

# New York Law Journal



Web address: <http://www.law.com/ny>

VOLUME 230—NO. 98

TUESDAY, NOVEMBER 18, 2003

## INTELLECTUAL PROPERTY LITIGATION

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### *FTC Report: 'The Proper Balance of Competition, Patent Law'*

**T**HE FEDERAL Trade Commission (FTC) has studied the patent system and doesn't much like what it sees. That is the unmistakable message of its October 2003 report, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy."

Issued nearly a year after the commission concluded several months of hearings about the patent system, the report recommends several fundamental changes in the patent system, designed, the commission believes, to decrease the number of "questionable" patents issued by the Patent and Trademark Office (PTO).

#### **The FTC Report**

While the U.S. Court of Appeals for the Federal Circuit has said that patent and antitrust law "are actually complementary, as both are aimed at encouraging innovation, industry and competition," *Atari Games Corp. v. Nintendo of America*, 897 F2d 1572, 1576 (Fed. Cir. 1990), in fact, they are more often antagonistic. Patents restrict competition; antitrust law



encourages it. Extending necessary courtesies, the FTC Report states that "the patent system does, for the most part, achieve a proper balance with competition policy." The changes it advocates, however, challenge basic assumptions about the quality of the PTO's work.

Most prominently, the report calls for a new procedure for post-grant review of patents "that allows for meaningful challenges to patent validity short of federal court litigation." Under the proposal, decisions would be made by an "administrative patent judge," and the parties would be allowed limited discovery and an opportunity to present and cross-examine witnesses. Conclusions of law would be entitled to deference on review in an appellate court.

This recommendation is based on the sensible assumption that only a small fraction of the patents issued by the PTO are of real value. On this premise, it makes sense to devote more resources to analyzing those patents

that are challenged by third parties, which presumably are of greatest competitive significance. There is little doubt that additional scrutiny — particularly in the context of an adversary proceeding — is likely to increase the quality of issued patents. Less clear is whether a new procedure would be worth the cost and whether challengers would use it in preference to a federal court action, which would afford broader discovery and a federal district judge, as opposed to an administrative official, as the presiding officer.

The report also advocates an amendment to the Patent Act to provide that challenges to patent validity need only be based on a preponderance of the evidence, rather than the current requirement of "clear and convincing" evidence. The report argues that because PTO "presumptions and procedures tip the scales in favor of the ultimate issuance of a patent," because patents are issued based on a preponderance standard, and because the PTO has limited resources to devote to examination of any one application, a heightened standard for challenges is unjustified. Defenders of the current rule argue that a preponderance standard would not accord sufficient deference to the specialized expertise of the PTO.

The report also argues that the standards for proving that an invention would have been obvious should be

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liberalized. It advocates making it easier to show that a person skilled in the art would have combined prior art references to arrive at the invention and harder for a patentee to claim that the commercial success of a product practicing the patent shows that the invention was not obvious.

It appears unlikely that these changes will be adopted any time soon — they amount to radical surgery on the Patent Act. But the report is valuable because it presents an informed, but skeptical, view of the current state of patent law.

### Copyright

Deciding an issue of major importance to the radio industry, the U.S. Court of Appeals for the Third Circuit upheld the Copyright Office's determination that Internet streaming of AM/FM broadcasts is subject to the digital audio transmission performance right given to owners of copyrights in sound recordings. *Bonneville Int'l Corp. v. Peters*, 2003 WL 22365268 (3d Cir. Oct. 17, 2003). Unlike authors of musical compositions, owners of copyrights in sound recordings traditionally had no exclusive right of public performance under the Copyright Act. In 1995, Congress enacted a limited performance right covering "digital audio transmissions." Keeping in mind the historical right of radio stations to broadcast without paying performance royalties, that legislation excepted from the performance right "nonsubscription broadcast transmissions." The court of appeals found that the Copyright Office correctly concluded that the "broadcast transmission" exclusion is limited to over-the-air transmissions and does not authorize Internet "Web casting" of radio broadcasts.

A sharply divided U.S. Court of Appeals for the Ninth Circuit panel

upheld a preliminary injunction barring distribution of a 16-hour biographical film about Elvis Presley that included excerpts from copyrighted video clips, photographs and music. *Elvis Presley Enterprises, Inc. v. Passport Video*, 2003 WL 22510352 (9th Cir. Nov. 6, 2003). Finding that the trial court had properly refused to credit a fair-use defense, the panel majority

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stressed that certain video clips were used in their entirety and that other selections took the "heart of the work." The dissent emphasized that the copyrighted material was accompanied by "voice-over" narration and interviews that were "transformative," and argued that, in view of the public interest in Mr. Presley, damages, rather than an injunction, should be the only remedy. Surprisingly, neither opinion attempted to evaluate each of the copyrighted selections individually under the statutory fair-use factors.

Another divided Ninth Circuit panel applied the doctrine of de minimis infringement to resolve the "difficult and important issue" of whether "sampling" — the incorporation of a short segment of a recording in a new musical work — infringes the copyright in the "sampled" composition. *Newton v. Diamond*, 2003 WL 22480006 (9th Cir. Nov. 4, 2003). The rap group Beastie Boys sampled a six-second, three-note part of a composition written by jazz flutist James W. Newton. As the sampled portion was "neither quantitatively nor qualitatively significant" to Mr. Newton's

composition as a whole — even though it was repeated dozens of times in the Beastie Boys' composition — the panel majority held that the copying was de minimis and therefore not actionable. A U.S. Court of Appeals for the Sixth Circuit panel applied the same doctrine in *Gordon v. Nextel Communications*, 345 F3d 922 (6th Cir. 2003), ruling that the use of two dental illustrations, which appeared "fleetingly" and "primarily out of focus" in a Nextel television commercial was also de minimis.

### Trademarks

In *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 US 23, 33 (2001), the Supreme Court held that a trademark is functional — and therefore invalid — "when it is essential to the use or purpose of [a] device or when it affects the cost or quality of the device." Applying that rule, the Ninth Circuit held that the shape of a water bottle was functional, requiring dismissal of a trademark claim against a competitor and cancellation of the plaintiff's trademark registration. *Talking Rain Beverage Co. v. South Beach Beverage Co.*, 2003 WL 22480016 (9th Cir. Nov. 4, 2003). Plaintiff's advertising touted the bottle's utilitarian features (easy-to-grip), the manufacturing concerns that influenced the bottle design and the "utilitarian advantage" that the design conveyed. Under *Traffix*, the fact that the same functionality could have been achieved with another configuration did not make the design nonfunctional.

*Pro-Football, Inc. v. Harjo*, 68 USPQ2d 1225 (DDC 2003), tackled the controversial issue of the trademark rights of the Washington Redskins football team. The Trademark Trial and Appeal Board canceled several Redskins trademarks

under §2(a) of the Lanham Act, on the ground that they disparage Native Americans. The district court reversed, holding that petitioners — a group of Native Americans — failed to present substantial reliable evidence that a significant number of Native Americans believed, when the marks were registered, that the term “Redskins” disparaged Native Americans when used in connection with a football team. Among other things, the court noted that petitioners’ consumer survey did not deal with the relevant time period and tested the use of the word “Redskins” in isolation, not in association with the NFL team. The court also held that petitioners had unreasonably delayed challenging the marks — the first of which was registered in 1967 — so that their claims are barred by laches.

Two manufacturers who failed to get the joke were rebuffed in attempts to enjoin the use of their trademarked products in Hollywood films. In *Caterpillar Inc. v. Walt Disney Co.*, 68 USPQ2d 1461 (C.D. Ill. 2003), Caterpillar complained that its bulldozers were used by a villain in “George of the Jungle 2” to attack the hero. Noting that the “appearance of products bearing well-known trademarks in cinema and television is a common phenomenon,” the court found no likelihood of confusion as to source, and no likelihood of dilution, in the absence of any suggestion that Caterpillar products are of low quality, or any portrayal of them in an “unwholesome or unsavory light.” The result was similar in *Wham-O, Inc. v. Paramount Pictures Corp.*, 2003 WL 22300526 (N.D. Calif. Sept. 30, 2003), where plaintiff’s water-slide was misused in a comic scene by the leading character in “Dickie Roberts: Former Child Star.” Rejecting the dilution claim, the court found that “the misuse to which defendants put

the slide does not make plaintiff’s marks less unique or identifiable.”

## Patents

In its landmark opinion in *Festo Corp. v. Soketsu Kinzoku Kogyo Kabushiki Co. Ltd.*, 535 US 722 (2002), the Supreme Court held that a narrowing amendment to a patent claim, made for a reason of patentability, may give rise to an estoppel preventing assertion of the doctrine of equivalents. It also established a presumption that such an amendment surrenders the entire territory between the original and amended claim limitations, unless the patentee can show that one skilled in the art “could not reasonably be expected to have drafted a claim that would have literally encompassed the alleged equivalent.” In yet another en banc opinion in the *Festo* case — a litigation that began in 1988 — the Federal Circuit clarified several issues left open by the Supreme Court. 344 F3d 1359 (Fed. Cir. 2003).

Most importantly, the Federal Circuit held that “rebuttal of the presumption of surrender” is a question of law determined by the court, not a jury. In considering whether an alleged equivalent would have been foreseeable at the time of the amendment, a trial court may consider expert testimony and other extrinsic evidence concerning the knowledge and understanding of one skilled in the art. However, in considering whether the rationale of an amendment bears more than a “tangential relation to the equivalent in question” — a requirement for estoppel under the Supreme Court’s opinion — the court is generally limited to review of the prosecution history. In addition to the tests of foreseeability and tangential relation, the Supreme Court left open the

possibility that a patentee could show “some other reason” why it could not “reasonably be expected to have described” the equivalent in question. Calling this category “vague” but “narrow,” the Federal Circuit held that, “when at all possible,” this determination should also be limited to the prosecution history. It remanded the case again to the district court to determine whether the accused equivalents would have been foreseeable to a person of ordinary skill in the art.

These principles were applied in *Talbert Fuel Systems Patents Co. v. Unocal Corp.*, 2003 WL 22434719 (Fed. Cir. Oct. 28, 2003), where the court found an equivalents claim barred by estoppel. The patentee had amended its claim to a gasoline formulation to require a boiling point in the range of 121 to 345 degrees Fahrenheit, in response to the examiner’s reference to prior art showing a higher boiling point. The accused equivalent gasoline had a boiling point above that range. The court of appeals found that “when the prior art embraces the alleged equivalent and a narrowing amendment was made to avoid that equivalent, that subject matter cannot be found to have been unforeseeable at the time of the amendment.” Nor could the patentee show that the amendment was only “tangential” to the alleged equivalent, because the boiling point range was the “direct” reason for the amendment. Finally, the patentee could not come forward with any “other reason” to avoid estoppel.

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