New York Law Journal

WWW.NYLJ.COM

An ALM Publication

VOLUME 246—NO. 91

WEDNESDAY, NOVEMBER 9, 2011

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

America Invents Act Likely to Alter Patent Prosecution and Litigation

By **Lewis R. Clayton**

On Sept. 16, 2011, the America Invents Act, or AIA, became law, marking the conclusion of years of effort to curtail perceived abuses of the patent system and to harmonize the U.S. patent statute with the patent laws of other industrialized countries. Like most legislation, the AIA represents a series of compromises, and it fails to address a number of issues that have been the target of many critics of the patent system. Nevertheless, the statute is likely to alter significantly the practice of patent prosecution and patent litigation and is undoubtedly the most meaningful change in patent law for over 50 years.

First to File

The statute's most significant and controversial alteration in patent procedure is the change from a first-to-invent to a first-to-file system. Previously, U.S. patent law focused on the question of who invented first. Thus, an inventor who could demonstrate that he or she was the first to make an invention qualified for a patent, even if another party was the first to file. Disputes over who invented first were resolved through interference proceedings, which created delay and uncertainty.

The American emphasis on the date of invention stood in stark contrast to the bright-line rules adopted by the rest of the industrialized world that looked to the filing date. Enactment of the AIA brings the U.S. patent system into harmony with those of other countries with one notable exception. In most countries, public disclosure of the invention before filing of an application creates an absolute bar to patentability. The AIA, however, establishes a grace period allowing an inventor to file an application within one year after public disclosure of the invention. In theory the change to a first-to-file system should encourage inventors to file early and to file often (each time an arguably separate invention is made).

Although interference proceedings have been eliminated by the AIA, the act nevertheless includes a new and much more limited priority challenge provision called a "derivation proceeding." In a derivation proceeding, a subsequent patent filer may challenge the priority of an earlier application by demonstrating that the first filer misappropriated the invention from the later applicant. Derivation proceedings must be filed within a year of publication of the application under challenge.

While the first-to-file and post-grant review provisions focus on patent prosecution, the AIA also will alter the practice of patent litigation.

Post-Grant Review

Many commentators, academics and some government agencies have argued that the ex parte application system, which strictly limits the ability of third parties to submit prior art or argument to patent examiners, results in the grant of weak or invalid patents. Responding to those concerns, the AIA provides third parties with means to challenge the validity of patents before the U.S. Patent and Trademark Office (PTO) that are similar to opposition proceedings before the European Patent Office. Under the AIA, any party other than the patent owner may now petition the PTO to conduct a post-grant review of a patent within nine months of issuance. Petitions for post-grant review may challenge any ground of patentability. It remains to be seen, however, how many such petitions will be filed, particularly given the brief nine-month window during which such an option is available.

The AIA also provides third parties a limited opportunity to participate in the prosecution of a patent prior to issuance. Third parties may now submit prior art to the PTO for consideration by the patent examiner after the patent is published, provided that the submission is made before the examiner has issued a decision on patentability.

Joinder and Consolidation

While the first-to-file and post-grant review provisions focus on patent prosecution, the AIA also will alter the practice of patent litigation. In recent years it has become common to see 10 or even 20 separate parties named as defendants in a single patent infringement action, even though the only connection between the defendants is that all are accused of infringing the same patent. In reaction to this perceived abuse, the AIA now provides that "accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial based solely on allegations that all have infringed the patent or patents in suit." These provisions do not address consolidation for pretrial purposes such as claim construction or discovery so that courts still have the discretion to coordinate those pretrial activities.

What the AIA Fails to Address

Although it makes important changes, the AIA sidesteps a number of issues that have figured prominently in patent "reform" debates. It does not, for example, change the rules relating to patent infringement damages—critics have argued that the current system unjustly rewards the owners of individual patents that are incorporated in products that use hundreds or thousands of inventions. Nor does the statute address venue rules, although critics have argued that patent litigation is concentrated in a small number of federal district courts that often have little connection to the transactions at issue. Those issues will be left to the courts, and indeed the U.S. Court of Appeals for the Federal Circuit has, over the past several years, paid increasing attention to damages and venue issues.

The AIA is clearly an important step in the evolution of patent law. The coming years will determine whether it can be judged a success.

LEWIS R. CLAYTON *is a litigation partner at Paul, Weiss, Rifkind, Wharton & Garrison LLP and co-chair of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com.* PETER SANDEL *and* RACHALE C. MILLER, *associates with the firm, assisted in the preparation of this article.*

Trademark

FPX, LLC v. Google Inc., 2011 WL 4783376 (E.D. Tex. Sept. 29, 2011), illustrates the difficulty faced by plaintiffs seeking to certify a class of trademark owners. Plaintiffs sought to certify a class of all trademark owners who own a registered trademark that has been sold by Google as a keyword and/or AdWord. Under Google's AdWord and keyword programs, an advertiser can arrange for its ad or a link to its website to appear when a consumer uses a particular term (for example, a competitor's trademark) in an Internet search.

Plaintiffs claimed that this practice misleads consumers to believe that the owner of a trademark used as a keyword has sponsored, endorsed, or approved the competitors' advertisement and website. Denying the motion to certify, the court found that the likelihood of confusion analysis is fact-specific and therefore "does not meet Rule 23(a)(2)'s commonality requirement." Confusion regarding one trademark does not necessarily indicate confusion concerning other marks. In addition, a class could not be certified under Rule 23(b)(2) due to the individualized nature of each plaintiff's infringement claim, including issues concerning the validity and distinctiveness of each mark, likelihood of confusion, and affirmative defenses including fraud, abandonment and fair use. Moreover, plaintiffs sought equitable disgorgement, and claims for monetary relief cannot generally be certified under Rule 23(b)(2), particularly where the relief "is dependent on numerous individualized issues."

In *Lorillard Tobacco Co. v. Hamden Inc.*, 2011 WL 5024883 (N.D. Ohio Oct. 21, 2011), a retailer faced strict liability for the sale of counterfeit cigarettes bearing the Newport brand despite the court's finding that "the record contains no direct evidence that the Defendant intentionally used a counterfeit mark." In opposition to summary judgment, defendant, owner of two convenience stores, claimed that he had purchased the cigarettes from what he believed was the authorized inventory of another store. He did not attempt to hide the cigarettes when visited by a Lorillard representative and instead asked that representative about them. He also asked the local distributor about the cigarettes, and that distributor, despite being in the business for years, could not tell that they were counterfeit.

The court found that only minor differences existed between plaintiff's marks and those on the counterfeit cigarettes, such as the clarity of the printing and elasticity of the tear tape. The court granted summary judgment to plaintiff on its Lanham Act and state law trademark infringement, unfair competition, and dilution claims. It granted a permanent injunction and scheduled a hearing to determine the amount of damages.

In *Arenas v. Shed Media US Inc.*, 2011 U.S. Dist. LEXIS 101915 (C.D. Cal. Aug. 22, 2011), Gilbert Arenas, a well-known basketball player for the Orlando Magic, sought a preliminary injunction for alleged violations of his right of publicity and trademark infringement in an effort to prevent his ex-girlfriend and the mother of his four children, Govan, from participating in the television show Basketball Wives. The show is a reality series that follows the lives of women who have or have had relationships with basketball players. While the players may be mentioned by the women, they are not the focus of the story line.

The court found it highly probable that Govan would mention Arenas by name and that doing so would likely constitute appropriation of his identity. However, Arenas' publicity claim was foreclosed under the First Amendment. Use of his name would be "transformative" because "the value of the work [the show] comes principally from some source other than the fame of the celebrity." In addition, defendants could assert a public interest defense, which extends to publications about people who encourage legitimate and widespread attention to their activities.

The court also held that use of Arenas' name in advertising for the show, which "is merely an adjunct of the protected publication" would not change the analysis. Rejecting Arenas' trademark claims, the court held that use of his name on the show constituted nominative fair use because the mark was being used to refer to Arenas himself and Govan's use of his name in discussion was not likely to suggest endorsement. The court denied Arenas' motion for a preliminary injunction and granted a motion to dismiss the right of publicity claim.

Copyright

ABKCO Music Inc. v. Washington, 2011 WL 4953078 (E.D. Mich. Oct. 18, 2011), held that plaintiffs created an issue of material fact as to whether performances of copyrighted musical works prior to the performance of a play were part of that dramatic performance, and therefore infringed plaintiffs' "grand rights." "Grand rights," which include the right to perform a musical work as part of a dramatic performance, typically are not conferred by general performing rights licenses.

In 'Lorillard Tobacco Co. v. Hamden, Inc.,' a retailer faced strict liability for the sale of counterfeit cigarettes bearing the Newport brand despite the court's finding that 'the record contains no direct evidence that the Defendant intentionally used a counterfeit mark.'

Defendants in *ABKCO* staged a play about the life of musician Sam Cooke. After plaintiffs refused to license Cooke's music for use in the play, defendants cut these compositions from the narrative, but a medley of musical compositions written by Cooke was performed before the curtain opened at the start of the play. The singer performed dressed in a tux in front of closed curtains while the house lights were up and audience members were being seated. Plaintiffs argued that the performer, who played Sam Cooke throughout the show, was in character during the medley, dressed like Cooke and mimicking his gestures and expressions. The court denied defendants' motion for summary judgment, holding that plaintiffs' evidence was sufficient to raise a question of material fact concerning whether the medley was part of the dramatic performance and therefore an exercise of grand rights.

In *Apple Inc. v. Psystar Corp.*, 2011 WL 4470623 (9th Cir., Sept. 28, 2011), the U.S. Court of Appeals for the Ninth Circuit upheld Apple's licensing agreements for its operating system, Mac OS X, designed to restrict use of the operating system to Apple computers, against a claim of copyright misuse. In order to market computers with Apple's operating system, Psystar installed Mac OS X on an Apple computer to create a master image of the software, and then copied the software to Psystar computers. Each Psystar computer was then sold with an unopened copy of Mac OS X.

Thus, while the computers actually ran the altered copy of Mac OS X installed by Psystar, Psystar purchased a copy of Mac OS X for each computer. When Apple sued for infringement, Psystar argued that Apple's licensing agreement was an attempt to control use of its software after it had been sold in violation of the first sale doctrine, which prevents a copyright owner from prohibiting resale of a copyrighted item sold to a customer.

The Ninth Circuit rejected Psystar's argument, noting that Apple had licensed, not sold, the software and that the first sale doctrine does not apply to a license. Moreover, the court found that "[t]he copyright misuse doctrine does not prohibit using conditions to control use of copyrighted material, but it does prevent copyright holders from using the conditions to stifle competition." Apple's restrictions did not amount to misuse because they did not prevent Psystar from developing competing hardware or software.

Patents

Section 292 of the Patent Act, the False Marking statute, prohibits anyone from marking an item with the number of a patent with the intent of deceiving the public. As originally enacted, the statute allowed "any person"—even those not injured by the false marking—to bring suit. In 2009, the Federal Circuit interpreted the statute to impose the $500 penalty on a per-item basis, meaning that, where an argument could be made that a manufacturer acted intentionally, damages could be enormous. The result was the filing of a wave of false marking cases and the invention of a new term—"false-marking trolls." The AIA has brought an end to this practice, providing, among other things, that only the United States may sue for a false marking "penalty" and that only parties who have suffered a "competitive injury" can sue for damages. And the new statute applies retroactively to all cases pending on the law's effective date of Sept. 16, 2011.

In *Seirus Innovative Accessories Inc. v. Cabela's Inc.*, No. 09-cv-102 (U.S. Dist. Ct., S.D. Cal. Oct. 19, 2011), the court rejected a constitutional challenge to the retroactivity provision. A due process challenge failed because Congress enacted the statute for a legitimate purpose and clearly intended that it apply retroactively. And no takings violation occurred because the statute does not appropriate vested property rights for a "public use."