

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Reforms to Address Patent Trolls Move Slowly

This summer has seen considerable discussion about one of the most controversial issues in patent law and policy—efforts of patent monetization entities (PMEs) also known to their detractors as “patent trolls”—to enforce patent rights.

PMEs—which have been defined as entities that acquire patents from others for the purpose of asserting them against alleged infringers—have been associated with a string of abuses. Typical of this view is a July 2013 report issued by the White House, Patent Assertion and U.S. Innovation, which asserts that PMEs “focus on aggressive litigation,” “threatening to sue thousands of companies at once, without specific evidence of infringement against any of them; creating shell companies that make it difficult for defendants to know who is suing them; and asserting that their patents cover inventions not imagined at the time they were granted.” Defenders of PMEs argue that those entities play an important role in allowing small inventors, academic institutions and others to benefit from patent rights that would otherwise never be enforced.

When Congress passed the America Invents Act, the latest significant revision

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of patent law, in 2011, it directed the Government Accountability Office (GAO) to conduct a study of the “consequences” of litigation of patent claims by PMEs. That study, with the awkward title *Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, was released on Aug. 22. Anyone who expected the GAO to add its voice to the critics of patent trolls likely was disappointed.

While the GAO found that the number of defendants in patent infringement lawsuits had increased significantly in recent years, it did not attribute that development to the activity of PMEs. Instead, it found the increase in litigation to be associated with the assertion of “software-related patents,” a category the GAO defined to include business method patents. On that premise, the report concluded that a “focus on the identity of the litigant—rather than the type of patent—may be misplaced.”

Noting the view that many software-related patents have “overly broad or unclear claims,” the report’s only con-

clusion was the anodyne recommendation—that the Patent Office “consider examining trends in patent infringement litigation, including the types of patents and issues in dispute, and...consider linking this information to internal data on patent examination to improve the quality of issued patents and the patent examination process.” Not surprisingly, the Patent Office agreed to do so.

Many commentators have argued that the problems associated with patent trolls typically arise during periods of rapid technological change when it may be difficult for the Patent Office to avoid issuing overbroad patents. Writing on his blog in July, prominent jurist Richard Posner asserted that the “problem of patent trolls is a function in part of the promiscuity with which the patent office has issued patents in recent years, and the encouragement that such issuance has received” from the U.S. Court of Appeals for the Federal Circuit.

The perceived problems caused by patent trolls are nothing new. During a debate over patent legislation in 1878—considered a time of fast technological change and relatively liberal standards for the grant of patent rights—Michigan Senator Isaac Christancy complained about “patent-sharks among the legal profession” who bought “dormant patents” and used them to “extort[]” “millions” “from the people every year.” Then, as now, troll suits increase the cost of running a successful business—

the more successful a product, the more likely it is a target for patent infringement suits. Many companies make the rational decision to settle for an amount less than the cost of defense.

There is a strong argument that improving the quality of issued patents—particularly software and business method patents—would inhibit the abusive behavior critics associate with patent trolls. But those reforms will take time and are difficult to implement. In the meantime, both Congress and the Obama administration are considering legislation that would address these issues more directly. Proposals include requirements that parties asserting patent rights through demand letters or litigation disclose the identity of their owners and financial backers; changes to federal procedure to limit and focus discovery in patent infringement suits; expanded rights of manufacturers to intervene in patent litigation filed against their customers; and increased discretion for federal judges to award fees to prevailing parties in patent cases. At the same time, a series of Supreme Court and Federal Circuit decisions have limited the ability of plaintiffs in patent cases to obtain injunctions and large damage awards in cases where a patented invention is a small ingredient in a complex product.

None of these developments will put PMEs out of business. But increased attention, higher standards at the Patent Office, judicial vigilance and incremental legislative change are likely to reduce the chance that “trolls” can abuse the patent system.

Trademarks

In two opinions issued on the same day and involving the same defendant (Electronic Arts or EA), a U.S. Court of Appeals for the Ninth Circuit panel considered whether football players may sue when their likenesses are used in video games. *Brown v. Electronic Arts*, 2013 WL 3927736 (9th Cir. July 31, 2013), held that legendary Cleveland Browns player Jim Brown failed to state a Lanham Act claim—based on the use of his

likeness in EA’s Madden NFL game—under the test of *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989). *Rogers* recognizes that Lanham Act protections are limited by the First Amendment, particularly if the product involved is an expressive work. The Ninth Circuit found that Madden NFL is an expressive work, that Brown’s likeness is artistically relevant to the game, and that use of his likeness did not mislead users to believe that Brown was associated with or sponsored the product.

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In *In re NCAA Student-Athlete Name & Likeness Licensing Litigation*, 2013 WL 3928293 (9th Cir. July 31, 2013), however, the same judges rejected EA’s First Amendment defense against the right of publicity claims of college quarterback Samuel Keller. The court refused to apply the *Rogers* test, reasoning that the right of publicity, unlike the Lanham Act, protects the rights of individuals rather than consumers. Instead, the court applied a flexible case-by-case approach that weighs an individual’s interest in retaining his or her publicity right against the public’s interest in free expression. Under that test, the court found that EA’s use of Keller’s likeness did not include sufficiently transformative elements to merit constitutional protection.

Evans v. Hewlett-Packard, 2013 WL 4426359 (N.D. Cal. Aug. 15, 2013), sustained Chubby Checker’s trademark claim against Hewlett-Packard Company (HP) based on a risqué software application offered on HP’s “App Catalogue.” The application, named “The Chubby Checker,” purports to estimate the size of a man’s genitals based on shoe size. The court rejected HP’s argument that plaintiff could claim only contributory,

rather than direct, infringement because HP employed an application and approval process in order for an “app” to be offered in the HP App Catalogue.

The complaint sufficiently alleged that HP knew, or could have reasonably deduced, that the owner of the Chubby Checker mark would never have licensed the mark for “such a vulgar purpose.” However, the court found that the safe harbor provision of Section 230 of the Communications Decency Act, which protects Internet service providers from suit based on material published by content providers, barred plaintiff’s state law claims.

Patents

In *Leo Pharmaceutical Products v. Rea*, 2013 WL 4054937 (Fed. Cir. Aug. 12, 2013), the Federal Circuit set forth robust standards for analyzing the obviousness of a claimed invention before the Board of Patent Appeals and Interferences. Leo Pharmaceutical Products provided experimental evidence that the use of the claimed compositions in its patent yielded unexpected results, and also presented evidence of commercial success and long felt but unsolved need. Nevertheless, the board determined that Leo’s claimed compositions were obvious.

Reversing, the Federal Circuit held that: (1) the record disclosed “several reasons that a person of ordinary skill in the art would not have been motivated to try, let alone make, the claimed invention of the ’013 patent,” including that the inventors appreciated and solved a problem “that the prior art did not recognize and a problem that was not solved for over a decade”; and (2) the objective indicia of nonobviousness should have been considered as “independent evidence of nonobviousness” to “avert the trap of hindsight when reviewing, what otherwise seems like, a combination of known elements.”

In *Aria Diagnostics v. Sequenom*, 2013 WL 4034379 (Fed. Cir. Aug. 9, 2013), the Federal Circuit vacated denial of a motion for a preliminary injunction brought by the Sequenom, the owner of a patent directed to methods for

screening pregnant women for chromosomal abnormalities in the fetus. The appellate opinion provides guidance to district courts considering injunction motions. The Federal Circuit found that the trial court had erred by assuming that the erosion to the price and market share of Sequenom's product were not irreparable injury because Sequenom could recover the lost market share and receive damages to compensate for the infringement.

If that argument were credited, "patents would lose their character as an exclusive right...and become at best a judicially imposed and monitored compulsory license." Moreover, the "fact that other infringers may be in the marketplace does not negate [Sequenom's] irreparable harm." And while an injunction might put the infringer out of business, the district court was required to weigh that impact against the harm to Sequenom from denial of an injunction, including injury to its "investment in the technology" and "work and money spent developing, validating, and commercializing any covered product."

Copyright

Fox Broad. v. Dish Network, 2013 WL 3814917 (9th Cir. July 24, 2013), affirmed denial of Fox Broadcasting Company's motion for a preliminary injunction against Dish Network's "Hopper" product that allows its subscribers to record primetime television shows and then view them with the commercials automatically fast forwarded. The Court of Appeals reasoned that Dish could not be liable for direct copyright infringement because the customer—not Dish—must take the initial step of enabling the program. Therefore, the customer is the "most significant and important" cause of the copying. Fox's claim of secondary liability for copyright infringement failed because subscribers' use of Hopper to "time shift" television programs amounted to fair use under *Sony of Am. v. Universal City Studios*, 464 U.S. 417 (1984) and Fox has no copyright interest in the fast-forwarded commercials. "If recording an entire copyrighted program is a fair

use, the fact that viewers do not watch the ads not copyrighted by Fox cannot transform the recording into a copyright violation." While Fox argued that it suffered "market harm" when viewers skipped commercials, that harm "does not implicate any copyright interest."

Seltzer v. Green Day, 2013 WL 4007803 (9th Cir. Aug. 7, 2013), affirmed summary judgment holding that the rock band Green Day's incorporation of an image in the video backdrop of its stage show was fair use. Plaintiff Seltzer, an artist and illustrator, created Scream Icon, "a drawing of a screaming, contorted face" that has been "plastered on walls as street art in Los Angeles and elsewhere." Seltzer also used the image as part of advertisements for his gallery appearances and licensed it for use in a music video. An artist working for Green Day featured Scream Icon in a four-minute video played during the band's show. In the video, "the center of the frame is dominated" by a version of Scream Icon modified "by adding a large red 'spray-painted' cross over the middle of the screaming face."

The Ninth Circuit agreed that the use was transformative: "although Scream Icon is prominent, it remains only a component of what is essentially a street-art focused music video about religion," in which images of Jesus Christ repeatedly appear and are defaced. Moreover, the band never used the video "to market the concert, CDs, or merchandise." Nor was there evidence that the video was a "substitute for the primary market for Seltzer's art," or that the copying had diminished the value of Scream Icon.

In *Unclaimed Prop. Recovery Serv. v. Kaplan*, 2013 WL 4417579 (2d Cir. Aug. 20, 2013), the U.S. Court of Appeals for the Second Circuit rejected what it called "a novel attempt to use copyright law in furtherance of sharp litigation practices." Gelb and his business UPRS were representative plaintiffs in a civil RICO class action arising out of bond purchases. Gelb, who is not an attorney, authored the amended complaint in the action and compiled 305 pages of accompanying exhibits. Kaplan signed and filed that complaint as attorney for

Gelb, UPRS and other class plaintiffs. The district court dismissed the complaint as time-barred and plaintiffs appealed. During the appeal, Gelb and UPRS had a falling out with Kaplan and retained new counsel, with Kaplan continuing as counsel for other class plaintiffs.

The Second Circuit reversed and remanded, and shortly thereafter, Gelb and UPRS obtained copyright registration for the amended complaint and exhibits. When Kaplan later filed an amended complaint that included "significant portions" taken from the prior complaint and exhibits, Gelb and UPRS sued Kaplan for copyright infringement, seeking an injunction and damages. Affirming dismissal of the copyright complaint, the Second Circuit held that Gelb and UPRS had authorized Kaplan to use the amended complaint in the RICO litigation, and could not withdraw that authorization after the document had been filed. "[S]uch an authorization necessarily conveys, not only to the authorized party but to all present and future attorneys and to the court, an irrevocable authorization to use the document in the litigation thereafter."

The Second Circuit wrote that "litigation cannot be conducted successfully unless the parties to the litigation and their attorneys are free to use documents that are a part of the litigation." "The needs of the courts prevail over the copyright holder's selfish interests...." The Court of Appeals also made clear that it was not deciding whether "legal pleadings or other legal documents are subject to copyright law," or that "permission of the copyright holder is inevitably needed for use of a copyrighted document in litigation."