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## INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

### *Some Calls for 'Reform' of the Patent System*

Is the patent system in need of "reform"? And what would reform look like? Those issues are the subject of an ongoing series of "Town Meetings" on the patent system initiated by the Federal Trade Commission (FTC), the National Academy of Sciences (NAS)—a nonprofit scholarly society operating under congressional charter—and the American Intellectual Property Law Association (AIPLA).

The FTC released a sharply critical report on the patent system in 2003, an NAS committee issued a more restrained report in 2004, and AIPLA prepared detailed responses to each report.

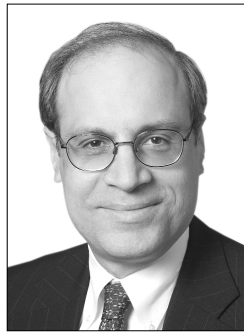
While the tone varies, these groups, as well as large companies that are both patent holders and defendants in patent litigation, have concluded that the patent system is too expensive and unpredictable, and many observers believe that too many weak patents are issued by the Patent Office and enforced by the courts.

#### Reform Proposals

Calls for "reform" have focused on several proposals, including the following:

• **Creation of an "Open Review" procedure for post-grant administrative challenges to patents:** The FTC, NAS and AIPLA all agree that there ought to be an administrative procedure for interested parties to challenge newly granted patents without resort to full-dress federal court litigation. Under some proposals, challenges would be heard by Patent Office administrative law judges, who could allow limited discovery, and a challenge would be sustained on preponderance of the evidence, rather than the clear and convincing standard required to invalidate a patent in court. Whether such a procedure will prove attractive to challengers will depend heavily on the details, including the availability of meaningful discovery and

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the grounds on which challenges are permitted.

• **Changes in substantive law:** Here there is substantial controversy. The FTC has argued that the rule that a patent cannot be issued for an invention that would have been obvious to those skilled in the art has not been rigorously applied and that the standards for proving obviousness should be liberalized. The AIPLA disagrees, believing that the courts have applied the obviousness rules with "both the needed rigor and the appropriate vigor."

The NAS report argues that the patent laws place undue emphasis on "subjective" factors focusing on state of mind—such as whether infringement was "willful," whether the patentee disclosed the best mode of practicing the invention and whether the applicant engaged in inequitable conduct by failing to disclose relevant prior art. It recommends that "significantly modifying or eliminating these rules would increase predictability of patent dispute outcomes" without compromising basic interests of the patent laws. The AIPLA would make it more difficult to establish willfulness, eliminate the best mode requirement from patent law and remove inequitable conduct as an issue in private litigation (making it an issue in Patent Office administrative proceedings). Nevertheless, such sweeping changes in patent law will not be easy to achieve.

There is nothing new about proposals to reform the patent system—major studies were issued in 1966, 1978 and 1992. As with those other reports, most of the recommendations of the AIPLA, NAS and FTC will never be enacted, but they are a good indication of the direction that the next wave of patent "reform" will take.

#### Copyright

In *Silvers v. Sony Pictures Entertainment, Inc.*, 2005 WL 678735 (9th Cir. March 25, 2005), the U.S. Court of Appeals for the Ninth Circuit, sitting en banc, held 7-4 that an assignee of an accrued claim for copyright infringement who has no legal or beneficial interest in the copyright itself, cannot sue for infringement. Nancy Silvers wrote the script of a TV movie as a work for hire, so that the copyright was owned by the film's producer. After an allegedly similar theatrical film was released by Sony Pictures, the producer assigned to Ms. Silvers the rights to any claims against Sony, but kept ownership of the copyright. Dismissing her action, the en banc majority held that §501(b) of the Copyright Act strictly limits standing to sue to "legal or beneficial owners" of an exclusive right granted by the act. As copyright is "a creature of statute," the majority found that courts may not expand standing beyond the express terms of the act. Analyzing the legislative history of the Copyright Act and the practice under other federal statutes, the four dissenters argued that nothing in the act had abrogated the common-law presumption that accrued causes of action may be assigned.

*Krause v. Titleserv Inc.*, 2005 WL 639420 (2d Cir. March 21, 2005), considered unsettled questions under §117(a)(1) of the Copyright Act, which provides that it is not infringement for the "owner of a copy" of a computer program to make a "copy or adaptation" of the program that is "an essential step in the utilization" of the program. Plaintiff Krause wrote a series of programs for Titleserv and then refused to work for the company after a dispute. Titleserv thereafter made modifications to the programs designed to fix bugs, and allow the input of additional information and permit its customers direct access to their records. The Court of Appeals affirmed summary judgment that these activities were shielded by §117(a)(1). It held that Titleserv qualified as an "owner," even though it lacked "formal title in a program copy." The fact that Titleserv had paid for the right to "possess and use a copy indefinitely without material restriction, as well as to discard or destroy it at will, gave it sufficient incidents of

ownership” to satisfy the statutory test. Moreover, the “modest alterations” it made in the programs were permissible, because they did no more than allow the programs to better serve “the needs of the customer for which [they were] created.”

Relying on *New York Times Co. Inc. v. Tasini*, 533 US 483 (2001), the U.S. Court of Appeals for the Second Circuit held that a digital collection of 108 years of issues of National Geographic magazine was a “revision” of a derivative work under §201(c) of the Copyright Act and, therefore, not an infringement of copyrights in photographs and articles included in the publication. *Faulkner v. Mindscape Inc.*, 2005 WL 503652 (2d Cir. March 4, 2005). Under §201(c), the owner of a copyright in a collective work (such as a magazine) is presumed to have acquired the right to use the copyrighted material included in the work in any “revision” of the collection. National Geographic’s digital collection qualified as a revision because it was an “electronic replica of the pages of the Magazine,” presenting “the underlying work to users in the same context as...in the original versions of the Magazine.”

## Patent

*MercExchange LLC v. eBay Inc.*, 2005 WL 605779 (Fed. Cir. March 16, 2005), considered controversial business method patents covering Internet-based markets, asserted against eBay and other defendants. After a jury verdict for plaintiff, the district court refused to enter an injunction, citing “a growing concern over the issuance of business-method patents;” plaintiff’s publicly stated willingness to license the patents; and plaintiff’s failure to move for a preliminary injunction.

The trial court was also concerned that, if an injunction issued, defendants would design around the patents and plaintiff would argue that defendants were still infringing, resulting in “contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to defendants’ systems” violate the injunction.

Reversing, the Court of Appeals stressed that, absent extraordinary circumstances in which the patentee’s failure to practice the patent “frustrates an important public need for the invention,” such as the protection of public health, an injunction ordinarily should issue. “If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace....”

In February, the en banc U.S. Court of Appeals for the Federal Circuit heard argument in *Phillips v. AWH Corp.*, No. 03-1269, which is expected to result in a landmark

opinion discussing central issues of claim construction.

While it prepares the *Phillips* opinion, the court continues to issue certain claim construction rulings. In *V-Formation Inc. v. Benetton Group SpA*, 2005 WL 590662 (Fed. Cir. March 15, 2005), the court reaffirmed the rule that prior art cited by the patentee is intrinsic (not extrinsic) evidence, and can have “particular value” in construing the claim. The Court of Appeals affirmed a district court’s reliance on a prior art patent that had been listed as a reference on the face of the patent and in an Information Disclosure Statement to “set the context” for claim construction. That patent used “strikingly similar language” to plaintiff’s patent, and addressed a central issue—whether rivets could be considered “releasable fasteners” in a design for in-line roller skates. In light of this rule, patent prosecutors may wish to make sure that the file history specifically notes that the patentee does not necessarily agree with the discussion of claim terms in significant pieces of cited prior art.

In a closely watched case, the Federal Circuit vacated a \$520 million jury verdict against Microsoft, based on alleged infringement of a patent (now under re-examination) covering the use of a Web browser to open interactive applications—for example, to watch video content or play games on a Web page. *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005).

Microsoft argued that a third party had anticipated the patent in a nonconfidential demonstration of software to Sun Microsystems made before the date of plaintiff’s invention. The district court held that the third party had “abandoned, suppressed or concealed” his invention, because the software was modified after the demonstration. On that basis, the district court held that the demonstrated software could not qualify as prior art under §102(g)(1) (which provides that a patent may not be granted if, prior to the invention date, the invention was “made in this country by another inventor who had not abandoned, suppressed, or concealed it”) or under §102(b) (which invalidates a patent where the invention was “in public use or on sale” more than a year before the application).

The Court of Appeals held that creating an “improved version of an invention does not in any sense abandon the original invention,” so that the demonstrated software could qualify as prior art under §102(g)(1) and §102(b). It remanded for consideration of Microsoft’s invalidity and inequitable conduct defenses.

• **Trademark.** The Ninth Circuit held that a Web site critical of a hair restoration business that used the business’ trademark in its domain name was a noncommercial use of the mark and therefore not an infringement

under the Lanham Act. *Bosley Medical Institute Inc. v. Kremer*, 2005 WL 752337 (9th Cir. April 5, 2005). Mr. Kremer, a dissatisfied customer of Bosley Medical, established [www.BosleyMedical.com](http://www.BosleyMedical.com), a site devoted to criticism of Bosley. Mr. Kremer earned no revenue from the site, posted no advertising and did not use the site to sell goods or services. His use of the mark therefore was not “in connection with the sale of goods or services” and, therefore, not within the reach of the Lanham Act.

The Court of Appeals rejected Bosley’s argument, based on *People for Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir. 2001), that the use should be considered commercial because the site might “deter” potential customers from reaching Bosley’s authorized site. Bosley also brought a claim under the Anticybersquatting Act, alleging that Mr. Kremer had registered the mark in bad faith in order to obtain a payment from Bosley. That claim survived because the Anticybersquatting Act is not limited to commercial use.

Almost anything can be a trademark, as long as it serves to identify the source of a good or service. But an operator of “amphibious sightseeing tours” in Philadelphia failed to show it had trademark rights in duck calls used in its tours. *Ride the Ducks LLC v. Duck Boat Tours Inc.*, 2005 WL 670302 (E.D. Pa. March 21, 2005). Ride the Ducks owns a service mark for “a quacking noise made by tour guides and tour participants by use of duck-call devices [called ‘Wacky Quackers’] throughout various portions” of tours on land and water in amphibious vehicles.

Denying a preliminary injunction against a rival tour operator who also used duck-noise “quackers,” the district court found that “quacking is the kind of familiar noise that would not...qualify as so inherently distinctive that proof of secondary meaning is not necessary to link the noise to plaintiff’s provision of an amphibious tour on a World War II DUKW” [The acronym, called “duck,” is based on D-model year 1942, U-amphibian, K-all wheel drive, W-dual rear axles was a 2.5-ton and describes a six-wheel, boat-shaped truck].

Plaintiff, however, “presented no evidence that a person apprehending a quacking noise on the streets of Philadelphia would reflexively think of the services provided by ‘Ride the Ducks.’” Ride the Ducks therefore failed to establish likelihood of success on claims of infringement or dilution.

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