiAV had constitutional standing to assert the Mindspeed patents against the defendants. In patent cases, the Patent Act establishes the legally protectable interests that create the foundation for constitutional standing. Under the Patent Act, both a patentee and an exclusive licensee have standing to sue for infringement of a patent. Thus, the touchstone of constitutional standing in a patent case is whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury.

The Court found that nothing in its earlier *Textile Productions* decision supported the proposition that for a licensee to be exclusive, the licensee must be the only party with the ability to license the patent. Instead, the Court found that a licensee is an exclusive licensee of a patent if it holds any of the exclusionary rights that accompany a patent and that it held the exclusionary right for a period of time, coterminous with the exclusivity of the rights granted—*i.e.*, a party may have standing to sue some parties, but not others.

By way of example, the Court stated that an exclusive licensee lacks standing to sue a party for infringement if that party holds a preexisting license to the patent or if the party has the ability to obtain such a license from another party with the right to grant it. Thus, the Court reasoned that an exclusive licensee does not lack constitutional standing merely because its license is subject to rights that existed prior to the license and to future licenses that may be granted, as long as none of the other existing or possible licenses rights could result in a grant of a license to the defendants. In this case, the defendants did not have the right to license the patents from any other party. Thus, the Court concluded that WiAV had standing because it established the right to exclude the defendants from engaging in the infringing activity and that WiAV was injured by defendants' conduct.

Patents / Litigation / Venue

Venue Not Subject to Construct Manipulation
David M. Stein

The Federal Circuit has now made precedential its earlier (November 8, 2010) order granting a *mandamus* petition from the denial of a motion to transfer venue out of the Eastern District of Texas. The Federal Circuit concluded the Western District of Washington was clearly more convenient and fair for trial. *In re Microsoft Corp*., Misc. Order 944, 2011 WL 30771 (Fed. Cir., Jan. 5, 2011) (*per curiam*).

The plaintiff, Allvoice Developments, filed suit in the U.S. District Court Eastern District of Texas alleging that Microsoft's XP and Vista operating systems infringed a patent relating to speech recognition functionality. Microsoft moved to transfer and provided evidence that all of its relevant witnesses and documents were within the Western District of Washington.

Allvoice countered with evidence of non-party potential witnesses in New York, Massachusetts and Florida, as well as two businessmen within the Eastern District of Texas who had used the accused products but were not necessarily tied to the specifics of the lawsuit.

The district court denied the motion to transfer, finding that each forum had a local interest in the dispute, that the witnesses Allvoice identified would find Texas more convenient and that Allvoice had its documents within the Eastern District of Texas.

In reversing, the Federal Circuit found this case to be analogous, in many respects, to its earlier opinion in *In re Genentech*, (see *IP Update*, Vol. 12, No. 6). Here, the Federal Circuit rejected Allvoice's "fallacious assumption" that the court must honor connections to a preferred forum, noting that the circumstances behind that connection can be of paramount importance. Although Allvoice was incorporated in Texas and maintained an office in Tyler, which is within the Eastern District of Texas, it did employ any individuals in that office (or anywhere in the United States); Allvoice was operated from the United Kingdom. Allvoice also incorporated in Texas just 16 days before it filed the lawsuit. The Federal Circuit reiterated the Supreme Court's longstanding mandate that the purposes of jurisdictional and venue laws should not be frustrated by a party's attempt at manipulation; it rejected Allvoice's connection to East Texas as a construct for litigation.

Patents / Obviousness

Evidence of Commercial Success Does Not Require Evidence Supporting Every Implementation of the Invention

Babak Akhlaghi

The U.S. Court of Appeals for the Federal Circuit, in reversing a finding of obviousness by the U.S. Patent and Trademark Office Board of Appeals (the Board), held that "a patent applicant 'need not sell every conceivable embodiment of the claims in order to rely upon evidence of commercial success'." ***In re Glatt Air Techniques, Inc.***, Case No. 10-1141 (Fed. Cir., Jan. 5, 2011) (Prost, J.).

Glatt Air Techniques (Glatt) appealed from the final decision of the Board in a reexamination proceeding holding the claimed invention unpatentable as being obvious over prior art. The claimed invention improved over prior art coating apparatus for coating particles by providing a shield configured to prevent particles from prematurely entering the spray pattern. The specification described the claimed shield means to include a cylindrical partition surrounding the coating spray nozzle and acting as a physical shield to prevent premature entry of particles into the spray pattern. The specification also described alternative shielding arrangements, such as shielding the spray nozzle by formation of an air wall or stream configured to prevent the particles from premature entry into the spray.

During the reexamination proceeding, the examiner interpreted the claimed shield means to require "formation of an air wall or stream that surrounds the nozzle and prevents particles from prematurely entering into the spray pattern." The examiner determined that the prior art teaching of "an air wall, or air jacket, surrounding … spray nozzle" read on the claimed shield means. In addition to traversing the examiner's obviousness rejection, Glatt offered commercial success type secondary consideration evidence to rebut the examiner's contention of *prima facia* obviousness. However, the examiner determined that the secondary consideration evidence was not commensurate in scope with the claimed invention. After the Board agreed with the examiner, Glatt appealed.

In reversing the Board, the Federal Circuit agreed with Glatt that the prior art did not teach the claimed shield means configured to prevent particles from prematurely entering into the spray pattern, but only a way to remove the blockage caused by the particles prematurely entering into the spray pattern. The Federal Circuit also rebuffed the USPTO's position that secondary considerations must encompass multiple embodiments to be commensurate in scope with the claimed invention. Rather, the Federal Circuit concluded that a patent applicant "needs not to sell every conceivable embodiment of the claims in order to rely upon evidence of commercial success." The Court explained that commercial success evidence should be considered "so long as what was sold was within the scope of the claims."

Patents / Inventorship

Notwithstanding Co-Inventorship, State Law Precludes Inventor from Realizing Any Portion of Ex-Partner's $409 Million Sale

Jeremiah Armstrong

In a lengthy legal battle between two former business partners, the U.S. Court of Appeals for the Federal Circuit delivered a likely fatal blow to plaintiff Frank Shum's hopes of realizing part of the proceeds from the $409 million sale of a company to Intel, despite that the Federal Circuit affirmed a jury decision finding Shum to be a co-inventor in several of the patents in issue. *Shum v. Intel Corp.*, Case Nos. 09-1385, -1419 (Fed. Cir., Dec. 22, 2010) (Prost, J.) (Newman, J., dissenting). Ultimately, damages were precluded because the Court affirmed the district court's judgment denying Shum's California state law claims of breach of fiduciary duty, fraudulent concealment, unjust enrichment, breach of contract, and intentional misrepresentation.

The case stems from a defunct business partnership between optical engineers Shum and Jean-Marc Verdiell. In 1997, the two men founded Radiance Design and almost immediately filed a patent application on an optoelectronics invention. Only Shum was named as an inventor on the application because some of the subject matter was conceived by Verdiell while he was still working for his former employer, with whom he sought to avoid an ownership dispute. At the suggestion of their patent agent, they withdrew that patent application.

Afterwards, Shum and Verdiell dissolved Radiance using a detailed Plan of Liquidation (POL), which gave both Shum and Verdiell rights to exploit Radiance's technology. Shortly thereafter, Verdiell started a new company, LightLogic, and filed a new patent application on the same Radiance technology, but did not name Shum as a co-inventor. LightLogic successfully developed optoelectronic products, filing new patents along the way. Still later, LightLogic was acquired by Intel for $409 million. Shum then sued Verdiell seeking a portion of the proceeds of that sale.

Before trial, the district court dismissed, on summary judgment, Shum's breach of fiduciary duty and fraudulent concealment claims. At trial, the jury found that Shum was a co-inventor on some claims of in five of the six patents in dispute. The jury deadlocked on the issues of unjust enrichment, breach of contract and intentional misrepresentation. Instead of a retrial, the court awarded the defendants judgment as a matter of law (JMOL) on those remaining claims. Shum appealed.

On appeal, the Federal Circuit affirmed the summary judgment decisions. Verdiell did not owe Shum a fiduciary duty as a co-officer or co-shareholder of Radiance, and similarly Shum did not have standing to bring such a claim against Verdiell on behalf of Radiance. Moreover, the Radiance POL provided that both parties were entitled to exploit the technology. Likewise, the Court found that the fraudulent concealment claim failed because Verdiell owed no fiduciary duty to Shum and thus had no duty to disclose to Shum plans to form a new company or compete with Radiance.

The Federal Circuit also affirmed the court's granting of post-verdict JMOLs. The unjust enrichment claim lacked causation because the record did not substantiate Shum's assertion that Intel purchased LightLogic due to a promise of sole or exclusive rights in the Radiance technology. Rather, "the Intel acquisition documents themselves acknowledge that the Radiance POL gave Verdiell and Shum 'equal rights to independently exploit the intellectual property developed by [Radiance]'." As for the breach of contract claim, the Federal Circuit agreed that Shum offered no evidence that Verdiell's alleged breach of the POL caused any harm. "[T]here is no evidence that Shum suffered financial harm by being omitted from the patents as a coinventor. Shum's inclusion would not have entitled him to proceeds from the Intel-LightLogic deal, since Verdiell was allowed to sell his rights without any duty to account to Shum." The Court also noted that Shum's intentional misrepresentation claim also failed because he was unable to show monetary loss.

In a pointed dissent, Judge Newman disagreed with the post-verdict JMOLs on those claims that the jury did not reach a verdict. "It is relevant that the jury had already found unanimously in favor of Shum as to joint inventorship, which was the foundation of the issues related to damages. In these circumstances, it was improper for the district court, and now this court, to make their own findings of disputed material fact on traditional jury questions."

Trademarks / Lost Profits

Proof of Actual Confusion Not Always Required to Recover Lost Profits in Trademark Infringement Claim

Suzanne Wallman and Ulrika E. Mattsson

The U.S. Court of Appeals for the Eighth Circuit rejected the notion that proof of actual confusion is a requisite to licensors recovering profits from licensees who exceed the scope of a trademark license. *Masters v. UHS of Delaware, Inc.*, Case No. 09-3543 (8th Cir., Jan. 6, 2022) (Wollman, J.).

Mary Virginia Masters and UHS of Delaware (UHS) entered into a license agreement granting UHS use of the unregistered MASTERS AND JOHNSON service mark in connection with inpatient treatment programs conducted at its facilities. Under the license agreement, UHS was authorized to use the mark only in connection with its treatment programs relating to sexual dysfunction and sexual trauma. However, the district court found that UHS had breached its license agreement and infringed the MASTERS AND JOHNSON trademark by using the name to market treatments for depression, eating disorders and drug and alcohol addiction. The district court also held that UHS willfully infringed the mark and breached the license agreement; it awarded Masters $2.4 million of disgorged profits. UHS appealed.

On appeal, UHS argued, among other things, that the claim was not compensable because Masters failed to prove actual confusion between the parties or their business activities. UHS contended that the relevant case law precludes the award of monetary relief absent proof of actual confusion. Masters argued that such proof is unnecessary in light of the licensor-licensee relationship of the parties, the nature of the infringement alleged and the remedy of disgorged profits.

The 8th Circuit agreed, explaining that the relevant statutory provisions of the Lanham Act did not expressly require proof of actual confusion and that certain case law cited by UHS to the effect that proof of confusion was required was only dicta. The court noted that in a typical trademark case (*i.e.*, not involving a licensee), the plaintiff would allege that the defendant's mark is confusingly similar to its own. Here, the Court said that "this case involves a different kind of comparison, *i.e.* between the use of the mark the licensing agreement grants and UHS's actual use of the mark."

The court explained that because UHS and Masters were not competitors in the marketplace, there are no objective confusion characteristics by which to compare UHS and Masters. Therefore, the relevant criterion is the degree to which each party remained faithful to the terms of the license agreement, rather than the degree of similarity of the marks or services. By branding treatment offerings that did not fall within the terms of the agreement with the MASTERS AND JOHNSON service mark, UHS acted in a way likely to cause confusion, to cause mistake and to deceive others as to Masters approval of those unauthorized programs. Even with no showing of actual confusion, these factors the court found were sufficient to entitle Masters to a disgorgement of UHS's profits.

Trademarks / Challenge to TTAB

Sovereign Immunity Bars Trademark Infringement Claims Even If State Entity Institutes *De Novo* Suit

Rita Weeks and Rita J. Yoon

Considering sovereign immunity in the context of trademark infringement claims, the U.S. Court of Appeals for the Seventh Circuit held that a software company's trademark infringement claims against a public university were barred, determining that the university did not waive immunity by affirmatively participating in the federally regulated trademark registration process or by instituting a district court proceeding challenging the cancellation of its trademark registration by the Trademark Trial and Appeal Board (TTAB). *Bd. of Regents of the Univ. of Wisc. Sys. v. Phoenix Int'l Software, Inc.*, Case No. 08-4164 (7th Cir., Dec. 28, 2010) (Tinder, J.) (Wood, J., dissenting).

Both parties owned U.S. trademark registrations for the mark CONDOR for computer software. Phoenix International obtained its registration first, covering software used on mainframe systems. Junior user University of Wisconsin later obtained a registration covering software used on a network of individual computers. Phoenix filed a petition to cancel UW's registration with the U.S. Patent and Trademark Office's Trademark Trial and Appeal Board based on likelihood of confusion. The TTAB granted Phoenix's petition and cancelled UW's registration because the marks were identical and the actual use of the parties' respective software showed that the marks were being used in related fields.

UW then filed suit against Phoenix in district court, challenging the TTAB's cancellation of its CONDOR mark. Phoenix counterclaimed against UW for trademark infringement and false designation of origin. The district court held that the TTAB erred when it considered the actual nature of the parties' goods, rather than comparing the goods as described in their respective registrations. Considering the parties' goods only as described in the parties' registrations, the district court reversed the TTAB and granted summary judgment to UW, finding the types of systems listed as used with the parties' software to be sufficiently distinguishable to negate likelihood of confusion. The district court also dismissed Phoenix's trademark infringement and false designation of origin counterclaims based on sovereign immunity, under which states are immune from being sued in federal court without their consent or waiver. Phoenix appealed

The 7th Circuit concluded that the district court misapplied the likelihood of confusion test and improperly rejected the TTAB's factual findings when the court made the similarity of the functions on which the marks were used the dispositive issue. The proper inquiry, the 7th Circuit explained, "is whether the parties' products are the kind the public might very well attribute to a single source." Because Phoenix had presented evidence at the TTAB showing the existence of material fact that should have precluded the grant of summary judgment at the district court, the 7th Circuit remanded the likelihood of confusion inquiry for trial.

On the sovereign immunity issue, the 7th Circuit affirmed the district court's dismissal of Phoenix's trademark infringement and false designation of origin claims against UW. Phoenix argued that UW waived sovereign immunity by voluntarily participating in the federal trademark registration system and by instituting the federal court action to challenge the TTAB's cancellation of UW's CONDOR registration. However, the court rejected both arguments under precedent in patent cases involving sovereign immunity. Further, the court viewed the district court proceeding as a continuation of the TTAB cancellation proceeding where, as the defendant, UW was not a voluntary participant.

The 47-page dissent argued that Phoenix's counterclaims should have been sustained because an effective waiver had occurred. The dissent noted that UW had multiple options for addressing the dispute other than instituting a de novo proceeding at the district court in which UW could present new evidence, such as a straight appeal to the Federal Circuit. Further, the dissent noted that it was inequitable for UW to seek to block Phoenix's compulsory counterclaims while seeking relief from that court in the very same lawsuit.

Copyright / Digital Millennium Copyright Act

Party Can Violate DMCA Even Absent Copyright Infringement

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After considering and rejecting contrary holdings by the U.S. Court of Appeals for the Federal Circuit, the U.S. Court of Appeals for the Ninth Circuit held that a party can be held liable for violating the Digital Millennium Copyright Act's (DMCA) prohibition on anticircumvention technology even when the party did not engage in or facilitate copyright infringement. *MDY Industries, LLC v. Blizzard Entertainment, Inc. et al.*, Case Nos. 09-15932, -16044 (9th Cir., Dec. 14, 2010) (Callahan, J.).

Blizzard is the creator of World of Warcraft (WOW), an online role playing game in which players interact in a virtual world while advancing through the game's 70 levels. MDY produces a software "bot" called Glider that automates play through the WOW game. Glider does not use, alter or copy WOW's software. Using Glider, a player can rapidly advance through the WOW game levels because Glider can automatically play the game without the player even being present at a computer. In response, WOW launched Warden, a technology it developed to prevent players from using unauthorized software, including bots. WOW also modified its terms of use agreement (TOU) to prohibit players from using unauthorized software, including bots, while playing the WOW game. Subsequently, MDY modified the Glider software to avoid detection by Warden and also promoted Gilder's anti-detection features.

Blizzard sued MDY for secondary copyright infringement and violation of the DMCA. The district court granted Blizzard's motion for partial summary judgment, finding that MDY's sales of the Glider software contributorily and vicariously infringed Blizzard's copyrights, but granted MDY's motion for partial summary judgment finding that MDY did not violate the DMCA.

On appeal, the 9th Circuit reversed, finding that MDY did not secondarily infringe Blizzard's copyrights, but concluding that it did violate the DMCA.

Concerning its copyright infringement claim, Blizzard argued that game players are licensees to Blizzard's software and that MDY induces players to directly infringe Blizzard's copyrights by encouraging them through the sale of the Glider software to violate the TOU. The 9th Circuit noted that a software licensee directly infringes a licensor's copyrights if the licensee acts outside the scope of the license by violating a license condition. The court concluded that Blizzard's TOU prohibition on players using unauthorized software, including Glider, was not a license condition, but rather a contractual covenant. Thus, the court explained that since there was no direct infringement by players, MDY could not be held liable for secondary infringement.

Concerning its DMCA claim, Blizzard argued that MDY's efforts to avoid detection from Blizzard's Warden violates the DMCA. The DMCA prohibits technologies that circumvent access control measures that are designed to protect copyrighted materials. As an issue of first impression, the 9th Circuit addressed the issue of whether MDY could be held liable for violating the DMCA when use of its Glider software did not constitute or facilitate copyright infringement. After considering the statutory language, the legislative history and cases from other jurisdictions, the 9th Circuit concluded that the anticircumvention provisions of the DMCA are independent of the Copyright Act and that a party can be held liable for violating the DMCA without engaging in copyright infringement. In doing so, the 9th Circuit rejected two contrary holdings from the Federal Circuit; *Storage Tech. v. Custom Hardware Eng'g Consulting* (2005) and *Chamberlain Group v. Skylink Techs.* (2004). The 9th Circuit went on to hold that MDY's Glider violated the DMCA with respect to WOW's dynamic non-literal elements by using a technology that is primarily designed to circumvent a technological measure that effectively controls access to a copyrighted work.

Copyright / First Sale Doctrine

First-Sale Doctrine Protects Sale of Promotional CDs
Elisabeth Malis

The U.S. Court of Appeals for the Ninth Circuit affirmed a district court holding that a defendant's resale of promotional music compact discs was permissible under the first-sale doctrine and did not constitute copyright infringement. *UMG Recordings, Inc. v. Augusto*, Case No. 08-55998 (9th Cir., Jan. 4, 2011) (Canby, J.).

Plaintiff UMG Records (UMG) is a major recording company that, as part of its marketing efforts, distributes promotional CDs embodying its copyrighted sound recordings to unsolicited individuals such as music critics and radio personnel. Defendant Troy Augusto, while not an intended recipient of the promotional discs, acquired eight such CDs and sold them for profit on eBay. After UMG was unable to halt Augusto's sales through eBay's internal procedures, UMG filed a copyright infringement suit alleging that Augusto violated its exclusive right to distribute the copyrighted recordings. The district court granted summary judgment in favor of Augusto, holding that although UMG made out a *prima facie* case of copyright infringement, the defendant's actions were permissible under the first-sale doctrine. UMG appealed.

The 9th Circuit affirmed. Under the first-sale doctrine, one who lawfully acquires title of a copyrighted work is permitted to transfer, sell or otherwise dispose of that work without permission from the copyright owner. To support its argument that the first-sale doctrine was inapplicable because distribution of the promotional CDs constituted a license and not a "sale," UMG pointed to a promotional statement on the CDs stating that the discs are the property of the record company that are licensed to the intended recipient for personal use and are not to be resold or transferred. The 9th Circuit rejected UMG's argument, stating that the first-sale doctrine applies not only to a sale, but also to any transfer of title resulting from the copyrighted work being placed in the stream of commerce. Furthermore, the court stated that the circumstances surrounding the discs' distribution did not create a license between UMG and the recipients because the discs were distributed without any prior arrangements with the recipients, there was no indication that any recipients agreed to a license arrangement and there was no meaningful control exercised over the distribution or use of the discs. In addition, because the discs were unordered merchandise, the recipients were free to "retain, use, discard, or dispose" of them as they saw fit under the Unordered Merchandise Statute, which are rights inconsistent with the restraints of the license UMG sought to impose.

Accordingly, the 9th Circuit affirmed dismissal of the infringement action against Augusto, holding that the circumstances surrounding UMG's distribution of promotional CDs effected a transfer of ownership to its recipients and Augusto, as a subsequent recipient, was permitted to sell those copies without UMG's authorization.

Copyright / Attorneys' Fees

Challenge to Grant of Attorneys' Fees in Copyright Case Derailed by Untimely Objection

Whitney D. Brown and Rita Weeks

Considering a plaintiff's second motion for reconsideration challenging the award of attorneys' fees to the defendant in a copyright case, the U.S. Court of Appeals for the First Circuit upheld the award without remanding the issue to the district court where plaintiff's objection was over 30 days late and defendant had submitted records demonstrating the reasonableness of the award. *Latin American Music Co. d/b/a Asociacion de Compositores y Editores de Musica Latinoamericana v. American Society of Composers, Authors and Publishers*, Case No. 08-1498 (1st Cir., Dec. 28, 2010) (Torruella, J.).

The case involved a long-running dispute between music publisher Latin American Music Company (LAMCO) and its affiliate, a Puerto Rican performing rights society, against the American Society of Composers, Authors and Publishers (ASCAP). The plaintiffs sued two Puerto Rican radio stations for copyright infringement, alleging infringement of the plaintiffs' rights in 51 music compositions. Following consolidation with other actions, the litigation involved more than 500 compositions. ASCAP entered the litigation as a third party and claimed LAMCO infringed ASCAP's copyrights.

The district court granted summary judgment in favor of ASCAP with regard to over 400 of the works at issue. However, in 2007, the 1st Circuit held that LAMCO's inclusion of songs in its licensing catalog, issuance of broadcast licenses to radio stations and threats of litigation against alleged infringers did not constitute infringement of ASCAP's rights under the Copyright Act. After ASCAP succeeded on a later appeal to the 1st Circuit, it applied for an award of attorneys' fees incurred on appeal. LAMCO failed to timely object to the award within the 30-day time limit and the First Circuit granted ASCAP a fee amount of approximately $90,000.

LAMCO filed a motion for reconsideration in order to object to the attorneys' fees awarded to ASCAP. LAMCO disputed, among other things, ASCAP's status as the "prevailing party" under §505 of the Copyright Act, whether ASCAP had timely registered the song to be eligible for attorneys' fees and the reasonableness of the award. The 1st Circuit denied LAMCO's first motion for reconsideration. LAMCO then filed a second motion for reconsideration, renewing its original arguments and further requesting that if attorneys' fees were awarded, the determination be remanded to the district court.

In rejecting LAMCO's second motion for reconsideration, the 1st Circuit confirmed that granting attorneys' fees was clearly within the court's discretion as defendant ASCAP was the "prevailing party" under §505 by successfully defending LAMCO's copyright claim and due to the weakness of LAMCO's clams. Next, the court refused to consider LAMCO's argument that ASCAP did not timely register its copyright as "fatally underdeveloped" and therefore waived. The court also rejected LAMCO's challenge to the reasonableness of the award of attorneys' fees, finding that LAMCO's challenge was "undermined, if not forfeited" by its own neglect in filing its objection 39 days late and without detailed support. Finally, the 1st Circuit rejected LAMCO's request for remand to the district court of the determination of the amount of attorneys' fees. "Although not appropriate in every case," the court explained, an appellate court may award fees incurred on appeal, where, as in the instant case, "the prevailing party has submitted records that establish the reasonableness of the award."