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PATENTS / INFRINGEMENT / BURDEN OF PROOF

Unanimous Supreme Court to Federal Circuit: Burden of Proof on Infringement on Patentee, Even in Declaratory Judgment

A unanimous Supreme Court of the United States, in a decision authored by Justice Breyer, reversed the U.S. Court of Appeals for the Federal Circuit, holding that the patentee bears the burden of persuasion on the issue of infringement, even when the issue arises in the context of a licensee's declaratory judgment action against the patentee. *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, Case No. 12-1128 (Supr. Ct., Jan. 22, 2014) (Breyer, Justice).

Background

In the decision below, the Federal Circuit found that where an infringement counterclaim by a patentee is foreclosed by the continued existence of a license, the licensee seeking a declaratory judgment of non-infringement bears the burden of proof. *Medtronic Inc. v. Boston Scientific Corp. et al.* (*IP Update*, Vol. 15, No. 10).

The case involved a device known as an implantable cardioverter defibrillator. Mirowski Family Ventures (MFV), assignee of the patents, exclusively licensed the patents to Boston Scientific, which in turn sub-licensed them to Medtronic. The license agreement allowed Medtronic to challenge any assertion that newly introduced products were subject to the license via declaratory judgment. Soon afterward, Medtronic began paying royalties on a new product that Boston Scientific alleged was subject to the license and, at the same time, sought a declaratory judgment of non-infringement. Throughout the course of litigation, the parties disagreed over whether the licensee carried the burden of proving non-infringement or the licensor carried the burden of proving infringement. The district court held that the licensor carried the burden of proving infringement and ruled in favor of Medtronic because of MFV's failure to carry its burden. MFV appealed to the Federal Circuit.

On appeal, MFV argued that because Medtronic is the party seeking relief and because MFV is foreclosed from filing a counterclaim of infringement by virtue of the license agreement between the parties, Medtronic carries the burden of proving non-infringement. Medtronic argued that the burden of proof on the issue of infringement always rests with the patentee, not with the accused infringer. The Federal Circuit agreed with MFV and held that the party seeking relief bears the burden of proving the allegations in his complaint.

The Federal Circuit explained that this burden allocation was an exception to the general rule and only applied where a license agreement prevents the licensor from asserting a counterclaim of infringement in the declaratory judgment action. The Federal Circuit further explained that because Medtronic was asking the court for relief or change of status quo, it should bear the burden of showing it was entitled to such relief.

In support of this exception, the Federal Circuit noted that the Supreme Court, in *MedImmune v. Genentech* (2007) (*IP Update*, Vol. 10, No.1), held that a licensee need not breach an agreement to have standing to file a declaratory judgment action seeking a declaration of invalidity, non-infringement or unenforceability and that “in the post-MedImmune world,” the high court had thus shifted the burdens in such cases.

Amici Appellate Standing Issue Is Resolved

In its decision, the Supreme Court initially addressed a Federal Circuit jurisdictional question posed in an *amicus* brief filed by Tessera Technologies, a well-known licensing entity. Specifically, Tessera argued that, because MFV could not file an infringement action and the action arose in the context of a license, any dispute as to whether a product was subject to license should have been adjudicated by MFV bringing an action for damages for breach of contract.

The Supreme Court disagreed, noting that had Medtronic stopped paying royalties, MFV would have been able to terminate the license and bring an action for patent infringement. As the Court explained, such an action would arise under federal patent law because “patent law creates the cause of action. ... Thus, this declaratory judgment action, which avoids that hypothetical threatened action, also ‘arises under’ federal patent law.”

The Burden of Proof Remains on the Patentee

In terms of the substantive question presented, the Supreme Court answered that when a licensee seeks declaratory judgment against a patentee, asserting that its products do not infringe the licensed patent, “the patentee bears the burden of persuasion on the issue of infringement.” Justice Breyer began his analysis with a statement of the Court’s long-held precedent that “the burden of proving infringement generally rests upon the patentee” and the operation of the Declaratory Judgment Act is only “procedural” and leaves “substantive rights unchanged.” The burden of proof, the Supreme Court explained, is a substantive aspect of a claim.

“Taken together these three legal propositions indicate that, in a licensee’s declaratory judgment action, the burden of proving infringement should remain with the patentee.”

The Supreme Court also noted “practical considerations” associated with the Federal Circuit’s burden-shifting in terms of post-litigation uncertainty about the scope of the patent, as well as “unnecessary complexity” by “compelling a licensee to prove a negative.” As the Court explained “[s]hould the declaratory judgment plaintiff fail to show noninfringement, it and others could continue to make and sell the same products, requiring the patentee to bring an infringement lawsuit and—with the burden now on the patentee—prove infringement. Thus, the declaratory judgment action would

have failed to resolve the legal rights of the parties, contrary to the objective of the action.”

The Court further found the Federal Circuit rule to be inconsistent with *MedImmune* and with the purpose of the Declaratory Judgment Act, which was to mitigate the “dilemma” faced by a licensee as “to the choice between abandoning his [license] rights or risking” an infringement suit.

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PATENTS / ATTORNEYS’ FEES

Federal Circuit’s Last Word on Attorney Fees— Actual Knowledge of Baseless Claim Not Required

Addressing the proof required to show a bad faith assertion of a baseless claim to establish an exceptional patent case for attorneys’ fees, the U.S. Court of Appeals for the Federal Circuit vacated and remanded a lower court’s decision denying an award of attorneys’ fees, deciding what very well may be its last ruling on the “exceptionality” requirement for an award of attorney fees under 35 U.S.C.A. § 285 before the Supreme Court takes up the matter this term. *Kilopass Tech., Inc. v. Sidense Corp.*, Case No. 13-1193 (Fed. Cir., Dec. 26, 2013) (O’Malley, J.) (Rader, C.J., concurring).

Defendant Sidense was granted summary judgment of non-infringement but was denied an award of attorneys’ fees by the district court. Evidence at trial tended to show that Kilopass, a direct competitor, instigated patent litigation against Sidense despite opinion of counsel that a claim for literal infringement was untenable. While there was some analysis by counsel that pursuing a claim of infringement under the doctrine of equivalence was plausible, it appeared that Kilopass’ decision to pursue litigation was uninformed by counsel’s analysis.

Kilopass subsequently filed suit against Sidense, alleging both literal infringement and infringement under the doctrine of equivalents. Despite granting summary judgment of non-infringement, the district court denied Sidense an award of attorneys’ fees, finding that Sidense had failed to prove by clear and convincing evidence that Kilopass acted in bad faith by asserting baseless infringement claims.

Sidense argued that a showing of bad faith requiring actual knowledge of a baseless claim sets too high a bar for establishing an

exceptional case for an award of attorneys' fees. The Federal Circuit clarified that bad faith only requires proof that the lack of objective foundation for the claim was either "known or so obvious that it should have been known" by the party asserting the claim."

The Federal Circuit further stressed that an analysis of § 285 focusing only on the subjective bad faith of the party asserting patent infringement, as the district court did, is inadequate to achieve justice intended under § 285. What is required is consideration of the "totality of the circumstances," which includes objective evidence of the baselessness of the claims. The Court found that "one's misguided belief, based on zealotry rather than reason, is simply not sufficient by itself to show that a case is not exceptional in light of objective evidence that a patentee has pressed meritless claims." Objective evidence that a claim is baseless is therefore sufficient to create an inference of bad faith establishing an exceptional case for an award of attorneys' fees.

Finding that the district court had only considered subjective elements of bad faith and not objective evidence that Kilopass' claim was baseless, the Federal Circuit vacated and remanded the district court's judgment denying fees.

In a concurring opinion, Chief Judge Rader joined the majority's analysis and conclusion. Chief Judge Rader further endorsed the changes proposed by Sidense that objective baselessness alone should be sufficient for an award of attorneys' fees, and that proof by a preponderance of the evidence should suffice, finding that these approaches to the fee-shifting statute are consistent with the language of the statute, the legislative intent in adopting this language, the Court's precedent and Supreme Court precedent.

Practice Note

The Federal Circuit's ruling in *Kilopass* comes before the Supreme Court addresses the standard for determining when a patent case is "exceptional" under sec. 285 and to clarify the standard appellate courts should use for reviewing such fee awards. See *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, *IP Update*, Vol. 16, No. 10), and *Highmark Inc. v. Allcare Health Management Systems, Inc.* (*IP Update*, Vol. 16, No. 10).

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PATENTS / INFRINGEMENT

An Accused Device Is "Modified" by the Installation of Software

Revisiting the wording of claims that recite a combination of hardware and software, the U.S. Court of Appeals for the Federal Circuit upheld a holding of non-infringement. *Nazomi Commc'ns, Inc. v. Nokia Corp.*, Case No. 13-1165 (Fed. Cir., Jan. 10, 2014) (Dyk, J.) (Lourie, J., concurring).

Plaintiff patentee appealed from claim construction decision and grant of summary judgment of non-infringement. The asserted claims are apparatus claims directed to "a hardware-based [Java Virtual Machine] capable of processing stack-based instructions, that also retains the ability to run legacy (*i.e.*, register-based) applications without utilizing the JVM." The accused products could only perform the allegedly infringing operations after the installation of a software "technology enabling kit." The defendants did not license or install this enabling software, and it was agreed that the accused device could not perform all of the recited steps without the software installed.

The representative claim recited "A central processing unit (CPU) capable of executing a plurality of instruction sets[.]" where one of the four instruction sets is only enabled by the absent enabling software. The plaintiff contended that the claim required only hardware that was capable of performing the claimed functionalities, and the enabling software was not required. The panel agreed with the district court's claim construction of the district court that required a hardware and software combination capable of performing all of the allegedly infringing operations. Because the enabling software was not installed by the defendants, the panel concluded that the accused product was not capable of infringing the claims.

The panel analyzed two lines of cases applicable to the issue. The first line, relied upon by the plaintiff, involved cases where a claimed functionality was present but had to be "unlocked," for example, by purchasing a product key, or where claims recited hardware "programmable" to perform a function. *Intel Corp. v. U.S. Int'l Trade Comm'n*, (programmable hardware) and *Finjan v. Secure Computing*, (*IP Update*, Vol. 13, No. 11) (functions unlocked with product key). According to this line of cases, even if a defendant does not unlock or program the function, the claims can still be infringed.

The second line of cases involved claims where claimed hardware is "configured to" or "programmed to" perform a set of functions. The Federal Circuit concluded that such structure claim language

indicated that the recited functions must all be present in a device for infringement. Thus, unless an alleged infringer configures or programs hardware to perform a function, there is no infringement. In other words, in such a case the product must be “modified”, *i.e.*, structurally, by adding the claimed function, whereas in the *Intel* and *Finjan* line of cases, the claimed function is already present.

The majority, analyzing the “capable of” language of the asserted patents concluded that the second line of cases applied. Installing the enabling software would modify the hardware and provide the missing function, but without the missing software, there was no infringement.

Judge Lourie concurred with the determination of the majority as to the dispositive nature of the “capable to” language, but did not join the majority in applying the “modification” rationale.

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PATENTS / CLAIM CONSTRUCTION

Statements Describing “the Present Invention” Limit Claim Scope

In a non-precedential decision addressing the weight given to a patentee’s statements concerning “the present invention,” the U.S. Court of Appeals for the Federal Circuit affirmed the district Court’s construction, finding that a genus is limited to the specific species defined by the specification as “the present invention.” *AstraZeneca AB v. Hanmi USA Inc.*, Case No. 13-1490 (Fed. Cir., Dec. 19, 2013) (Taranto, J.).

AstraZeneca brought suit against Hanmi, alleging a pharmaceutical drug Hanmi proposed to market in the U.S. infringed AstraZeneca’s two patents-in-suit. The patents-in-suit both relate to an omeprazole enantiomer drug used to treat acid reflux, which relates to AstraZeneca’s pharmaceutical drug popularly known as Nexium®. AstraZeneca’s Nexium has an active ingredient of the magnesium (Mg^{2+}) salt of esomeprazole. In December 2010, Hanmi filed an application with the U.S. Food and Drug Administration (FDA) under 21 U.S.C. § 355(b)(2) seeking approval to sell a product that contains the strontium (Sr^{2+}) salt of esomeprazole. The two patents AstraZeneca asserted against Hanmi include the claim terms “alkaline salt” and “pharmaceutically acceptable salt.”

The district court, agreeing with Hanmi’s proposed construction, construed the claim terms “alkaline salt” and “pharmaceutically acceptable salt” as limited to the “ Na^+ , Mg^{2+} , Li^+ , K^+ , Ca^{2+} or $N+(R)_4$ salts of the single enantiomers of omeprazole.” The district court concluded that the patents-in-suit’s written description defined the invention as limited to the six disclosed salts. AstraZeneca appealed.

The Federal Circuit affirmed the district court’s ruling, holding that “the written description, by clear disclaimer, limits the claim scope to” the Na^+ , Mg^{2+} , Li^+ , K^+ , Ca^{2+} or $N+(R)_4$ salts of the single enantiomers of omeprazole. The Court held that “[b]y conspicuously choosing only certain members of the class, and using the language it did, AstraZeneca conveyed a clear and definitive meaning that it was disclaiming other members of the class” and the doctrine of claim differentiation could not overcome this express language in the specification.

The Court noted specific portions of the written description limited the claim term “alkaline salt.” Specifically, the Court cited the first sentence of the Detailed Description, which states “[t]he present invention refers to the new Na^+ , Mg^{2+} , Li^+ , K^+ , Ca^{2+} or $N+(R)_4$ salts of the single enantiomers of omeprazole.” The Court held that these statements “clearly confine the invention to the six identified cations, disclaiming anything else.” The Court noted that nothing in the written description or prosecution history expanded the scope of “alkaline salt” to include more than just these six salts. The Court, citing *The Toro Co.*, noted “the doctrine of claim differentiation does not . . . override clear statements of scope in the specification.” The Court went on to note “[h]ere, what otherwise might be an inference from differences in claim language cannot override the unmistakable limitation of ‘alkaline salt’ set out in the written description.”

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PATENTS / ANTICIPATION

“Inherency Requires More Than Probabilities”

Addressing whether an essential claim limitation is inherently present in a prior art reference for purposes of an anticipation analysis, the U.S. Court of Appeals for the Federal Circuit affirmed a ruling out of the U.S. International Trade Commission (ITC), emphasizing that the burden remains on defendants to prove inherent anticipation.

Motorola Mobility, LLC v. Int'l Trade Comm'n, Case No. 12-1535 (Fed. Cir., Dec. 16, 2013) (Rader, C.J.).

Microsoft filed a complaint at the ITC against Motorola for the importation and sale of mobile devices. Microsoft asserted multiple patents against Motorola, but only one was at issue in the appeal. That patent is directed to a mobile device having a personal information manager—an application that manages scheduling, communications, etc. The claimed mobile device requires “a synchronization component for synchronizing” information with a remote device.

After Motorola conceded infringement during the ITC proceeding, it was left with arguing anticipation, obviousness, and failure to establish the domestic industry requirement. The administrative law judge and the Commission rejected all three defenses. Motorola appealed.

Motorola asserted Apple's Newton MessagePad as anticipatory prior art. A manual for the Newton system disclosed that the MessagePad may initiate synchronization with a desktop. Based on this disclosure, Motorola argued that the MessagePad must inherently include a synchronization component. To support its analysis, Motorola asserted that the claimed synchronization component merely facilitates, instead of actively manages, synchronization.

The Federal Circuit rejected Motorola's argument as an untimely claim construction position and applied the plain and ordinary meaning of the term. The Court further found that substantial evidence supported the Commission's holding that Motorola failed to prove inherent anticipation by clear and convincing evidence. Although it is possible that the disclosure implies the presence of a synchronization component, the fact that the MessagePad initiates synchronization does not necessitate such an implication. The Federal Circuit succinctly summarized its position, concluding that “[i]nherency requires more than probabilities or possibilities.”

The Federal Circuit also rejected Motorola's obviousness arguments. The obviousness arguments were not based on the MessagePad, but were instead based solely on generic statements made by Microsoft's expert. As a result, the Court found that Motorola failed to identify the scope and content of the prior art, a prerequisite to establishing obviousness. The statements from Microsoft's expert alone were insufficient to carry Motorola's high burden of proof.

The Federal Circuit also rejected Motorola's argument that Microsoft failed to establish the domestic industry requirement. Motorola attacked Microsoft's reliance on mobile devices for the technical prong of the analysis and mobile device operating systems for the economic prong. Motorola argued that these were two separate

products that could not be the basis to meet the requirement. The Court rejected this argument, however, because the operating system on a mobile device is a significant part of that device. An investment directed to a significant aspect of an article is still directed to the article.

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PATENTS / RECOVERABLE DISCOVERY COSTS

E-Discovery Costs Related Specifically to Production Recoverable

Applying U.S. Court of Appeals for the Eleventh Circuit law and addressing whether e-discovery costs are recoverable under 28 U.S.C. § 1920(4), the U.S. Court of Appeals for the Federal Circuit reversed in part, vacated in part and remanded a district court's decision to award defendants e-discovery costs as “the cost of making copies,” finding that, in the 11th Circuit, recovery under the statute is limited to taxation of costs directly related to documents that are actually produced and requiring that the district court perform a close fact inquiry on remand. *CBT Flint Partners, LLC v. Return Path, Inc.*, Case No. 13-1036 (Fed. Cir., Dec. 13, 2013) (Taranto, J.) (O'Malley, J. concurring-in-part and dissenting-in-part).

CBT sued Return Path and Cisco IronPort Systems for patent infringement. After claim construction, CBT stipulated to non-infringement of the asserted claims of one asserted patent, and the district court granted summary judgment of indefiniteness on the asserted claim of the second. Defendant Cisco was awarded costs pursuant to § 1920, including \$243,453.02 in fees paid to its e-discovery vendor. CBT appealed the indefiniteness ruling to the Federal Circuit, which reversed the ruling and remanded for further proceedings. The district court subsequently granted summary judgment of non-infringement. The district court awarded defendants' renewed motions to recover costs. CBT appealed.

The Federal Circuit analyzed the scope of § 1920(4) under the law of the regional circuit, which in this case was the 11th Circuit. The 11th Circuit had not addressed § 1920(4) since the statute was amended by the Judicial Administrative and Technical Amendments Act of 2008, but earlier precedent expressed the general principle that § 1920(4) allows recovery only for costs of duplicating documents for production, not costs related to gathering documents prior to duplication. The Court found that, while the 2008 amendments contemplate electronic document production, the scope of § 1920(4)

did not expand beyond costs of duplication. Accordingly, only the costs for creating the produced duplicates are recoverable, not costs for other common e-discovery activities.

The Federal Circuit used a three-stage analysis to determine whether specific e-discovery activities fall in the category of duplication:

At stage one, documents are collected and prepared for analysis. Typically, vendors copy hard drives and other media, and process them to extract individual documents, retaining the documents' original file properties. The Court stated that such costs may be recoverable if the activities are reasonably necessary for responding to the request, *e.g.*, if a production agreement requires specific metadata.

At stage two, documents are organized and filtered for production. This stage includes indexing, decrypting and de-duplicating files, as well as filtering, searching and reviewing for responsiveness or privilege. The result is a subset of documents for production. The Court found these activities do not constitute duplication. Rather, they are obligations outside of § 1920(4). Similarly, the Court concluded that costs for hosting documents, training or planning meetings are not recoverable.

At stage three, selected documents are copied onto media, such as hard drives or DVDs, or, in the case of source code, loaded onto secure computers for review. There was no dispute that these costs, which are directly related to copying and production, fall under the scope of § 1920(4).

The Federal Circuit remanded the case for determination of costs using the Court's outlined approach and urged that the district court employ "common-sense judgments guided by a comparison with the paper-document analogue."

In an opinion concurring in part and dissenting in part, Judge O'Malley dissented from the portion of the majority opinion that authorized, as "costs," an award of the pre-duplication expenses the majority described as stage one costs. Judge O'Malley stated that she did not believe that the majority was being sufficiently mindful of the limits imposed on courts by § 1920(4). Judge O'Malley noted that the majority may have improperly expanded the statute in order to further the policy goals of shifting costs.

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PATENTS / PUBLICATION OF PATENT APPLICATIONS

Proceed with Caution: Navigating the Intersection Between Trade Secret and Patent Law

In a case illustrating the impact of permitting a patent application to be published, the U.S. Court of Appeals for the Federal Circuit affirmed a district court's order granting defendant's motion for judgment on the pleadings regarding claims for trade secret misappropriation, misrepresentation, conversion and unjust enrichment, finding that any information used by defendant was part of the public domain as a result of plaintiff's published, and abandoned, patent application. *Foster v. Pitney Bowes Corp.*, Case No. 13-1374, -1444 (Fed. Cir., Dec. 11, 2013) (*per curiam*) (nonprecedential).

Pro se appellant Frederick Foster filed a U.S. non-provisional patent application relating to a virtual mailbox system. As set forth in 35 U.S.C. 122(b), the application was published 18 months after its earliest priority date because Mr. Foster did not file a non-publication request.

After publication of the application, Mr. Foster contacted Pitney Bowes to explain his idea and pursue a partnership with Pitney Bowes. No relationship was formed, and no further communication took place. However, in 2011, Pitney Bowes launched a new website that, according to Mr. Foster, copied ideas from Mr. Foster's application. Mr. Foster sued Pitney Bowes for, among other things, trade secret misappropriation, misrepresentation, conversion and unjust enrichment.

The district court granted judgment on the pleadings to Pitney Bowes, holding that the publication of the application undermined Mr. Foster's claims. Mr. Foster appealed.

Regarding the trade secret claim, the Federal Circuit restated the requirements for a *prima facie* showing of misappropriation of trade secrets: "(1) the existence of a trade secret; (2) communication of a trade secret pursuant to a confidential relationship; (3) use of the trade secret, in violation of that confidence; and (4) harm to the plaintiff." Additionally, a trade secret exists under Pennsylvania law only where "reasonable efforts [are made] to maintain secrecy" of the secret. Here, the Federal Circuit affirmed that no trade secret existed because Mr. Foster failed to request non-publication of the application and did not enter into a confidentiality agreement with Pitney Bowes.

The Federal Circuit also affirmed that the misrepresentation claim should fail because the publication of the application negated any reliance of Mr. Foster on alleged representations of confidentiality. Further, the district court's finding on the conversion claim was affirmed because Mr. Foster relinquished any control he had over his idea when

he permitted it to be published. Finally, the Federal Circuit affirmed that no unjust enrichment existed because the ideas in the application were already public when Mr. Foster met with Pitney Bowes and there was no evidence that Mr. Foster disclosed other ideas to Pitney Bowes not already disclosed in the application.

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PATENT / OBVIOUSNESS

Negation of Motivation To Combine Defeats Obviousness

Addressing a finding of obviousness by the U.S. Patent and Trademark Office Board of Patent Appeals and Interferences (now the Patent Trial and Appeal Board) (Board) following *inter partes* reexamination, the U.S. Court of Appeals for the Federal Circuit reversed the Board's finding, determining that the Board had failed to give proper consideration to clear teachings of both negative and positive prior art in determining if a person of ordinary skill in the art would have reasonably expected to succeed in achieving what was claimed. *Institut Pasteur & Universite Pierre Et Marie Curie v. Focarino*, Case No. 12-1485 (Fed. Cir., Dec. 30, 2013) (Taranto, C.J.).

Pasteur's claims were directed to a method of targeted gene transfer into the chromosomal DNA of eukaryotic cells. The claims resulted from Pasteur's discovery of a class of enzymes group I intron-encoded (GIIE) endonucleases that were capable of cleaving chromosomal DNA at specific recognition sites. The broken DNA could be repaired by the cell's own DNA repair mechanism known as homologous recombination so long as a template DNA with two regions homologous to either side of the break was available to the cell. Pasteur had established that by supplying a live eukaryotic cell with a GIIE endonuclease and a plasmid carrying a template DNA, it could successfully transfer a new piece of DNA from the plasmid to the cell's chromosome.

During *inter partes* reexamination, Pasteur's claims were rejected as obvious over Quirk and Bell-Pedersen prior art references that disclosed using a GIIE endonuclease to transfer DNA from plasmid to a non-chromosomal DNA in bacterial (*i.e.*, *prokaryotic*) cells. In affirming this rejection, the Board relied on two other references Frey and Dujon and characterized both as disclosing cleavage of chromosomal DNA in yeast (*i.e.*, *eukaryotic*) cells using a GIIE

endonuclease. The Board ignored a sole negative prior-art reference teaching that targeting a GIIE endonuclease to chromosomal DNA in a living cell could be highly toxic to the cell, which might not be able to repair double-stranded breaks in the chromosome using homologous recombination. Instead, the Board relied on the interest stated by the prior art reference Old, which stated "[i]t would be a great advance if such alterations could be engineered into copies of a chosen gene in situ within the chromosomes of a living animal cell." The Board concluded that "one of ordinary skill in the art [had] a reasonable expectation that the teachings of Quirk and Bell-Pedersen could be successfully applied to [chromosomal DNA in] yeast cells."

The Federal Circuit reversed the Board, concluding that the Board's decision was based on factual findings unsupported by substantial evidence. The Court stated that the key issue in this case was whether the relevant skilled artisan, after reading Quirk's and Bell-Pedersen's disclosure that a GIIE endonuclease can promote targeted gene transfer into non-chromosomal DNA in prokaryotic cells, would have expected that a GIIE endonuclease would successfully promote targeted gene transfer into the chromosomal DNA of eukaryotic cells, and thus had good reason to pursue that possibility.

The Federal Circuit reasoned that neither of Frey and Dujon disclosed a GIIE endonuclease cleaving yeast chromosomes while those chromosomes were in yeast cells. Frey taught cleaving extracted chromosomes. Dujon was *silent* about what type of DNA was cleaved in yeast. It taught GIIE when expressed in yeast could cleave DNA within the nucleus. Moreover, the Court criticized the Board for ignoring the negative prior art teachings that targeting a GIIE endonuclease to chromosomal DNA in a living cell could be highly toxic to the cell and for not offering any reason at all that a skilled artisan would have pursued a method that was toxic to cells. Instead, the Federal Circuit reasoned that such a negative teaching counts significantly against finding a motivation to take the claimed steps with a reasonable expectation of success.

The Federal Circuit stated that the prior art presented in this case, at best, confirmed the great potential payoff of a method that produced a particular result. The desire for that payoff could motivate pursuit of the method, but "knowledge of the goal does not render its achievement obvious," and obviousness generally requires that a skilled artisan have reasonably expected success in achieving that goal, which was not present here. Thus, the Court reversed the Board's decision in favor of Pasteur.

Practice Note

The Court had previously established that the reasonable-expectation-of-success test requires a skilled artisan to be "motivated to do more than merely to vary all parameters or try each of numerous possible

choices until one possibly arrived at a successful result, where the prior art gave either no indication of which parameters were critical or no direction as to which of many possible choices is likely to be successful [*In re O'Farrell*].” This decision further shows that negative references that negate motivation can be used in favor of non-obviousness via the reasonable-expectation-of-success test.

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PATENTS / PROSECUTION HISTORY ESTOPPEL

Be Careful What You Draw: Prosecution History Estoppel Applies to Design Patents

Addressing for the first time the applicability of prosecution history estoppel in design patent cases, the U.S. Court of Appeals for the Federal Circuit reversed the lower court, holding that while prosecution history estoppel does apply to design patents, the accused infringing design must be within the scope of the subject matter surrendered during prosecution. *Pacific Coast Marine v. Malibu Boats, LLC*, Case No. 13-1199 (Fed. Cir., Jan. 8, 2014) (Dyk, J.).

Pacific Coast Marine (PCM) filed a design patent application for an “ornamental design of a marine windshield with a frame, a tapered corner post with vent holes and without said vent holes, and with a hatch and without said hatch, as shown and described.” The drawings depicted embodiments with four, two, or zero vent holes. The examiner issued a restriction requirement, finding patentably distinct groups of designs. PCM elected a design with four vent holes and removed claim language and any figures referring to other embodiments. The application issued into a patent with the claim “[t]he ornamental design for a marine windshield, as shown and described” and was assigned to PCM.

PCM sued Malibu Boats (Malibu) alleging infringement of the patent by a boat windshield manufactured and sold by Malibu, which contained three trapezoidal holes in the corners of the windshield. The district court, recognizing that the accused design had one fewer hole than the PCM patented design, concluded that the accused design was within the territory surrendered by PCM during prosecution and granted Malibu's summary judgment motion of non-infringement based on prosecution history estoppel. PCM appealed.

The Court held that although the claimed scope of design patents is defined by drawings rather than language, the principles of

prosecution history estoppel applies to design patents as well as utility patents. The Court relied on a three-part inquiry to determine whether prosecution history estoppel bars infringement: “(1) whether there was a surrender; (2) whether it was for reasons of patentability; and (3) whether the accused design is within the scope of the surrender.”

First, to determine whether surrender existed, the Court looked at the drawings, which provide the scope and description of the invention. PCM amended the claim in response to a restriction requirement by cancelling all figures except the four-hole embodiment and removed reference to alternate configurations from the text. “By cancelling figures showing corner posts with two holes and no holes, the applicant surrendered such designs and conceded that the claim was limited to what the remaining figure showed—a windshield with four holes in the corner post—and colorable imitations thereof.” Thus, the applicant surrendered subject matter by narrowing the scope of the original application.

Second, the surrender must be for reasons of patentability PCM argued that surrenders to avoid prior art are the only surrenders within the prosecution history estoppel doctrine. The Court disagreed, citing to *Festo*: “[t]he rationale behind prosecution history estoppel does not cease simply because the narrowing amendment, submitted to secure a patent, was for some purpose other than avoiding prior art.” *Festo*. The Court held that even though the surrender was made in response to a restriction requirement and not a patentability issue, claim scope was indeed surrendered in order to secure the patent as contemplated by *Festo*.

Finally, the Court addressed whether the accused design was within the scope of the surrender. The district court found that a three-hole design was within the territory of the original claim (which included a two-hole design) and the patented claim (directed to a four-hole design). Malibu argued that PCM abandoned the range between two- and four-holed embodiments. However, the Court explained that the “range concept does not work in the context of design patents where ranges are not claimed, but rather individual designs. Claiming different designs does not necessarily suggest that the territory between those designs is also claimed.” For this reason, the Court held that the principles of prosecution history estoppel did not bar PCM's infringement claim.

Practice Note

While claiming multiple embodiments in design patents may result in a stronger patent, there is a risk of receiving a restriction requirement from the examiner. Filing divisional applications for the unelected embodiments is one option for avoiding prosecution history estoppel.

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CERT ALERT

Is “Insolubly Ambiguous” the Correct Standard to Determine Compliance with Sec 112?

The U.S. Supreme Court granted *certiorari* on a petition challenging the U.S. Court of Appeals for the Federal Circuit’s standard for determining when a patent claim is indefinite under 35 U.S.C. §112, ¶ 2. See *IP Update*, Vol. 16, No. 5. Under the Federal Circuit’s 2005 ruling in *Datamize LLC v. Plumtree Software Inc.* (*IP Update*, Vol. 10, No. 1), a claim is invalid only if it cannot be construed or is “insolubly ambiguous.” *Nautilus, Inc. v. Biosig Instruments, Inc.* (Case No. 13-369, cert granted Jan. 10, 2014).

The petition asks two questions:

- Does the Federal Circuit’s acceptance of ambiguous patent claims with multiple reasonable interpretations—so long as the ambiguity is not “insoluble” by a court—defeat the statutory requirement of particular and distinct patent claiming?
- Does the presumption of validity dilute the requirement of particular and distinct patent claiming?

Supreme Court to Consider Inducement in the Context of Divided Infringement

The Supreme Court granted cert on the question of whether infringement can be found when more than one party performs steps of a patented method. *Limelight Networks Inc. v. Akamai Techs. Inc.*, (Case No. 12-786, review granted Jan. 10, 2014).

The question presented is:

Whether the Federal Circuit erred in holding that a defendant may be held liable for inducing patent infringement under 35 U.S.C. §271(b) even though no one has committed direct infringement under §271(a).

The U.S. Court of Appeals for the Federal Circuit, sitting en banc, divided 6-5 in overturning its own precedent, concluding that a patent owner claiming induced infringement under Section 271(b) no longer had to establish as a predicate that a single entity was liable for direct infringement under Section 271(a). Rather, the Federal Circuit explained that the holder of a method claim can prevail if it can show that the accused inducer performs some steps of the claim and induces an end user to perform the other steps. *Akamai Technologies v. Limelight Networks* (*IP Update*, Vol. 15, No. 7).

In its brief, the U.S. government called for a reversal of the Federal Circuit’s new inducement standard, which it characterized as “a

significant expansion of the scope of inducement liability... that is not justified under a proper understanding of section 271.” The government urged that if a “statutory gap” exists in the infringement statute, it is up to Congress to fill it. See *IP Update*, Vol. 16, No. 12.

Is Internet Streaming a “Public Performance” of a TV Program?

The U.S. Supreme Court granted cert on a petition challenging the U.S. Court of Appeals for the Second Circuit’s determination that Aereo Inc.’s internet streaming service did not infringe the copyright in the program content based on the legal conclusion that transmission of the program to individual Internet subscribers does not constitute a “public performance” under the Copyright Act. *American Broadcasting Cos. v. Aereo, Inc.* (Case No. 13-461, cert granted Jan 10, 2014). See *IP Update*, Vol. 16, No. 5 for discussion of the 2d Circuit decision.

The broadcaster’s petition argued that the 2d Circuit’s interpretation of the public performance right constitutes “nonsensical reasoning [that] cannot be reconciled with the plain text of the Copyright Act or Congress’ manifest intent to include retransmission services within the scope of the public-performance right.”

Aereo did not oppose the petition, noting that while there was not yet a circuit split on the issue, in view of the large number of law suits it faced, such a split was likely and it agreed that the high court should consider the issue.

The petition identified the question presented as:

Whether a company “publicly performs” a copyrighted television program when it retransmits a broadcast of that program to thousands of paid subscribers over the internet.

Can a Lanham Act Claim Be Subject to FDA Preemption?

The U.S. Supreme Court granted a petition for *certiorari* challenging the U.S. Court of Appeals for the Ninth Circuit’s determination that a Lanham Act false advertising claim was barred by the Federal Food, Drug, and Cosmetics Act. *Pom Wonderful LLC v. The Coca-Cola Co.*, (Case No. 12-761, cert granted Jan 10, 2014).

Pom Wonderful challenged Coca-Cola’s labeling of its product as “Pomegranate Blueberry” when the beverage contained just 0.3 percent pomegranate juice and 0.2 percent blueberry juice. More than 99 percent of the content was apple and grape juice. The 9th Circuit affirmed summary judgment for Coca-Cola, concluding that the FDA’s rules regarding false and misleading food and beverage labels limited claims under the Lanham Act. (*IP Update*, Vol. 15, No. 6). According to the 9th Circuit, the existence of these FDA regulations preempted false advertising claims based on food and beverage labels.

The U.S. government filed a brief taking the position that the 9th Circuit had misconstrued the scope of the preemptive effect of the FDCA but that the Ninth Circuit result was correct in this instance because Coca-Cola's product was labeled in a manner specifically allowed by the FDCA.

The Supreme Court nevertheless decided to grant review.

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PATENTS / ITC / DOMESTIC INDUSTRY

ITC Now Requires Satisfaction of the "Technical Prong" for Licensing-Based Domestic Industries

Reversing course from longstanding practice, the U.S. International Trade Commission (ITC or Commission) has held that proof of "articles protected by the patent" (*i.e.*, a technical prong) is now required for satisfaction of the domestic industry requirement (DI requirement), even where the DI allegation is based on licensing investments under 19 U.S.C. § 1337(a)(3)(C). *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing the Same*, Inv. No. 337-TA-841 (Comm'n Op., public version Jan. 9, 2014) (Comm'r Aronoff dissenting)

The domestic industry requirement of § 337 has traditionally required satisfaction of both the "economic prong" and the "technical prong." However, the Commission's practice had previously been not to require a complainant to demonstrate a technical prong in the form of articles practicing the asserted patents for a licensing-based domestic industry. The Commission based this approach primarily upon the legislative history adding § 337(a)(3)(C) to the domestic industry requirement in 1988. In the 841 investigation, the administrative law judge (ALJ) relied upon this practice to find that the complainant Technology Properties Limited (TPL) satisfied the domestic industry requirement even though it did not prove the existence of any articles protected by the patent.

In its review of the ALJ's Initial Determination, the Commission reconsidered its prior practice in light of certain recent U.S. Court of Appeals for the Federal Circuit decisions. In particular, the Commission interpreted the Federal Circuit's recent holdings in *InterDigital v. ITC (IP Update*, Vol. 16, No. 1) and *Microsoft v. ITC (IP Update*, Vol. 16, No. 10) as requiring articles protected by the patent

even for licensing-based domestic industries. In *InterDigital*, the court held that "just as the 'plant or equipment' referred to in subparagraph (A) [of § 337(a)(3)] must exist with respect to articles protected by the patent, such as by producing protected goods, the research and development or licensing activities referred to in subparagraph (C) must also exist with respect to articles protected by the patent, such as by licensing protected products." The Commission found that that "the only plausible interpretation of the opinion is to impose an 'articles' requirement for subparagraph (C) domestic industries, including licensing-based domestic industries." The Commission further stated that the *InterDigital* opinion should not be misconstrued to suggest that this requirement may be satisfied by merely pointing to the articles that are accused of infringement. Additionally, in *Microsoft*, the Federal Circuit held that §§ 337(a)(2),(3) "unmistakably requires that the domestic company's substantial investments relate to actual 'articles protected by the patent.'" The Commission indicated that "[w]hile *Microsoft* was decided in the context of engineering and research and development, we do not interpret the opinion to provide a special, and more lenient, test for licensing-based industries."

Although proof of articles protected by the patent was required, the Commission refused to impose a "production-driven" requirement on licensing-based domestic industries. The Commission noted that it has only previously "expressed a preference—but not a requirement—for production-driven licensing, giving more weight to evidence of such licensing." Applying this revised interpretation of the statutory requirement, the Commission found that TPL failed to satisfy the requirement because it did not prove that any of its own or its licensees' articles practiced the asserted patents.

In dissent, Commissioner Aronoff relied upon the legislative history and prior Commission precedent to argue that satisfaction of articles protected by the patent should not be required for licensing domestic industries. Commissioner Aronoff expressed the view that the better reading of the *InterDigital* opinions is that they do not bind the Commission to requiring an articles requirement for licensing-based domestic industries under § 337(a)(3)(C) because that would be consistent with the Federal Circuit's ultimate decision to uphold the Commission's determination of the existence of a domestic industry where *InterDigital* did not allege, and the Commission never found, any specific articles that practiced the asserted patents.

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PATENT / INTER PARTES REVIEW

The PTAB's User Manual for Amending Claims

In what is only the second final written decision of an *inter partes* review (IPR), the United States Patent and Trademark Office Patent Trial and Appeals Board (Board) cancelled all claims under review, finding for petitioner and delineating the requirements the Board will expect patent owners to meet when seeking to amend claims in future IPR proceedings. *Idle Free Systems, Inc. v. Bergstrom, Inc.*, Case IPR2012-00027 (PTAB, Jan. 7, 2014).

The petitioner, Idle Free Systems, filed a petition for IPR of a patent owned by Bergstrom, which Bergstrom had asserted against Idle Free in a district court action. The invention relates to an automobile air conditioning system that operates at different speeds based on available power sources, which can include the running engine of the vehicle, its battery and other power sources such as an onboard generator or an electrical outlet. The invention allegedly automatically alters operation of the air conditioning system at different “capacities” or speeds, depending on available power source, thereby maximizing battery life.

The Board agreed with Idle Free on seven of nine grounds of review, and the IPR was instituted for all claims in the patent. At oral conference, Bergstrom conceded that claims 1-4, 8, 10, and 17-19 were unpatentable on the grounds instituted for those claims. On its own, and without having conferred with the Board beforehand as is required by 37 C.F.R. § 42.121(a), Bergstrom filed a Motion to Amend claims 17-19. The Board dismissed the Motion to Amend as not complying with § 42.121(a). However, the Board provided Bergstrom with another opportunity to amend its claims and advised Bergstrom as to which requirements were not met by the initial Motion to Amend. Bergstrom's second Motion to Amend, however, was still deficient.

In the final decision, the Board explained the fatal shortcomings in Bergstrom's second Motion to Amend. Because Bergstrom, as the patent owner, had the burden to show entitlement to its requested relief, that is, entry of the proposed substitute claims, it was required to demonstrate patentability of the proposed substitute claims, by a preponderance of the evidence, *over the prior art in general* and not just the prior art references applied by the petitioner against the original patent claims. Bergstrom remedied certain deficiencies of its initial motion to amend, including showing support in the specification for the newly proposed claims, as well as showing that limitations of the proposed claims were not taught or suggested by the Petitioner's identified prior art. However, Bergstrom's second motion was nevertheless inadequate because it did not set forth what Bergstrom knew about the level of ordinary skill in the art and what was previously known in the art,

regarding each feature it relied upon for establishing patentability of its proposed substitute claims. The Board explained that for each such feature, if Bergstrom was not the first to have invented or developed it, Bergstrom should have revealed in its motion if such technical features existed in other contexts, and, if so, how they worked. If Bergstrom believed that it was the first to invent or develop a feature, it should have stated so in its motion. Unfortunately, Bergstrom did neither.

Practice Note

Petitioners may want to attack proposed claim amendments by emphasizing how proposed claims are not adequately framed with respect to the state of the art and skill set available to a person of ordinary skill in the art. Patent owners desiring to amend many claims in a patent may want to consider following the Board's advice from its first decision dismissing Bergstrom's initial attempt to amend its claims and file for either a reissue application or a request for *ex parte* reexamination of a patent, relying on the Board's institution of an IPR as raising the required substantial new question of unpatentability.

IPR's Are Time Barred by Pre-AIA Litigation

Addressing the one-year time-bar relating to petitions for *inter partes* review (IPR) of patents asserted in litigation, the U.S. Patent and Trademark Office Patent Trial and Appeals Board (Board) denied four IPR petitions as being time-barred, confirming that litigation commenced prior to the effective date of the America Invents Act (AIA) will trigger the one-year bar. *Samsung Electronics Co. Ltd. v. Fractus, S.A.*, Case Nos. IPR2014-00008, -00011, -00012, and -00013 (PTAB, Jan. 2, 2014).

Petitioner, Samsung Electronics, filed petitions for IPR of four related patents. Samsung's IPR petitions came five days before filing requests for *ex parte* review of the same patents and after previously having filed multiple requests for *inter partes* reexamination for each patent over a span of three years. The patents related to antennas with specific shapes that are repeated at different scales of size. These features are described in the patents as allowing such antennas to operate simultaneously at several frequencies, while at the same time allowing for a smaller size of antenna. Each of the four patents was asserted by Fractus against Samsung in 2013 litigation, which itself was a follow-on litigation to one that commenced in 2009 and is currently on appeal to the Federal Circuit. The 2009 litigation was started prior to enactment of the AIA.

Subsequent to filing its IPR petitions, Samsung argued to the Board that the time bar provided by 35 U.S.C. § 315(b) should not apply to its petitions for two reasons. First, each of the petitions was filed before the effective date of the AIA, and therefore the one-year time-bar did not apply. Second, even if barred by the first litigation, the

petitions had been filed within one year of the second litigation. Samsung's primary argument was that the statute's phrase "is served" in § 315(b), being written in the present tense, precludes application of this particular AIA provision to past litigations that had been pending as of the effective date of the AIA. Samsung argued that "Congress would have used 'was served' if it intended complaints served before enactment of the America Invents Act also to trigger the one year deadline."

The Board disagreed, noting the legislative history of § 315(b) clearly indicates that Congress intended IPRs to provide quick and cost-effective alternatives to litigation and that the statute was intended to set a deadline to prevent IPRs from being used as a tool for harassing patent owners by repeated litigation and administrative attacks.

The Board also noted that § 315(b) is not a statute that *authorizes* institution of an IPR within one-year of being served with a complaint for patent infringement, but rather one that *bars* institution of an IPR based on prior litigation asserting the patent in question.

Practice Note

Because decisions by the Board not to institute an *inter partes* review are not appealable, (§ 314(d)), it appears that this will be the final word on the issue of time-bars based on pre-AIA litigation. The Board also made it clear that it will quickly dismiss IPR petitions filed after the one-year time-bar provided by § 315(b). Alleged infringers should docket and dutifully monitor that one-year IPR deadline. In situations where a party engaged in prior litigation may consider filing a petition for post-grant review, it should evaluate whether the asserted patent is a covered business method (CBM). Such proceedings do not have a time-bar. A time-barred defendant may also consider joining a third-party's IPR utilizing the joinder provision of § 315(c), and complying with the relevant provisions of that statute.

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TRADEMARKS / GRAY-MARKET GOODS

No Non-Organic Mushrooms Welcome Here!

Addressing the issue of whether an importer of non-organic mushrooms from a Japanese producer infringed a trademark owned by the U.S. subsidiary of the Japanese producer, the U.S. Court of

Appeals for the Ninth Circuit upheld summary judgment in favor of the U.S. subsidiary because the imported non-organic mushrooms were materially different from the U.S. grown organic mushrooms, but bore the same mark and was thus likely to cause consumer confusion. *Hokto Kinoko Co. and Hokuto Co., Ltd. v. Concord Farms, Inc.*, Case No. 11-56461 (9th Cir., Dec. 24, 2013) (Wardlaw, J.)

Hokto USA, a wholly owned subsidiary of Hokuto Japan, cultivates U.S. certified organic mushrooms in its state-of-the-art U.S. facility. Before the facility was completed in 2009, Hokto USA imported mushrooms from Hokuto Japan which grew and packaged its mushrooms to suit U.S. consumer preferences and in growing conditions that met U.S. Certified Organic Standards (COS). The defendants', Concord Farms imports nonorganic mushrooms from Hokuto Japan that do not satisfy the COS.

Hokto USA sued Concord Farms for trademark infringement after discovering Hokuto Japan's Japanese-made non-organic mushrooms mixed in with Hokto USA's U.S.-made organic mushrooms displayed side-by-side in a grocery store under a sign that said "organic" and "made in the USA." The district court granted summary judgment and issued a permanent injunction in Hokto USA's favor. Concord Farm appealed.

Concord Farms' imported Hokuto Japan mushrooms were "gray-market goods" because they were legitimately produced abroad under a valid U.S. trademark. A "gray-market good" infringes a trademark if there is a likelihood of consumer confusion *unless* the imported goods were "genuine." The 9th Circuit found that Concord Farms imported Hokuto Japan mushrooms that were not "genuine" Hokto USA mushrooms because of material differences in quality control, language and packaging. For example, Hokto USA mushrooms were organic, produced and packaged under controlled conditions for an American market (*e.g.*, in English). Indeed, when it imported organic mushrooms from Hokuto Japan (before its U.S. facility was operational), Hokuto Japan used conditions that met U.S. Certified Organic Standards. Concord Farms, on the other hand, imported Hokuto Japan mushrooms produced for Japanese consumption (*e.g.*, in Japanese) and made under conditions that did not meet U.S. Certified Organic Standards.

After finding the Concord Farms' mushrooms were not "genuine" Hokto USA mushrooms, the 9th Circuit analyzed infringement under the traditional *Sleekcraft* factors. Despite no evidence of actual confusion, the 9th Circuit found the importation of Hokuto Japan mushrooms was likely to confuse consumers into thinking they were Hokto USA mushrooms, noting that the marks were identical and strong, the two products are related, sold in similar marketing channels and in direct competition, and that mushrooms were a low-cost good commanding less scrutiny from consumers.

Finally, because Hokuto Japan and Hokto USA had a “close working relationship” to control the quality of the mushrooms distributed by the latter, the 9th Circuit was not persuaded by the argument that Hokuto Japan had issued Hokto USA a “naked license” that lacked an explicit mechanism for quality control.

Practice Note

Simply because a producer makes quality goods for one distributor does not mean it will do so for another.

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Practice Note

If a party decides to challenge a TTAB decision in district court, it must be prepared to reimburse the government for the salaries of those involved in defending the PTO's decision.

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COPYRIGHT / FAIR USE

Fleeting Use of Work in Historic Display Is Fair Use

In deciding the latest dispute in an ongoing battle over the Baltimore Ravens “Flying B” logo, the U.S. Court of Appeals for the Fourth Circuit upheld a finding of fair use in connection with the display of the logo in videos and historical displays. *Bouchat v. Baltimore Ravens*, Nos. 12-2543; -2548 (4th Cir., Dec. 17, 2013) (Wilkinson, J.; Duncan, J.; and Diaz, J.).

The 4th Circuit concluded that the fleeting use of the “Flying B” logo in three videos featured on the NFL Network and various websites constituted fair use because the works were transformative. For similar reasons, the 4th Circuit also concluded that incidental use of the logo in historical displays at the Baltimore Ravens’ stadium constituted fair use as transformative work.

The saga of the “Flying B” log began when the Ravens unveiled the log in June 1996 and the plaintiff-appellant Frederick Bouchat recognized it as strongly resembling one he had created and sent to the Ravens franchise months earlier. Bouchat filed a series of lawsuits against the Ravens and other entities using the logo beginning in 1997. The Ravens adopted a new logo after the 1998 season. In the most recent case prior to this litigation, the Ravens use of the logo in season highlight films was found to *not* be fair use, while use of the logo in images in the corporate lobby was found to be fair use.

The defendants-appellees, which include NFL Enterprises, NFL Network Services, NFL Productions, d/b/a NFL Films, (collectively the NFL), created videos that appeared on television and on NFL.com and other websites and that featured fleeting and infrequent footage of the Flying B logo. Defendant-appellee the Baltimore Ravens displayed pictures with the Flying B logo in historical exhibits at their stadium. Bouchat commenced suit to enjoin these activities. After the district court granted summary judgment concluded the uses complained of were subject to a fair use. Bouchat appealed.

Bouchat challenged the district court’s finding that the use of the Flying B logo in the videos and displays was transformative.

TRADEMARK / EXPENSES OF THE PROCEEDING

Take Them to District Court and You'll Have to Pay the Lawyers

Addressing for the first time whether attorneys’ fees are included in the statute, the U.S. District Court for the Eastern District of Virginia held that “all expenses of the proceedings” under 15 U.S.C. § 1071(b) (3) includes attorneys’ fees and paralegal salaries. *Shammas v. Focarino*, Case No. 12-cv-1462 (E.D. Va. Jan 2, 2014) (Ellis, J.).

Section 1071(b)(3) plainly allows a party dissatisfied with a trademark decision of the Trademark Trial and Appeal Board (TTAB) to choose between an appeal at the U.S. Court of Appeals for the Federal Circuit or an action in district court. An important consideration in this decision is the fact that the statute provides that “win, lose or draw,” the party bringing an action in district court must pay the Patent and Trademark Office (PTO) “all expenses of the proceeding.” The dispute in the case centered on whether this included the PTO attorneys’ fees. The district court found that “the question is not difficult to resolve; it is a straightforward case of statutory interpretation with the analysis beginning and ending with the plain language of the statute.” The court went on to find that the standard definition of expenses “would clearly seem to include attorney’s fees.” To the extent there was any doubt, Congress’s addition of “all” to clarify “expenses” makes it “pellucidly clear Congress intended that the plaintiff in such an action pay for all the resources expended by the PTO during the litigation, including attorney’s fees.” The district court further justified its decision by examining a variety of statutes that explicitly included attorneys’ fees as a subset of expenses. Based on its conclusion that attorneys’ fees were to be included in the amount a party challenging a TTAB decision in district court must pay, the court ordered the plaintiff to reimburse the PTO \$32,836.27 in attorney salary, \$3,090.32 in paralegal salary and \$393.90 in photocopying expenses.

The 4th Circuit noted that each of the videos was created for film series that featured memorable players, coaches and events in NFL history. In two of the videos, the logo may be seen for less than one second. The majority of the videos feature interviews to depict historic events. A third video featured a collection of footage and audio of Ravens' player Ray Lewis through his career. In that 24-minute video, the logo may be seen for about eight seconds.

The 4th Circuit found that these fleeting uses of the logo were transformative because, unlike the use of the season highlight films, the logo was not used to identify the Baltimore Ravens. Instead, the logo was used for historical context as part of an overall story of the NFL and its players. The commercial nature of the videos did not factor against the transformative nature. A key issue was whether the use of the logo itself provided commercial gain for the defendants. The 4th Circuit concluded it did not, noting the videos were not about the Baltimore Ravens, but were about historical NFL players and events. Similarly, the 4th Circuit found that the substantial transformative nature of the videos outweighed the remaining fair use factors, including the nature of the logo as a creative work, the complete use of the logo and the effect on the value of the logo.

Turning to the incidental use of the Flying B log in historical displays at the Ravens' stadium, the 4th Circuit held that the use was fair use. The historical display included photographs, posters, highlight reels and exhibits spanning more than 100 years of Baltimore football history. The use of the Flying B logo played on an incidental role in a small fraction of the historical depictions. That made the use transformative, from an identifier of the Ravens from 1996-1998 to an historical descriptor to preserve a specific aspect of Ravens' history. For similar reasons, the 4th Circuit also concluded that the commercial nature of the use and the remaining fair use factors did not detract from the transformative nature of the use.

Practice Note

The Fourth Circuit's decision in this case highlights that it is difficult for copyright holders exert influence over depictions of historical subjects and events simply because a work contains fleeting use of a copyrighted article. The fair use doctrine protects such videos and documentaries from attack by subjects who may want to prohibit unflattering or disfavored depictions. As the Court noted, by allowing such fair use, artistic creation is nurtured and free speech is protected.

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The Bill Graham Show Goes On ... and On

The U.S. Court of Appeals for the Ninth Circuit concluded that the federal district court erred in dismissing claims for copyright infringement, conversion and declaratory relief brought by the sons of the late concert promoter Bill Graham, against several parties that acquired physical and intellectual property from Graham's estate. In addition, the dismissal of claims of conversion and breach of fiduciary duty against the executor of Graham's estate under California's anti-SLAPP statute were also reversed by the appellate court. *Graham-Sult v. Clainos*, Case Nos. 11-6779, 12-15892 (9th Cir., Dec. 27, 2013) (Smith, J.).

From the 1960s until his death in a helicopter crash in 1991, Bill Graham was a local and international concert promoter. Graham's will created individual trusts for his sons who were 14 and 23 at the time of Graham's death. The executor of the will and trustee of the trusts was Graham's friend and business partner, Nicholas Clainos.

In 2010, 15 years after the probate court entered its final disposition for Graham's estate, the plaintiffs filed a district court action against Clainos, Richard Greene (Clainos's lawyer in the estate and trust matters) and the "BGA Defendants," who were parties affiliated with later purchases of business interests owned by Graham's estate, including Bill Graham Enterprises, Inc. (BGE).

During the probate of Graham's estate, and with the encouragement of the probate court, Greene structured a sale of BGE to the company's key employees, and a new company, Bill Graham Presents (BGP) was formed. Three weeks after the final order of the probate court, Greene prepared an assignment (the Assignment) executed by Clainos granting all of the intellectual property "claimed by or registered in" Graham's name to BGE and backdated the assignment to August 1, 1995—seven days before the probate court had entered the final order of distribution. Following the Assignment, the BGA Defendants came to own physical and intellectual property through transactions involving the sale of BGP to various entities.

The plaintiffs brought 12 causes of action claiming that they were entitled to pro rata distribution of certain physical and intellectual property belonging to Graham's estate, including copyrighted concert posters, a trademark registration for THE FILLMORE and several personal scrapbooks (the Archives), which the plaintiffs claimed were owned in Graham's name at the time of his death.

The district court dismissed the plaintiffs' claims against Clainos under the California anti-SLAPP statute, which allows the striking of complaints filed against a party based on "writing[s] made in

connection with an issue under consideration or review by a... judicial body.” However, the 9th Circuit held that six of the plaintiffs’ causes of action were unrelated to anti-SLAPP “protected activity” pertaining to the probate case. Namely, Clainos’s execution of the back dated Assignment and removal of Graham’s personal property were not activities of written or oral statements constituting protected activity under anti-SLAPP. Furthermore, the transfer of Graham’s intellectual property through the Assignment was found to exist outside of the probate court’s supervision since the Assignment was drafted and executed after the final probate distribution was entered. Therefore, the 9th Circuit reversed and remanded the dismissal of six of the plaintiffs’ claims against Clainos, including claims for conversion of the Archives.

In addition to the claims against Clainos, the 9th Circuit reversed the district court’s dismissal of the plaintiffs’ claims against the BGA Defendants for conversion, copyright infringement and declaratory judgment. Regarding the conversion claims, the 9th Circuit noted that the plaintiffs properly alleged that they were entitled to ownership or possession of the Archive assets when they were able to show that the copyrighted posters at issue were registered in Graham’s personal name (confirming his intent that they be personal property) and therefore would be part of his estate.

The 9th Circuit also held that the copyright infringement claims were improperly dismissed because the plaintiffs sufficiently pleaded enough facts to show that the Assignment was not effective, and that they had a legitimate claim to the copyrights when the BGA Defendants obtained them in transactions following the Assignment. And finally, the 9th Circuit reversed the district court’s dismissal of the declaratory judgment cause of action for lack of an actual case or controversy, because the issue of the validity of the Assignment and the proper ownership of the Archives were considered to be disputed issues of fact and law that presented an actual controversy.

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“Continuing Wrong” Doctrine Rejected by Tenth Circuit

Rejecting the continuing wrong doctrine, the U.S. Court of Appeals for the Tenth Circuit recently held that copyright owners must bring their copyright infringement claims within three years of first learning of the violation and not three years after the infringement ceased. *Diversey v. Schmidly*, Case No. 13-2058 (10th Cir., Dec. 23, 2013) (O’Brien, J.).

The copyright owner, Andrew Diversey, was a Ph.D. student at the University of New Mexico (UNM). On February 7, 2008, UNM sent Diversey a letter advising that his draft dissertation was deposited in the university’s library and also sent to the university’s dissertation publisher. Diversey complained to UNM administrators, requesting the return of all copies of his dissertation. But on June 16, 2009, he discovered copies of his dissertation in two UNM libraries.

On June 15, 2012, Diversey sued UNM administrators for copyright. Diversey brought his claim under (a) 17 U.S.C. § 106(1) for violating his exclusive right to make copies of his dissertation and (b) 17 U.S.C. § 106(3) for violating his exclusive right to distribute his dissertation. The district court dismissed Diversey’s claims as untimely under the three-year statute of limitations, 17 U.S.C. § 507(b), which applies to claims for copyright infringement. Diversey appealed.

On appeal, Diversey argued that his claims were not untimely under the doctrine of “continuing wrongs.” Under this doctrine, UNM continued to infringe Diversey’s copyright through the ongoing distribution of his dissertation in the university’s libraries. Diversey argued that the three-year statute of limitations does not begin to run on a continuing wrong until the wrong is over and done with.

The 10th Circuit rejected the continuing wrong doctrine as a minority view among circuits. Instead, the court followed the majority view that a claim “for copyright infringement accrues when one has knowledge of a violation or is chargeable with such knowledge.” According to the majority view, Diversey’s unauthorized copying claim under § 106(1) accrued when UNM sent Diversey a letter in February 2008. Thus, Diversey’s unauthorized copying claim was barred by the three-year statute of limitations.

However, the 10th Circuit agreed with Diversey that his unauthorized distribution claim under § 106(3) was not time-barred. The court concluded that this claim accrued in June 2009, when Diversey discovered copies of his dissertation in UNM’s libraries, not in February 2008 when his dissertation was deposited in the libraries. Until his dissertation was made available in the library catalog system, the 10th Circuit found that Diversey had no reason to know that his dissertation had been distributed and available to the public.

The court also rejected the university’s fair use defense to Diversey’s copyright infringement claim. The court found that Diversey’s right to control the first public appearance of his dissertation and the unpublished nature of the work outweighed the university’s claim of fair use.

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McDERMOTT HIGHLIGHTS

Patent Law Year in Review

Please save the date for McDermott's Patent Law Year in Review to be held on February 4, 2014 in Boston and February 6, 2014 in Orange County. In our annual program, McDermott Will & Emery partners will discuss and analyze the major developments and changes in patent law during 2013 and the key cases to watch in 2014.