

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

## Lanham Act Decisions; Profits and Obviousness in Patent Law

The past two months have seen significant Lanham Act decisions addressing the evolving post-*eBay* standards for granting an injunction, the distinction between advertising and protected statements of scientific opinion and the interplay between copyright and false endorsement law where an advertisement includes unauthorized music. We also address two significant patent-law issues: the proper role of the infringer's real-world profits in the calculation of a reasonable royalty and the inclusion of a prior invention in an obviousness analysis.

### False Advertising Injunction

In 2006, the Supreme Court sent shockwaves through the intellectual property bar when it ruled in *eBay v. MercExchange*, 547 U.S. 388 (2006) that irreparable harm should not be presumed when a patent owner seeks an injunction against an infringer. Several federal Courts of Appeal have since extended *eBay*'s holding to cases brought under the Copyright and Lanham Acts. Under *eBay*, requests for injunctive relief in intellectual property cases that had been granted almost automatically have become matters of contested proof. In *Groupe SEB USA v. Euro-Pro Operating*, 2014 WL 7172253 (3d Cir. Dec. 17, 2014), the Third Circuit held that, while no presumption of irreparable



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injury applies in false advertising cases, the inferences and assumptions that had led courts to establish a presumption of irreparable injury will still play a key role in deciding whether the evidence presented justifies injunctive relief.

In *Euro-Pro*, SEB, a manufacturer of electric steam irons, sued its competitor Euro-Pro, arguing that advertising claims that Euro-Pro's steam irons produced more powerful steam were false. After finding Euro-Pro's claims false, the district court granted a preliminary injunction against Euro-Pro's claims of superiority. In affirming, the Third Circuit noted that *eBay* had ruled out the use of "broad classifications" and "categorical" rules in exercising a court's equitable discretion to issue an injunction. Instead, injunction motions must be considered "in a case-by-case" manner, "drawing reasonable inferences from facts in the record" to determine whether a plaintiff is threatened with irreparable injury.

SEB had satisfied that standard by pointing to literally false comparative advertising, establishing that its products were directly competitive with Euro-

Pro's and submitting the testimony of its marketing director, who believed that the "harm to SEB's brand reputation and goodwill is impossible to quantify." The Euro-Pro court emphasized that "harm to reputation and goodwill" will constitute irreparable injury, "so long as the plaintiff makes a clear showing." Those are all common-sense inferences, which flow naturally from proof that will likely be available to the plaintiff in many, and perhaps the vast majority, of false advertising claims brought against a direct competitor. Understood in this way, *eBay* may not present a significant barrier to injunctive relief in comparative advertising cases.

The Euro-Pro decision is notable for one other reason. The false advertising provisions of the Lanham Act prohibit not only literally false statements—representations that carry a clear and plain meaning that is false—but also literally true statements that nevertheless mislead consumers. Consumer survey evidence is typically used to establish how consumers understand an advertising claim. The district court in *Euro-Pro* found that Euro-Pro's advertising claims unambiguously defined how "steam power" should be measured and determined that, based on that standard, the claims were literally false. Euro-Pro argued, however, that survey evidence showed that consumers did not have a "uniform understanding" of "steam power," so that its claims should not be considered literally false. In essence, Euro-Pro argued that, even if the explicit language of the

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claims was false, consumers were not getting the message.

The circuit court rejected that argument, finding that survey evidence should not be considered in cases of literal falsity. It held that “words may be used plainly enough and carry baseline meanings such that consumer survey evidence is irrelevant.” Given that there would seem to be little reason to tolerate literally false advertising claims—even if consumers may not fully understand the advertiser’s message—that conclusion is not surprising.

### Commercial Advertising

In order to avoid limitations on constitutionally protected speech, the reach of the provisions of the Lanham Act prohibiting false advertising is limited to “commercial advertising or promotion.” In *ONY v. Cornerstone Therapeutics*, 720 F.3d 490 (2d Cir. 2013), the U.S. Court of Appeals for the Second Circuit dismissed false advertising claims challenging statements made in a peer-reviewed scientific article and a related press release, reasoning that statements in scientific literature “are more closely akin to matters of opinion, and are so understood by the relevant scientific communities.” *Eastman Chemical Co. v. Plastipure*, 2014 WL 7271384 (5th Cir. Dec. 22, 2014), distinguished *ONY* and sustained a false advertising injunction prohibiting use of promotional materials based on conclusions stated in a scientific article included in a peer-reviewed journal published by the National Institutes of Health.

Defendants in *Eastman* published an article summarizing the results of tests they had performed showing that a resin made by Eastman used in food packaging and consumer products shows significant levels of estrogenic activity (EA), a process that can trigger certain cancers and other health problems. Defendants make a competing resin that they claim does not trigger EA. After their testing was completed, but before publication of the article, defendants distributed to potential customers at trade shows a three-page sales brochure including a chart claiming that tests showed that Eastman’s resin exhibited EA. After hear-

ing expert testimony, a jury found the claims in the brochure were false.

Affirming the trial court’s injunction, the U.S. Court of Appeals for the Fifth Circuit drew a bright line between the materials considered in *ONY*—which it described as limited to a press release summarizing the findings of an article, and a copy of the article itself—with defendants’ sales brochure. The brochure was distributed to “consumers, not scientists,” was not accompanied by the article itself, and lacked “the necessary context presented by a full scientific study, such as a description of the data, the experimental methodology, the potential conflicts of interest, and the differences between raw data and the conclusions drawn by the researcher.”

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Given that a scientific paper—even one that describes the limitations of underlying data and methodology—can have a powerful impact on decisions to purchase certain products, the distinction drawn by the Fifth Circuit could be difficult to sustain. In view of the increasing importance of scientific claims in the advertising of technical products, this issue may continue to attract attention.

### False Endorsement

Under the Lanham Act, can using unauthorized music in an advertisement falsely imply endorsement of the product by the musician?

Monster Energy Company, a maker of energy drinks “known for its imaginative and decidedly non-traditional approach to advertising,” created and distributed a four-minute promotional video with footage of its 2012 Ruckus in the Rockies, a snowboarding competition and after-party that Monster sponsors. *Beastie Boys v. Monster Energy Co.*, 2014 WL 6845860 (S.D.N.Y. Dec. 4, 2014). The soundtrack

consisted of excerpts from five Beastie Boys songs. The credits at the end of the video referenced the Beastie Boys in Monster’s official brand colors. The Beastie Boys’ copyright and Lanham Act claims against Monster were tried to a jury, which gave the group alternative awards of \$1 million in actual and \$1.2 million in statutory damages on the copyright claims, and \$500,000 on the Lanham Act claims.

In a post-verdict challenge, Monster claimed that music cannot be considered in a false-endorsement claim as a matter of law, arguing that the copyright laws are the exclusive protection for unauthorized use of music. Monster relied on *Oliveira v. Frito-Lay*, 251 F.3d 56, 63 (2d Cir. 2001), which held that Frito-Lay’s use of Astrud Gilberto’s “The Girl From Ipanema” in a potato-chip commercial could not support a false-endorsement claim.

After holding that Monster waived this argument, the court rejected it on its merits. *Oliveira*, the court held, stands for the proposition that “a single signature song, considered alone, cannot form the basis of a false endorsement claim.” But Monster used “extensive excerpts from not one but five” Beastie Boys songs, referred to the group by name, and referred to one of its band members by his stage name in the words, “RIP MCA.” The *Oliveira* court was concerned that an advertiser that had spent significant money to acquire the copyright to play a song in its advertisement, as Frito-Lay had done, could face a false-endorsement claim from an artist who performed in the song, which “would be profoundly disruptive to commerce.” Monster, in contrast, did not have a copyright license to use the Beastie Boys’ songs, and did not contest infringing the Beastie Boys’ copyrights, so commerce was not threatened by holding Monster liable under the Lanham Act for using the bands’ songs falsely to imply endorsement of its products.

Advertisers that knowingly include significant excerpts of unauthorized music can thus face not only the remedies of the copyright laws, but also injunctive relief and damages under the Lanham Act.

## Reasonable Royalty Analysis

Royalties in patent cases are often determined using a “hypothetical negotiation” between the patentee and the infringer, asking how much the infringer would have paid for a license if the parties had negotiated before infringement began. To what extent are the infringer’s actual, real-world profits relevant to determining the hypothetical royalty the parties would have negotiated, or is use of this information impermissible hindsight? In *Aqua Shield v. Inter Pool Cover Team*, 2014 WL 7239738 (Fed. Cir. Dec. 22, 2014), the U.S. Court of Appeals for the Federal Circuit held that the infringer’s actual profits can be useful evidence, but will not be a cap on the reasonable royalty.

*Aqua Shield* sued IPC for infringing a patent covering enclosures designed for pools or sun rooms. The district court awarded *Aqua Shield* \$10,800 in reasonable-royalty damages based on a hypothetical negotiation, relying on IPC’s own “profits on past infringing sales as the foundation for a reasonable royalty calculation.” Finding that IPC’s net profit was 5 percent of its revenues, the court reasoned that in a hypothetical negotiation IPC would be willing to pay a royalty of 5 percent of those net profits, which the court raised to 8 percent in light of certain other factors.

The Federal Circuit vacated the district court’s judgment. It held that an infringer’s actual profits are relevant in a hypothetical negotiation analysis “only in an indirect and limited way—as some evidence bearing on a directly relevant inquiry into anticipated profits.” The “core economic question” is what the infringer “would have anticipated the profit-making potential of use of the patented technology to be, compared to using non-infringing alternatives.” And an “especially inefficient infringer—e.g., one operating with needlessly high costs, wasteful practices, or poor management—is not entitled to an especially low royalty rate simply because that is all it can afford to pay....” Anticipated incremental profits are key to the hypothetical negotiation,

and “[e]vidence of the infringer’s actual profits generally is admissible as probative of his anticipated profits.”

The Federal Circuit thus held that the trial court could consider IPC’s actual profits, but could not use IPC’s actual profits “as a royalty cap.” “That treatment incorrectly replaces the hypothetical inquiry into what the parties would have anticipated, looking forward when negotiating, with a backward-looking inquiry into what turned out to have happened.”

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To what extent are the patent infringer’s actual, real-world profits relevant to determining the hypothetical royalty the parties would have negotiated, or is use of this information impermissible hindsight?

The opinion reflects challenges that can arise in hypothetical negotiation analysis in a small market with limited licensing history, where the only real-world anchor to ground the hypothetical negotiation is the infringer’s own sales and profits. The decision reiterates that, ultimately, real-world facts may guide the analysis, but cannot supplant or fix limits on that hypothetical exercise.

## Obviousness Analysis

Can a patent claim be invalid as obvious based on a prior invention that was not reduced to practice until after the patent’s priority date? The Federal Circuit said yes in *Tyco Healthcare Group v. Ethicon Endo-Surgery*, 2014 WL 6845191 (Fed. Cir. Dec. 4, 2014).

*Tyco* accused *Ethicon* of infringing patents on surgical devices that use ultrasound to cut and coagulate tissue. A key piece of prior art was the “*Ethicon Prototype*,” an ultrasonic surgical device that *Ethicon* acquired in 1995 and then further developed. The *Ethicon Prototype* was found to anticipate 26 asserted claims under 35 U.S.C. §102(g). The parties’ experts agreed that the *Ethicon Prototype* discloses the elements of those

claims. The issue was whether *Ethicon* had timely conceived of the invention and reduced it to practice. A prior invention can anticipate if its inventor conceives of and reduces the invention to practice before the patentee’s priority date, or—as the court found to be true of the *Ethicon Prototype*—if the prior inventor conceives of the invention first and reduces it to practice second but is diligent in doing so.

*Ethicon* then argued that the *Ethicon Prototype* could also be considered in a Section 103 obviousness challenge to other asserted claims that were not anticipated. The obviousness analysis focuses on what a person of ordinary skill would have known at the time of the invention. *Tyco* argued that a Section 102(g) prior invention cannot be considered in an obviousness analysis if it was “unknown to both the applicant and the art at the time the applicant makes his invention,” because doing so would measure the patent applicant’s claimed invention “against secret prior art.”

Rejecting this argument, the Federal Circuit held that the requirement in Section 102(g) that the prior invention not be abandoned, suppressed, or concealed after reduction to practice “sufficiently encourages public disclosure” to “mollif[y]” the concern about secret prior art. Thus, if the prior invention satisfies the test for Section 102(g) prior art, it can be considered in the obviousness analysis whether or not the prior inventor reduced it to practice first or, with diligence, second.

The *Tyco* opinion and the fractured decisions denying en banc rehearing in *Bristol-Myers Squibb Co. v. Teva Pharms. USA*, 2014 WL 5352893 (Fed. Cir. Oct. 20, 2014), which we discussed in our Nov. 12, 2014, column, reflect the Federal Circuit’s continuing refinement of the law governing what information, known and unknown at the time of invention, can be considered in the obviousness analysis. The *Tyco* decision provides for parity between the anticipation and obviousness inquiries.