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Patents / False Marking

Is §292 (*Qui Tam*) Statute Unconstitutional?
Eric Garcia

A federal district court has now held that the false marking statute, 35 USC §292, is unconstitutional for violating the "Take Care" clause of the Constitution. The U.S. District Court for the Northern District of Ohio granted the defendant's motion to dismiss, finding that the false marking statute is essentially a criminal statute lacking sufficient control to enable the president of the United States to "take Care that the Laws be faithfully executed." *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, Case No. 5:10-cv-1912 (N.D. Ohio, Feb. 23, 2011) (Polster, J.)

Plaintiff Unique Product Solutions, as a *qui tam* relator, filed a complaint against Hy-Grade for falsely marking a series of industrial valve products with an expired patent. The district court solicited briefing on the constitutionality of the false marking statute and ordered that the Department of Justice be notified of the constitutional challenge in order to allow it an opportunity to intervene or respond. Despite being notified, the Department of Justice did not file a response.

In determining whether the false marking statute is unconstitutional, the court first noted that the false marking statute is a criminal statute, relying in part on the Federal Circuit's pronouncement in *Solo Cup* that liability under the false marking statute requires a mental state of purposeful deceit, rather than simply knowledge that a marking is false. Thus applying the *Morrison* "sufficient control" analysis, the district court concluded that the false marking statute "essentially represents a wholesale delegation of criminal law enforcement power to private entities with no control exercised by the Department of Justice."

Specifically, the court reasoned that any private entity that believes someone is using an expired or invalid patent can file a criminal lawsuit in the name of the United States without getting approval from or even notifying the Department of Justice; the case can be litigated without any control or oversight by the Department of Justice; the government has no statutory right to intervene nor does it have a right to limit the participation of the relator; the government does not have the right to stay discovery which may interfere with the government's criminal or civil investigations; the government may not dismiss the action; and the relator may settle the case and bind the government without any involvement or approval by the Department of Justice. The court further observed that government prosecutors are granted power not given to private parties and with that power comes the responsibility to use it to benefit the public welfare, rather than some private interest. Accordingly, the court granted defendant Hy-Grade's motion to dismiss on the ground that §292 is unconstitutional and dismissed plaintiff Unique's complaint with prejudice.

Subsequently, the Department of Justice filed a motion to intervene and a motion for reconsideration. The Department of Justice argued that the false marking statute is a civil statute, rather than criminal, and that the court erroneously applied the *Morrison* "sufficient control" analysis because a *qui tam* relator is not an inferior officer of the government, but rather, is an assignee of a revocable interest of the United States. In a supplemental ruling responding, the court stated that regardless of whether the statute is deemed civil, the court's prior analysis would not change, as the U.S. Court of Appeals for the Sixth Circuit has applied the *Morrison* "sufficient control" analysis to a civil statute. Regarding the application of *Morrison*, the court noted that the Federal Circuit has not rejected the application of *Morrison* to §292 and since the 6th Circuit has applied *Morrison* to other *qui tam* statutes, consistency requires the *Morrison* analysis to apply to §292 as well. Accordingly, the court reaffirmed its earlier ruling that §292 is unconstitutional.

Practice Note: Although the Federal Circuit has not yet weighed in on the constitutionality of the false marking statute, it is only a matter of time before it does so in *United States ex rel. FLFM, LLC v. Wham-O, Inc.*

Patents / Written Description

Need More than Mouse Disclosure and a Few CIPs to Support Human Antibody Claims
Lauren Nelson

Reversing a $1.67 billion dollar award (the largest patent infringement award in history) and addressing the issue of whether claims filed in a later continuation-in-part (CIP) application may be rendered invalid for lack of written description because of insufficient disclosure in an earlier application, the U.S. Court of Appeals for the Federal Circuit reversed the district court's denial of judgment as a matter of law as to invalidity under the 35 U.S.C. §112. *Centocor Ortho Biotech, Inc. v. Abbott Labs.*, Case No. 10-1144 (Fed. Cir., Feb. 23, 2011) (Prost, J.).

The technology at issue in this case involves antibodies to human tumor necrosis factor (TNF-α). Overproduction of TNF-α can lead to various autoimmune conditions, so pharmaceutical companies began designing antibodies to TNF-α in order to block its harmful effects. The goal was to develop an antibody that would effectively block TNF-α without triggering an immune response when administered. Centocor and Abbott both designed antibodies with these properties, but the two companies took different approaches in developing their respective antibodies. Centocor designed its antibody by taking the region of a mouse TNF-α antibody that was known to inhibit TNF-α (the variable region) and combining that region with a non-functional human antibody region (the constant region). Centocor filed a patent application covering this antibody in 1991. In the meantime, Abbott developed a fully human antibody and filed a patent on its antibody in 1996.

In 1994, Centocor filed several continuation-in-part applications, and the disclosure in those applications mentions fully human antibodies. The claims in those applications are directed toward antibodies containing both human and mouse regions. In 2002, Centocor filed a continuation-in-part application that lead to the asserted patent in this case. In that application, Centocor added claims for a fully human antibody.

Centocor sued Abbott for patent infringement, alleging that Abbott's human antibody (trade name Humira®) infringed the claims of its patent. Because the claims directed to human antibodies were filed after Abbott's product was developed and patented, Centocor had to show that the claims in asserted patent were supported by the disclosure in the 1994 applications. After the jury awarded Centocor $1.67 billion dollars, Abbott filed a motion for judgment as a matter of law (JMOL) for invalidity based on written description. The district court declined and Abbott appealed.

The Federal Circuit reversed, holding that the claims were invalid as failing to meet the written description requirement of 35 U.S.C. §112. The Federal Circuit explained that to satisfy the written description requirement, "the applicant must 'convey with reasonable clarity to those skilled in the art that, as of the filing date sought, he or she was in possession of the invention.'" The Court further explained that a "'mere wish or plan' for obtaining the claimed invention is not adequate written description." The Court found that while the 1994 applications included many examples of antibodies containing mouse and human regions, those applications did not contain any examples or directions as to how to make an antibody with a human variable region.

The Court found that the specification merely conveyed a wish list for functions that a fully human antibody would have and described a plan for making fully human antibodies and identifying those that have the desired characteristics, but did not evidence constructive position of such an antibody. More specifically the Court conclude that Centocor's written description failed to describe "a single antibody that satisfies the claim limitations," "disclose any relevant identifying characteristics for such fully-human antibodies," or "disclose any relationship between the human TNF-α protein, the known mouse variable region that satisfies the critical claim limitations, and potential human variable regions." Based on these failures, the Court found that Centocor's written description did not convey that it was in possession of a human antibody.

The Court also considered whether Centocor's disclosure of the TNF-α protein in its CIP application provided adequate written description for *any* antibody that binds to it, noting that "while our precedent suggests that written description for certain antibody claims can be satisfied by disclosing a well-characterized antigen, that reasoning applies to disclosure of newly-characterized antigens where creation of the claimed antibodies is routine." The Court went on to conclude that at the time of Centocor's patent filing, obtaining the claims human antigen was not a matter of using routine technology, because antibodies having the claimed properties had not, at the time, been adequately described. Rather, the Court viewed the situation as one in which the patent owner "'merely recit[es] a description to the problem to be solved while claiming all solutions to it.'" In contrast, (citing *Eli Lilly*) the Court explained that the written description requirement requires that one of skill in the art can "visualize or recognize" the claimed antibodies based on the patent disclosure.

Patents / Procedure

Limitation on the Number of Asserted Claims Does Not Violate Due Process Rights

Brock Wilson

Addressing for the first time the issue of whether restricting the number of claims that may be asserted violates a plaintiff's due process rights, the U.S. Court of Appeals for the Federal Circuit upheld both a court order that limited a plaintiff to a specified number of asserted claims and refused to sever and stay any unselected claims. *Ronald A. Katz Tech. v. American Airlines et al.,* Case Nos. 09-1450, -1451, -1452, -1469; 10-1017 (Fed. Cir., Feb. 18, 2011) (Bryson, J.).

Over the course of two years, the plaintiff filed 25 patent infringement actions in the U.S. District Court for the Eastern District of Texas and the U.S. District Court for the District of Delaware, asserting 1,925 claims from 31 patents against 165 defendants, consisting of 50 defendant groups. The Judicial Panel on Multidistrict Litigation (MDL) transferred all of the cases to the U.S. District Court for the Central District of California (the MDL court) for coordinated pretrial proceedings. For efficiency and because the court found that many of the asserted claims appeared to be duplicative, the MDL court ordered the plaintiff to limit the number of asserted claims to 64. However, the MDL court allowed the plaintiff to surpass that number if the additional claims "raise[d] issues of infringement/validity that [were] not duplicative" of previously selected claims. The MDL court placed the burden on the plaintiff to show non-duplicity.

The plaintiff did not comply with the order, but selected nearly 100 claims and offered no proof that the additional claims were non-duplicative. The plaintiff also moved to sever and stay the non-selected claims and only proceed on the selected claims. The plaintiff argued the limitation on the number of asserted claims was too restrictive for the number of accused services and further argued a ruling could have a preclusive effect on the non-selected claims and would divested the plaintiff of its rights in those claims without due process. The MDL court denied the motion. The defendants subsequently filed summary judgment motions on dispositive issues. After the MDL court granted those motions, the plaintiff appealed.

On appeal, the Federal Circuit rejected the plaintiff's argument that the MDL court's decision violated its due process rights: "[t]o make out a due process claim, [the plaintiff] must demonstrate that the district court's claim selection procedure risked erroneously depriving it of its rights and that the risk outweighed the added costs associated with a substitute procedure." Because the plaintiff did not "make, or even attempt to make, [a] showing" that the non-selected or additionally-selected claims were non-duplicative, the Federal Circuit agreed with the MDL court that the plaintiff could not "legitimately complain that it did not have a meaningful opportunity to be heard on those claims." Further, the Federal Circuit found that it was "both efficient and fair" to place the burden on the plaintiff to limit the claims because the plaintiff is "in the best position to narrow the dispute."

In approving the MDL court's procedure, the Federal Circuit cautioned that its ruling does not mean that a district court's claim selection decisions are not reviewable and suggested that the plaintiff could have demonstrated that the unselected claims presented unique issues as to liability or damages, in which case the "decision would be subject to review and reversal." The Federal Circuit also found that the MDL court did not violate the presumption of claim validity or claim differentiation, finding that "although the court required [the plaintiff] to show that additional claims presented unique questions for the case, the court did not place a burden on [the plaintiff] to demonstrate that its claims covered distinct subject matter."

On an unrelated issue, the Federal Circuit, distinguishing *Aristocrat*, reversed one of the MDL court's rulings that invalidated several general-purpose-computer-means-plus-function claims because the specification failed to disclose the requisite algorithms to perform the claimed functions. The Federal Circuit ruled that an algorithm is not required for claimed general purpose computer functions that "can be achieved by any general purpose computer without special programming," and found, absent a contrary construction, "the functions 'processing,' 'receiving,' and 'storing' are coextensive with […] a general purpose computer."

Patents / Declaratory Judgments

State Law License Defense to Hypothetical Infringement Suit Satisfies Federal Jurisdiction

Adam A. Auchter

The U.S. Court of Appeals for the Federal Circuit has determined that federal declaratory judgment jurisdiction exists when the defendant's coercive action arises under federal law, even if the defense to the coercive action is not federal in nature. *ABB Inc. v. Cooper Industries LLC*, Case No. 10-1227 (Fed. Cir., Feb. 17, 2011) (Dyk, J.).

Cooper Industries sued ABB, claiming infringement of a dielectric fluid used to insulate and thermally protect transformers. The parties entered into a settlement and license agreement granting ABB a non-exclusive license to make and sell the fluid, but stated that the license did not grant any third party to make any fluid covered by Cooper's patents.

ABB began outsourcing the manufacture of the fluid to Dow Chemicals and agreed to indemnify Dow for any infringement claims by Cooper. Cooper contacted ABB and Dow stating that third-party manufacture was not covered under the license agreement and that Cooper would "vigorously defend its rights" with regard to products covered by Cooper's patents.

ABB filed a declaratory judgment action in federal court, seeking declarations of non-infringement and that its activities were authorized under the license agreement. Cooper moved to dismiss for lack of subject-matter jurisdiction. ABB did not raise any potential federal defenses, such as patent invalidity or non-infringement, but instead relied on Cooper's potential claim for patent infringement as raising a justiciable dispute and ABB's license defense. The district court found that the issues did not arise under the patent laws, but hinged exclusively on the interpretation of the settlement agreement and dismissed the case. ABB appealed.

On appeal, the Federal Circuit considered the issue of federal jurisdiction in the context of a declaratory judgment (DJ) action based on a federal cause of action but a state law defense.

Addressing the threshold DJ issue, the Court concluded that there was a controversy "of sufficient immediacy and reality" so as to meet the jurisdictional standard of *MedImmune* and that the issue involved a question of patent infringement. Citing *Acceleron*, the Court noted that a specific threat of infringement litigation by the patentee is not required to establish jurisdiction. The warning letters from Cooper to ABB and Dow were sufficient to show an immediate controversy surrounding infringement. ABB had an interest in determining whether it would be liable for induced infringement or indemnification for infringement by Dow.

Turning to the federal jurisdiction issue—*i.e.*, whether federal jurisdiction would lie where only a state law was invoked as a defense to an anticipated federal action—the Federal Circuit considered the issue as one of the first impression, noting that the issue was previously addressed by the Supreme Court in *Textron v. Auto. Workers* but was left undecided.

The Court pondered whether it was the purpose of the Declaratory Judgment Act to permit such anticipation of a federal action, noting that language in *Skelly Oil* suggested that a declaratory-judgment plaintiff must have an independent federal claim. However, in *Skelly* Oil, Justice Breyer, in a concurrence, argued that the whether a plaintiff's defense could independently support jurisdiction was beside the point and emphasized that it is the character of the threatened action, and not of the defense, that determines federal question jurisdiction.

Despite the lack of authority on point and the language of *Skelly Oil*, the Federal Circuit concluded that federal question jurisdiction existed and reversed the district court. The Federal Circuit explained that a court should examine the *defendant's* hypothetical well-pleaded complaint to determine if subject-matter jurisdiction exists, and it saw no reason to depart from that general principle when the defense is not federal in nature. It concluded that this case, similarly to the Supreme Court decision in *Franchise Tax Board*, the federal character of the hypothetical infringement suit over which the federal courts have exclusive jurisdiction, was dispositive.

Practice Note: The Federal Circuit appears to be broadly interpreting §1338 in granting federal question jurisdiction. Combined with the less stringent declaratory judgment standard in *MedImmune*, settlement and license agreements may be susceptible to scrutiny by the federal courts even in situations in which no federal law defense is raised.

Patents / Damages

Reasonable Royalties Must Be Considered in the Absence of Lost Profits

David M. DesRosier

The U.S. Court of Appeals for the Federal Circuit held that a district court erred in failing to consider additional damages based on a reasonable royalty after it reduced a jury's lost profits damage award due to a lack of proof of actual sales of products corresponding to some of the infringing products. Separately, the Federal Circuit held that a patent holder must prove infringement under the doctrine of equivalents by a preponderance of the evidence, even when the alleged products are themselves subject to patent protection. *Siemens Medical Solutions USA, Inc. v. Saint-Gobain Ceramics & Plastics, Inc*., Case No. 10-1145; -1177 (Fed. Cir., Feb. 24, 2011) (Lourie, J.).

Siemens Medical Solutions sued Saint-Gobain Ceramics & Plastics for infringement of a patent that relates to crystals used in medical PET scanners to detect gamma rays emanating from a patient. Saint-Gobain's crystals were covered by the claims of another patent, to which it held a license. Saint-Gobain sold its crystals to Philips Medical Systems, which manufactures and sells crystal-using PET scanners that compete with Siemens scanners.

The judge instructed the jury that Siemens must prove infringement under the doctrine of equivalents (DoE) by a preponderance of the evidence. Also, based on evidence that Saint-Gobain had sold Philips enough crystals for 79 scanners and that Philips and Siemens were direct competitors in a two-competitor market, the jury awarded Siemens $52.3 million in lost-profit damages for all 79 PET scanners. The district court judge, however, reduced the damage award to $44.9 million because the evidence suggested that Philips did not actually sell 18 of those 79 scanners. Saint-Gobain appealed the district court's jury instruction regarding the burden of proof for DoE infringement, and Siemens appealed the judge's modification of the jury's damage award.

DoE Burden of Proof

The Federal Circuit affirmed that a patent holder must prove infringement under doctrine of equivalents by a preponderance of the evidence even when the accused products are themselves covered by a different patent. Saint-Gobain had argued that under *Festo* (see *IP Update*, Vol. 10, No. 7) that a heightened burden of proof on the issue of equivalents should apply based on the Court's statement in *Festo* that an infringement determination in those circumstances "is at least considerably more difficult to make out." The Federal Circuit rebutted that argument, reiterating that "patent infringement, whether literal or by equivalence, is an issue of fact, which the patentee must prove by a preponderance of the evidence." The Court remarked that its statement in *Festo* simply meant that when the accused products are covered by a separate patent, it is more difficult to prove DoE infringement by a preponderance of the evidence.

Reasonable Royalty

The Federal Circuit concluded that the district court erred in not considering at least reasonable royalty damages for the 18 scanners for which lost profit were not available as a measure of damages, citing §284 and explaining that the statute mandates that the damage award for making an infringing product should be no less than a reasonable royalty. The Federal Circuit explained that a court may split a damage award "between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder."

Patents / Claim Construction

Chapter Next in the Debate Over Role of the Specification in Claim Construction

Michael F. Martin

On appeal from a grant of summary judgment and a jury verdict of invalidity, the U.S. Court of Appeals for the Federal Circuit reversed the claim construction of a key disputed term and remanded for reconsideration of validity. *Hologic v. SenoRx*, Case No. 10-1235 (Fed. Cir., Feb. 24, 2011) (Lourie, J.) (Friedman, J., *dubitante*).

At issue were two independent claims that generally relate to a balloon catheter for expanding inside the location of a surgically removed tumor, with a radiation source disposed between the balloon and the catheter. The first independent claim required the radiation source to be "asymmetrically located and arranged within the expandable surface." The second independent claim required "asymmetric placement of a radiation source with respect to a longitudinal axis."

In the district court, the first independent claim was construed to mean that the radiation source was asymmetric with respect to the balloon surface. The court noted that the specification and claims frequently referred to asymmetry with respect to the longitudinal axis, but concluded that the first claim ought to be construed differently from the second claim, which expressly requires the asymmetry of the radiation source to be with respect to the longitudinal axis. *SenoRx* was found to infringe only the second independent claim. After the district court subsequently granted *SenoRx* summary judgment on invalidity, *Hologic* appealed.

On appeal, the Federal Circuit reversed the claim construction, finding that the intrinsic record of the specification and prosecution history unambiguously required the asymmetry of the radiation source to be with respect to the longitudinal axis. The Federal Circuit noted that "asymmetry is a relative concept that can exist only in relation to some reference" and further noted that the first claim did not clearly specify the reference for the asymmetry of the radiation source. However, citing *Phillips*, the court explained that "[a]lthough the claims of a patent define the invention to which the patentee is entitled the right to exclude, we must read the claims in view of the specification, of which they are a part." Hence, the Federal Circuit concluded that the "specification makes clear what the inventors contemplated as their invention." The Federal Circuit went on to analyze the intrinsic claim construction evidence, resolving the ambiguities identified by the district court as favoring the interpretation of "asymmetry" as referring to the longitudinal axis.

The patentee also argued on appeal that the district court erred in using the language of the second independent claim as a basis for interpreting the first independent claim, because the doctrine of claim differentiation is only appropriate in comparing dependent with independent claims. The Federal Circuit avoided referring to the doctrine of claim differentiation in denying this argument. Rather, the Federal Circuit wrote that "[o]ther claims can be valuable sources of enlightenment as to the meaning of a claim term" and "different terms or phrases in separate claims may be construed to cover the same subject matter" when warranted by the intrinsic record. Thus, while the patentee may have been correct about the scope of the doctrine of claim differentiation, the Federal Circuit strongly embraced the use of surrounding claims (both dependent and independent) in construing disputed terms. The case was remanded.

Judge Friedman's opinion *dubitante* (indicating doubt not rising to the level of dissent) simply stated that the majority had, in effect, read a limitation from the specification into the first claim, a limitation that the patentee had expressly included in the second claim but not the first claim. Thus, Judge Friedman would have found that the district court correctly construed the first claim.

Practice Note: In drafting independent claims of varying scope, ensure that the specification provides adequate support for each different embodiment claimed. Broader independent claims may otherwise be limited to the scope of narrower dependent or independent claims.

Patents / Licenses

I'll Take the Academic Rate Please

Rita J. Yoon

The U.S. Court of Appeals for the Seventh Circuit affirmed a decision that there was no breach of contract and no fraudulent misrepresentation by a professor who obtained a license to use genetic sequencing data at an academic rate, but who used the data in a commercial venture rather than for purely academic purposes. *Integrated Genomics, Inc. v. Gerngross*, Case No. 09-3718 (7th. Cir., Feb. 24, 2011) (Rovner, J.).

Integrated Genomics (IG) granted Dartmouth College professor Tillman Gerngross a non-exclusive license to use genetic sequencing data for *Pichia pastoris*, a common yeast. IG charged the professor an academic rate of $5,000, which IG alleges was much less than it would have charged for commercial use of the data. The only written record of the license was a letter from the professor agreeing to restrict publication of the licensed data to no more than 10kb of sequencing data per year. The professor did not disclose his intent to use the licensed data for the benefit of GlycoFi, a biotech company the professor co-founded, nor did IG ask about the professor's commercial affiliations.

Four years later, Merck & Co. acquired GlycoFi for $400 million. Pursuant to the acquisition, Merck became the owner of all of GylcoFi's assets, including the computers that held the licensed data. IG demanded additional compensation from Merck. After Merck rebuffed, IG sued the professor for fraudulent misrepresentation by failing to disclose his intended use of the sequencing data for commercial purposes and for breach of the license agreement by "publishing" the licensed data to his company and to Merck. The district court ruled in favor of the professor on the breach of contract claim at summary judgment and on the fraud claim after trial. IG appealed.

The 7th Circuit upheld the district court's finding that the professor's communication of the licensed data to his company and to Merck did not constitute "publication" as the term was used in the license agreement. The court concluded that "publication" should be given its common and ordinary meaning of disclosing information to the public, which the court found the professor had not done by using the licensed data in connection with his company and by communicating the data to Merck.

On the fraud claim, the court noted that "[i]t is entirely possible that a different factfinder might have concluded that Gerngross's failure to disclose the commercial purpose for which he sought the *Pichia* data was material, and that IG likely would have charged Gerngross a substantially higher price for the data had he been more forthcoming." The court, however, found the evidence also supported the contrary conclusion. When the parties were negotiating the license, IG was under significant financial distress and may have charged the academic rate, even if the professor had been more forthcoming. Further, IG sought commercial licenses at much higher rates, but those offers to license failed. Accordingly, the court affirmed the district court's finding that even if the professor was deceitful in failing to disclose his intended use of the data, the evidence did not clearly and convincingly show that IG would have charged him more for the license had it been aware of that use.

Patents / Prosecution Laches

Federal Circuit Denies Rehearing in Prosecution Laches Case

Whitney D. Brown

An evenly (5-5) divided U.S. Court of Appeals for the Federal Circuit denied a petition for a rehearing *en banc* of its November decision overturning a district court's finding of unenforceability for inequitable conduct and prosecution laches. *Cancer Research Technology and Schering Corp. v. Barr Laboratories*, Case No. 10-1204 (Fed. Cir., Feb. 28, 2011) (Prost, J. dissenting, joined by Judges Gajarsa, Moore and O'Malley) (*per curiam*) (Dyk, J., dissenting).

In November 2010, the Federal Circuit overturned a district court, finding that patent holder Cancer Research Technologies (CRT) and its licensee, Schering Corporation, had intentionally withheld material information from the U.S. Patent and Trademark Office (USPTO) and had delayed prosecution of the patent in suit for more than a decade (see *IP Update,* Vol. 13, No. 11). The three-judge panel (with Judge Prost dissenting) determined that although the district court was correct in its finding CRT's prosecution practice to be unreasonable, it erred in its failure to find any evidence that the accused infringer, Barr (now part of Teva Pharmaceutical) was prejudiced by CRT's delay in prosecuting the application for the patent in suit. In effect, the ruling imposed a two-part test for *Symbol Technologies*-type prosecution laches: a showing of delay during prosecution *and* prejudice, such as by intervening rights, arising during the delay period. Barr petitioned for rehearing en banc.

In dissent to denial of the *en banc* petition, Judge Prost again stressed the need for flexibility in the "totality of circumstances" test used in the doctrine of prosecution laches, in order to "accommodate the different ways in which the public might be harmed by a delay in the patent monopoly, whether it be late entry of generic pharmaceuticals, a lack of access to foundational technologies, distortion of markets, or other harms we have not yet encountered." In her view the November 2010 decision "committed a serious wrong" in its requirement of direct evidence of intervening rights harmed during the period of delay, as well as its failure to account for the extent of the harm visited on the accused infringer and on the public after issuance. Judge Prost argued that an *en banc* rehearing could have prevented the "harm" done by the majority's narrowing of the totality of circumstances test. As Judge Prost further noted, the majority's narrowing is at odds with recent Supreme Court precedent cautioning against excessive formalism in the application of the patent laws (*i.e.*, *Bilski v. Kappos*).

Judge Dyk joined Judge Prost's dissent (except in Prost's argument that the "totality of circumstances" test should be applied in this context), finding that an *en banc* rehearing would have provided patent prosecutors with much-needed guidance "as to when they risk a defense of prosecution laches."

Patents / Patent Act / Reform Legislation

Patent Reform Act Becomes "America Invents Act" of 2011

Leigh J. Martinson

During the past month, the patent reform legislation percolating through the legislative process underwent a number of changes. A flurry of activity occurred in early March. Major changes were made to the bill by a Managers' Amendment. Some of those amendments included removal of the injunction provisions, deletion of the venue provisions and stripping of the damages and willfulness provisions.

However, a number of provisions were added on the floor of the Senate. Some of the additions included giving the U.S. Patent and Trademark Office (USPTO) the ability to prioritize applications to help the economy, a transitional program for post-grant review of business method patents and the end of the fee diversion issue for the USPTO.

One senator tried to remove the first-to-invent provision. This attempt was met with much resistance, and the first-to-file provision survived.

On March 8, 2011, by an overwhelming margin of 95-5, the Managers' Amendment passed the Senate. Key provisions of the bill that passed the Senate include:

- Transition from a "first-to-invent" to a "first-to-file" system and elimination of §102(g), interferences, issues of conception, diligence, reduction to practice, concealment and suppression. The only remaining "priority" type issue retained in §102 is derivation;
- Third-party submissions of printed publication prior art in pending applications;
- USPTO fee-setting authority and elimination of fee diversion;
- Establishment of post-grant nine-month first window patent opposition system while maintaining *inter partes* reexamination in a second window starting nine months after patent grant;
- Repeal of the residency requirement for Federal Circuit judges;
- Micro entity status for reduced fees;
- Unpatentability of certain tax strategies (while retaining patentability for tax-return filing software);

- Elimination of the best-mode defense;
- Creation of a special post-grant review for business method patents (in light of *Bilski* decision);
- Authority to establish USPTO satellite offices;
- Creation of a USPTO small-business ombudsman;
- USPTO authority to prioritize examination of inventions of national importance;
- Limiting false-marking *qui tam* damages to the federal government and those who have suffered competitive injury; and
- Elimination of prior user rights.

It's important to note that while passing the Senate is significant, the bill must still pass the House of Representatives. Two key areas that are likely to be debated in the House are the first-to-file provision and the post-grant review provisions. However, Senator Leahy (D-VT) has indicated that the managers' amendments were made with to incorporate the ideas of the House bill.

Stay tuned as the debate unfolds.

Assuming the bill is passed into law as-is, there are a number of things to note. For example, §§102 and 103 would be largely rewritten. Under new §102(a), invention date rights are (with certain exceptions) eliminated. In terms of the prior art status of a document, the focus will simply be on the "effective filing date" of the application in issue.

The scope of prior art would be expanded and therefore should make it more difficult to obtain patent protection. Also, the traditional one-year grace period would be limited in its availability. That is, it would only apply to negate pre-filing disclosures by the inventor, derived from the inventor or after the inventor had already publicly disclosed. However, "disclosure" is not defined.

Attention now shifts to the House side, where the leadership appears ready to move forward with its own revision of patent reform legislation.

Patents / Antitrust

Federal Trade Commission Releases Report on the Patent System

Paul Devinsky

On March 7, 2011 the Federal Trade Commission released a report on the patent system, titled *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*. The report is based on testimony gathered from eight days of public hearings held during 2009 and 2010, public comments and independent research.

The report, which is more than 300 pages long including appendices, offers economic observations about the consumer benefits of the patent system, especially in facilitating technology transfer and fostering competition in innovation and technology markets. The report also offers numerous recommendations for reform to both the U.S. Patent and Trademark Office and to Congress and the courts. The focus of the recommendations is in two areas: the notice requirements (as a function of patent claims) and remedies for patent infringement.

Recommendations for reform of notice requirements focused on problems with indefinite claim language and inadequate disclosures, along with difficulties in verifying chain of title and completing a patent clearance. More specifically, the report pointed to the lack of uniform terminological and taxonomical conventions as impediments to consistent and cost-effective determinations of the scope of patented inventions.

Recommendations for reform of remedies law focused on the importance of reference to alternative non-infringing technologies in calculating damages, as well as the elimination of the entire market value rule. The report expresses concern that lost profits and reasonable royalty damages calculations are prone to overestimate the economic value of patented products or processes.

The report also indirectly addressed controversy over the role of non-practicing entities (NPEs) and universities in the patent system. In a footnote, the report explains that, "Taken literally, the term NPE encompasses patent owners that primarily seek to develop and transfer technology, such as universities and semiconductor design houses. Patent assertion entities do not include this latter group."

The release of the report coincides with a recent flurry of activity in the U.S. Senate on patent reform. Commissioner Leibowitz acknowledged the role that FTC's 2003 report had in debates about patent reform and suggested that the new report might have similar role in improving the patent system: "These reports, combined with the hard work by many leaders in Congress to improve a troubled system, will help ensure that patents continue to serve America's innovators and consumers."

The FTC's press release for the report is available at http://ftc.gov/opa/2011/03/patentreport.shtm .

The report itself is available at http://ftc.gov/os/2011/03/110307patentreport.pdf.

Patents / EU

Is EU-Wide Patent Protection on the Horizon?

Hiroshi Sheraton and Matthew Jones

Reform of the current European patent protection system—whereby European patents are actually a bundle of national patents that must be enforced separately in each European jurisdiction—has been on the political agenda for some 30 years. Proposals for a unitary patent covering most (but not all) of the EU member states have recently been approved by the Council of the European Union, Competitiveness Council (Council). On the other hand, plans for a new Community Patents Court have been declared unlawful by the Court of Justice of the EU (CJEU).

In October 2010, negotiations to establish a community patent valid in all member states foundered. Undeterred, a number of member states indicated their intention to request "enhanced cooperation" to establish a unitary patent applicable only in those participating countries. Enhanced cooperation is a procedure available to allow a minimum of nine member states to implement common measures in circumstances in which unanimity cannot be reached between all member states. Twenty-five EU member states signed up to the enhanced co-operation proposal, with only two member states, Italy and Spain, staying outside for the time being due to objections relating to language.

On March 10, 2011, the Council authorized the enhanced cooperation regime. The next stage will be for the commission to prepare and present its detailed formal proposals for the implementation of the new unitary patent.

The current proposal is that the unitary patent should coexist with the current European and national patent systems. The unitary patent (which does not yet have an official name) would be designated as a specific category of European patent, filed with and granted by the European Patent Office and designating the participating member states on a unitary basis. The unitary patent would be of autonomous nature and provide equal protection throughout the territories of the participating member states.

In a separate development, a proposal to create a single European Patents Court which would have exclusive jurisdiction to hear patent disputes for community patents was the subject of an Opinion (No. 1/09) from the CJEU on March 8, 2011. In that case, the CJEU held that the proposal was incompatible with the legal order of the EU as it would divest the national courts and the CJEU of jurisdiction to deal with disputes relating to patents. Although the judgment dealt only with the system for resolving disputes relating to the community patent (as opposed to existing European patents or even the unitary patent), the judgment raises doubts as to whether a single court to determine patent disputes in Europe is constitutionally possible. Indeed, in 2007 the Legal Services Division of the European Parliament gave an opinion that a single court in which to litigate European patents would be unlawful for reasons similar to those given by the CJEU.

The forthcoming detailed proposals for the unitary patent will undoubtedly be closely scrutinized for compliance with EU law and difficult questions remain in relation to whether and, if so, how an acceptable framework for resolving patent disputes can be established. Without a single court system in which to litigate a new unitary patent, differences between national courts are likely to remain a significant feature. Indeed, the experience in other areas of intellectual property governed by European Community laws (particularly trademarks and supplementary protection certificates) might be seen as justification for eschewing a unitary patent altogether.

Trademarks / Cybersquatting

VERICHECK Found Suggestive for Check Verification Services

Rita Weeks

Considering a second appeal in a cybersquatting case, the U.S. Court of Appeals for the Ninth Circuit upheld a district court's finding that the trademark VERICHECK is suggestive (as opposed to descriptive) and is thus protected without a showing of secondary meaning when used in connection with check verification services. *Lahoti v. Vericheck, Inc*., Case No. 10-35388 (9th Cir., Jan. 13, 2011) (Breyer, J.)

Vericheck provides electronic financial transaction processing services, including check verification. Vericheck has used the service mark "VeriCheck" since 1995 and has advertised its services online at *vericheck.net* since 1999. Vericheck obtained a Georgia state trademark registration for VeriCheck in 2001. Vericheck had applied for a federal trademark registration for the same mark, but the U.S. Patent and Trademark Office denied the application due to a preexisting registration for "Vericheck," owned by an Arizona company. In addition to its main site at *vericheck.net*, Vericheck advertises its services through the domain names *vericheck.net*, *vericheck.org*, *vericheck.cc*, *vericheck.us* and *vericheck.biz*. In 1999, Vericheck unsuccessfully attempted to obtain the domain name *vericheck.com* from a Canadian company.

David Lahoti obtained the domain name *vericheck.com* in 2003. Although Lahoti claimed that he registered the domain name because he was contemplating entering into the transaction verification business, Lahoti never developed a transaction verification service. Instead, Lahoti used the domain name to host a generic site with third-party commercial links, some of which directed to Vericheck's competitors. Lahoti earned "click through" income when visitors to the site clicked on the links. In 2004, Vericheck offered to buy the domain name from Lahoti, but Lahoti demanded first $72,500 and then $48,000. In 2006, Vericheck filed an arbitration complaint pursuant to the Uniform Domain-Name Dispute-Resolution Policy. The arbitration panel ordered the transfer of the domain name to Vericheck. Lahoti then sought a declaratory judgment in the district court that he was not liable for trademark infringement or cybersquatting under the Lanham Act. Vericheck counterclaimed for trademark infringement, cybersquatting and violation of the Washington Consumer Protection Act and Washington common law.

The district court granted summary judgment to Vericheck on the question of whether Lahoti acted with "bad faith intent to profit" from use of the mark, a prerequisite to finding a federal cybersquatting violation. After a bench trial on the remaining issues, the district court found for Vericheck on all claims and counterclaims, granted Vericheck injunctive relief and statutory damages and awarded Vericheck attorneys' fees. Lahoti appealed the court's merits decision.

In the first appeal, the 9th Circuit affirmed the court's grant of summary judgment that Lahoti acted in bad faith. The 9th Circuit vacated the court's judgment for Vericheck however, holding that the court's finding that the VERICHECK mark was suggestive, and thus protectable without a showing of secondary meaning, was based on improper analysis. The district court's errors, as noted by the 9th Circuit, were that the court required that, in order to be found descriptive, the mark would have to describe all of Vericheck's services and could have described services unrelated to Vericheck's services, when in fact the mark must be evaluated as it is seen on the goods or services. Further, the court improperly declined to consider the mark in its composite parts. The 9th Circuit remanded the case.

On remand, the district court again determined that the VERICHECK mark was suggestive and determined that Lahoti had committed trademark infringement and violated the federal cybersquatting statute. Lahoti again appealed, arguing that the court erred in its analysis of descriptiveness.

On the second appeal, the 9th Circuit concluded that the district court, on remand, had rectified its original errors. 9th Ninth Circuit noted that the court's finding that "[w]hen viewed in the context of Vericheck's services, whether in whole or in part, including Vericheck's check verification services, the VERICHECK mark does not immediately convey information about the nature of Vericheck's services," recited the correct legal principles. Further, the 9th Circuit noted that the district court not only found distinctiveness under its own analysis but also relied upon the USPTO's issuance of a federal trademark registration for VERICHECK to the Arizona company, as courts may properly rely on a federal registration for the same mark as evidence of distinctiveness.

The 9th Circuit also affirmed the district court's finding of a likelihood of confusion, because the three most relevant factors in trademark disputes in the internet context—the so-called "internet trinity" —all weighed in Vericheck's favor. First, the disputed domain name and Vericheck's mark were identical save for the addition of the domain extension ".com." Second, Lahoti used the domain name to direct to companies offering identical and related services competing with Vericheck. Third, both parties used the internet as a marketing channel.

Trademarks / Trademark Infringement / Keyword Advertising

"Internet Trinity" No Longer Holy In Internet Trademark Cases

Rita Weeks and Sarah Bro

In a decision that will limit the ability of trademark owners to challenge competitors' keyword advertising, the U.S. Court of Appeals for the Ninth Circuit vacated a preliminary injunction issued by a district court barring a defendant's purchase of a competitor's trademark as a keyword to trigger internet advertisements. *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, Case No. 10-55840 (9th Cir., Mar. 8, 2011) (Wardlaw, J.).

Network Automation and Advanced Systems Concepts are competing software distributors. Advanced Systems Concepts sells its software under the mark ACTIVE-BATCH. To advertise its software, Network Automation purchased advertisements through internet search engines, triggered by certain keywords entered by internet users. One of the keywords that Network Automation purchased was "Active-Batch," Advanced's trademark. After Advanced Systems Concepts demanded that Network Automation cease its advertising practice, Network Automation filed a declaratory judgment action to establish that Network Automation's keyword advertising did not infringe Advanced Systems Concepts's trademark.

To determine whether Network Automation's use of its competitor's trademark as a keyword in search engine advertising caused a likelihood of confusion, the district court focused on what the 9th Circuit has previously espoused as the three most significant likelihood-of-confusion factors in cases involving the internet. Those factors, the so-called "internet trinity" are the similarity of the marks, the relatedness of the goods and the marketing channels used. The district court found that all three factors favored Advanced Systems Concepts because Network Automation used the identical mark to sell a directly competing product and both parties advertised through the internet.

On appeal, the 9th Circuit clarified that the "internet trinity" should not be prioritized "for every type of potential online commercial activity." In fact, the 9th Circuit explained, the internet trinity is a "particularly poor fit" given the ubiquitous use of the internet as a marketing tool and the sophistication and familiarity with which many internet users navigate search engines. Accordingly, the court directed that the *Sleekcraft* factors are non-exhaustive and should be applied flexibly, "particularly in the context of internet commerce."

After reviewing the particular facts of the case, the Ninth Circuit identified the following *Sleekcraft* factors as most relevant to the analysis of likelihood of confusion: the strength of the mark, evidence of actual confusion, the type of goods and the degree of care likely to be exercised by the purchaser and the labeling of the advertisements and the and overall appearance of the screen displaying the search results page. Concerning type of goods and purchaser care, the court rejected the district court's conclusion that internet users generally exercise a low degree of care. Rather, the court noted that today's internet users are knowledgeable about search engine results and expect to navigate away from web pages when they have not located the information sought. With respect to the fourth factor, the court directed that the presence or absence of likelihood of confusion will "ultimately turn on what the consumer saw on the screen." Reviewing the specific search engine results for "ACTIVEBATCH" and the appearance of Network Automation's ads, the court noted that the segregation of "sponsored links" by the relevant search engines was enough to weigh against a finding of a likelihood of initial interest confusion. Ultimately, because the district court erred in failing to weigh the *Sleekcraft* factors flexibly to match the specific facts of the case, the 9th Circuit vacated the injunction and remanded the case for further proceedings under the correct legal analysis.

Practice Note: This decision will limit trademark holders' ability to challenge keyword advertisements as trademark violations because it implies that the use of another's trademark in keyword advertising is not inherently confusing. To avoid resulting liability, companies purchasing keywords consisting of competitor trademarks should take care that their keyword ads or "sponsored links" are sufficiently segregated when displayed with search results so that they will be viewed as advertisements by internet users.

Trademarks / Unfair Competition / False Advertising

"Outer Limits" of Lanham Act Sustain Consumer Class Action Amid Allegations of Competitive Injury

Rita Weeks and Mandy Kim

Reversing a district court's dismissal of a false advertising class action, the U. S. Court of Appeals for the Fifth Circuit determined that the plaintiff, a real estate appraiser, possessed prudential standing under the Lanham Act through its status as a *competitor* of the defendant, despite its duel status as a *consumer*. *Harold H. Huggins Realty, Inc., et al. v. FNC, Inc.*, Case No. 09-60804 (5th Cir., Feb. 24, 2011) (Higginbotham, J.).

Defendant FNC develops software for the mortgage industry. FNC offers AppraisalPort, which permits real estate appraisers to transmit completed real estate appraisals to lending institutions. The plaintiffs were customers of FNC's AppraisalPort service. In promoting its AppraisalPort service, FNC made several representations in its advertising materials and orally that all appraisal data submitted through the web-based service would be kept confidential and "unseen and untouchable by anyone" other than the submitting appraisers. FNC also represented that it was not using the data submitted by appraisers through the service. Despite these representations, FNC did in fact use the appraisal data submitted by appraisers to populate its National Collateral Database, an electronic real estate valuation database offering appraisal information to lending institutions. As FNC's database was an alternative means to retaining an appraiser, FNC thus offered appraisal information in competition with plaintiffs.

The plaintiffs sued FNC, seeking to represent themselves and similarly situated persons in a class action for false advertising under the Lanham Act. The plaintiffs argued that FNC misrepresented to plaintiffs, in their capacities as *customers* of AppraisalPort, that the appraisal data they transmitted through AppraisalPort would be secure and unavailable to FNC. The district court granted FNC's motion to dismiss, holding that plaintiffs, as deceived consumers, lacked prudential standing under the Lanham Act. While Section 43(a) of the Lanham Act creates a private remedy for false advertising, potential plaintiffs are subject to the limits of prudential standing, *i.e.*, only persons who have suffered a commercial injury as a result of anti-competitive conduct have standing to sue under the Lanham Act.

On appeal, the 5th Circuit determined that plaintiffs had sued FNC in their capacity as *competitors* of FNC National Collateral Database, not as consumers. The court noted that the plaintiffs had alleged two forms of injury: injury to their commercial interest and injury in the form of lost profits. The 5th Circuit held that prudential standing existed based upon an analysis of five factors: (1) the nature of the plaintiff's alleged injury, (2) the directness or indirectness of the asserted injury, the (3) proximity or remoteness of the party to the alleged injurious conduct, (4) the speculative nature of the damages claims and (5) the risk of duplicative damages or complexity in apportioning damages. The court determined that the plaintiffs had met factors 1, 3, 4 and 5, which outweighed the remaining factor, factor 2. In reversing the district court's dismissal and remanding the case for further proceedings, the court explained that "[t]his case presents unique facts, and we view it as falling just within the outer limits of the zone of interests protected by the Lanham Act."

Copyrights – Trademarks / Character Rights

Boop-Oop-A-Doop – Oops! Family of Betty Boop Creator Loses Infringement Claims Due to Flawed Chain of Title

Elisabeth (Bess) Malis

The U.S. Court of Appeals for the Ninth Circuit affirmed a district court's holding that the family of the creator of the 1930s cartoon character Betty Boop lacked the requisite copyright or trademark rights to prevent a company from selling merchandise featuring the Betty Boop image. *Fleischer Studios, Inc. v. A.V.E.L.A., Inc. et al.*, Case No. 09-56317 (9th Cir., Feb. 23, 2011) (Wallace, J.) (Graber, J., dissenting).

Plaintiff Fleischer Studios, formed by the family of Betty Boop creator Max Fleischer, sued defendants, including Art & Vintage Entertainment Licensing Agency, for copyright and trademark infringement for alleged unauthorized sale of products featuring the image of Betty Boop. The plaintiff asserted exclusive copyright ownership of the Betty Boop character as a result of a series of conveyances commencing with the creator transferring the Betty Boop copyrights to Paramount Pictures in 1941. The district court granted summary judgment to the defendants on the plaintiff's copyright infringement claim on the grounds that the plaintiff failed to establish a clean chain of title. The district court granted summary judgment to the defendants on the plaintiff's trademark infringement claim due to the plaintiff's fractured use of the character's name and image. Fleischer Studios appealed.

The 9th Circuit affirmed the grant of summary judgment to defendants. Concerning Fleischer Studios' copyright claim, the court determined that the films featuring Betty Boop and the Betty Boop character each held separate copyrights pursuant to the applicable version of the Copyright Act. Fleischer Studios claimed exclusive ownership based upon conveyances made to it subsequent to the original transfer from the creator to Paramount. The court determined that Paramount was granted the copyrights to the Betty Boop films, but the purchase agreement at issue expressly carved out the transfer of the character rights. Further, Paramount transferred the copyrights to the Betty Boop character to a third party three years after the transfer of the film copyrights. Accordingly, the 9th Circuit found that Fleischer Studios' chain of title regarding the Betty Boop character copyrights was broken at the Paramount link such that it did not possess copyright ownership to sustain the suit.

The court also affirmed the grant of summary judgment to the defendants on Fleischer Studios' trademark infringement claim. The defendants' allegedly infringing merchandise included Betty Boop dolls, t-shirts and handbags. The trademark infringement claim hinged on whether defendants' use of the Betty Boop image was for functional or trademark purposes. The 9th Circuit determined that defendants were not using the Betty Boop image as a trademark but as a "functional aesthetic component" of the product. First, the defendants' merchandise prominently displayed the image but was not marketed as "official" Betty Boop merchandise or as emanating or endorsed by the character's creator. Second, no evidence existed of consumer complaints or confusion. Finally, the court determined that ruling in favor of Fleischer Studios would prevent the Betty Boop character from ever entering the public domain, in conflict with the 2003 Supreme Court decision in *Dastar Corp. v. Twentieth Century Fox Film Corp*.

In dissent, Circuit Judge Graber argued that the majority erred in failing to address what entity ultimately acquired copyright ownership to the Betty Boop character. Instead, Graber argued, the majority improperly adopted its own chain of title theory that was rejected by the district court and not raised by any parties on appeal. If the majority had considered the complete picture, the dissent explained, Fleischer Studios would have prevailed on its copyright claim.

Copyrights / Moral Rights

Flower Bed Installation Not Protected by Copyright Act

Ryan N. Phelan

Considering whether an artist could seek redress under the Visual Artists Rights Act of 1990 (VARA) for alleged modification of his work, a flower bed installation, the U.S. Court of Appeals for the Seventh Circuit affirmed the district court's decision that the flower bed could not be protected by copyright. *Kelley v. Chicago Park District*, Case No. 08-3701 (7th Cir., Feb. 15, 2011) (Sykes, J.).

Chapman Kelley, a nationally recognized artist known for his representational paintings of landscapes and flowers, obtained permission in 1984 from the Chicago Park District to install a wildflower display in Grant Park in downtown Chicago. Kelley's wildflower installation was promoted as "living art." Kelley and a group of volunteers maintained and replanted the garden as needed for approximately 20 years. In 2004, the Park District modified the wildflower installation by, among other things, reducing its size in half. Consequently, Kelley sued the Park District for, in part, violating his "right of integrity" under VARA. Specifically, Kelley alleged violations of the moral right to prevent any intentional mutilation or modification of an author's work that would be prejudicial to his or her honor or reputation.

The district court found for the Park District on Kelley's VARA claim, ultimately concluding that the wildflower display lacked sufficient originality to qualify for copyright and that site-specific art, *i.e.*, art that integrates its location as an artistic element, is excluded from protection under VARA. Notably however, the court ruled that the wildflower display could be classified as both a "painting" and "sculpture" for purposes of VARA. Kelley appealed.

The 7th Circuit affirmed the district court's determination that Kelley's flower bed installation was not protected by copyright, but for different reasons. The 7th Circuit rejected the district court's reasoning that Kelley's work was unoriginal because Kelley was not "the first person to ever conceive of and express an arrangement of growing wildflowers in ellipse-shaped enclosed area[s]." Rather, the 7th Circuit determined that Kelley's wildflower installation was not protectable by copyright because it lacked sufficient "authorship" and "fixation." As to authorship, the court explained that "[a]uthors of copyrightable works must be human; works owing their form to the forces of nature cannot be copyrighted." As to fixation, the court determined that "a garden is simply too changeable to satisfy the primary purpose of fixation; its appearance is too inherently variable to supply a baseline for determining questions of copyright creation and infringement."

Although not raised on appeal, the 7th Circuit also addressed whether a garden was appropriately classified as a "painting" or a "sculpture." Ultimately, the court concluded that neither classification was appropriate because by using the specific nouns "painting" and "sculpture," VERA limits moral rights protection to actual paintings or sculptures, not works that are "pictoral" or "sculptural" in some aspect or effect. Concerning the district court's determination with respect to "site-specific art," the 7th Circuit disagreed that *all* such art was *per se* excluded under VARA. Ultimately the court did not decide the question, however, because it resolved Kelley's VARA claim on other grounds.

Practice Note: At least in the 7th Circuit, copyright protection is unlikely to be conferred on landscaping installations or other living-type works in which the work relies on forces of nature to embody the work.

Copyrights / Sovereign Immunity

Copyright Infringement of Test Questions Not Always Redressable

Jeremy T. Elman

Considering whether a public university could be held liable for a professor's alleged copyright infringement under the Copyright Remedy Clarification Act (CRCA), the U.S. Court of Appeals for the Eleventh Circuit affirmed a district court's ruling that the public university was exempt from liability under the CRCA because of sovereign immunity principles. *National Association of Boards of Pharmacy v. Bd. of Regents of the University System of Georgia*, 2011 U.S. App. LEXIS 3543 (11th Cir., Feb. 24, 2011) (Tjoflat, J.)

Plaintiff National Association of Boards of Pharmacy develops and administers examinations that the pharmacy boards use to evaluate applicants for pharmacist licenses. The plaintiff sought damages and injunctive relief under the Copyright Remedy Clarification Act against a professor at the University of Georgia, the Board of Regents of the University System of Georgia, and other university officials. The plaintiff alleged that the professor infringed its copyrights by appropriating portions of the plaintiff's pharmacy board examinations to use in a commercial test preparation course. Hundreds of the professor's exam questions were identical to those created by the plaintiff for its examinations.

The university defendants moved to dismiss plaintiff's copyright infringement claims based upon sovereign immunity, which the district court granted. On appeal, the 11th Circuit reviewed whether the university was exempt from liability under 11th Amendment sovereign immunity. The court noted that "[t]he legislative history of the CRCA makes clear that Congress intended to abrogate state sovereign immunity under its Article I powers." However, the 11th Circuit also found that Congress did not possess the power to abrogate state sovereign immunity through the CRCA, affirming the district court's dismissal. Ultimately, the district court rejected the plaintiff's argument that the Copyright and Patent Clause of Article I of the Constitution provides Congress with the authority to abrogate state sovereign immunity through the Patent Remedy Act. Further, the court rejected the plaintiff's argument that a decision abrogating state sovereign immunity concerning the Bankruptcy Clause of Article I could be extended to the Copyright and Patent Clause.

The plaintiff also argued that §5 of the Fourteenth Amendment supports Congress' abrogation of the States' sovereign immunity in the CRCA. Section 5 grants Congress the authority to abrogate state sovereign immunity for violations of the Fourteenth Amendment. However, the 11th Circuit court held that the copyright infringement complained of did not amount to a violation of the Due Process Clause. The court determined that it could not hold the state liable because the state did not know that the professor's copyright infringement was about to occur and thus had no opportunity to provide the copyright holder, the plaintiff, an opportunity to be heard. Because the state never deprived the plaintiff of that opportunity, the court found no due process violation under the Fourteenth Amendment.

Practice Note: The Copyright Remedy Clarification Act provides limited remedies for violations by government actors, such as states. However, Congress cannot abrogate the doctrine of sovereign immunity by enacting the CRCA by relying on the Patent Clause of Article I of the Constitution.

Cert Alert / Copyrights

Supreme Court Grants Cert on Challenge to Copyright Restoration
Paul Devinsky

Notwithstanding the solicitor general's position, the U. S. Supreme Court has agreed to rule on a basic issue of U.S. copyright law, *i.e.,* whether Congress has the power to revive copyright protection once it has expired. *Golan v. Holder*, Case No. 10-454 (Supreme Ct., March 7, 2011).

In 1994 Congress enacted the Uruguay Round Agreements Act (URAA) that restored the copyright term for works created by foreign authors who had lost their rights due to some reason other than expiration of the copyright term, *e.g.*, failure to renew their copyrights or failure to include a notice of copyright on the works. The law was designed to insure that works that enjoy copyright in one country will get similar protection in other countries. Many of the restored copyrights extended to works that had previously been in the public domain in the United States.

A district court held the law unconstitutional on First Amendment grounds at least "to the extent §514 (of the URAA) suppresses the right of reliance parties to use works they exploited while the works were in the public domain." On appeal, the Tenth Circuit panel reversed. The plaintiffs petitioned the Supreme Court for certiorari.

The petition for certiorari sought review based on the following two questions:

1. Does the "Progress Clause" of the U.S. Constitution (ALJ, §8, cl. 8) prohibits Congress from removing works from the public domain?
2. Does the removal of those works from the public domain violate the First Amendment of the U.S. Constitution?

This case bears some similarity to *Eldred v. Ashcroft*, in which the Supreme Court upheld the constitutionality of the 1998 Copyright Term Extension Act (CTEA), which had extended copyright terms by an additional 20 years. (See *IP Update*, Vol. 6, No. 1.) In *Eldred* the Supreme Court recognized that Congressional authority to grant copyright was limited by the “limited times” provision of the Progress Clause of the U.S. Constitution. However, in *Eldred* the Supreme Court concluded that the 20-year extension was sufficiently limited to pass constitutional muster.