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INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

Supreme Court Initiates Reviews of Federal Circuit Patent Cases

FOR YEARS, the Supreme Court rarely, if ever, decided to review patent rulings of the Court of Appeals for the Federal Circuit, seemingly reflecting the view that, as a specialized court, the Federal Circuit knew best how to construe the Patent Act. This Supreme Court term is different. The Court has heard three patent cases and, within the past month, reversed the Federal Circuit in two significant opinions, one dealing with the doctrine of equivalents and the other with the scope of the Federal Circuit's jurisdiction.

Doctrine of Equivalents

The doctrine of equivalents gives a patent holder a right to recover even where there is no literal infringement, if the defendant has made only "insubstantial" changes to the patented invention. While providing protection against what some courts call "copyists," the doctrine has caused mischief because it is so hard to predict what changes are so "insubstantial" that a jury might find infringement under the doctrine.

Reacting to that uncertainty, and over-zealous dissents, a majority of the en banc Federal Circuit held in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 234 F.3d 558 (Fed. Cir. 2000), that, whenever a claim is amended, the patent holder may not claim any range of equivalents for the amended element. That holding was an application of prosecution history estoppel, a rule that bars a patentee from claiming that subject matter abandoned during prosecution infringes the patent.

On May 28, 2002, the Supreme Court emphatically reversed. 122 S.Ct. 1831 (2002). The Court began by reaffirming its commitment to a robust doctrine of equivalents: "If patents were always interpreted by their literal



terms, their value would be greatly diminished. Unimportant and insubstantial substitutes for certain elements could defeat the patent, and its value to inventors could be destroyed by simple acts of copying."

The Court affirmed the Federal Circuit's holding that any "narrowing amendment made to satisfy any requirement of the Patent Act" — not simply to avoid prior art — may give rise to an estoppel. But it rejected an absolute bar against infringement by equivalents whenever a claim has been amended, adopting instead a flexible presumption under which a patentee must "bear the burden" of showing that "the amendment does not surrender the particular equivalent in question." That presumption of surrender would not apply and infringement could be found, for example, where a particular equivalent "may have been unforeseeable" when the application was filed or where "the rationale underlying the amendment may bear no more than a tangential relation to the equivalent in question."

The absolute bar adopted by the Federal Circuit had little to recommend it — it is hard to understand why an amendment made for any reason at all should automatically prevent application of the doctrine of equivalents, and the rule dramatically affected the value of many thousands of patents that had been amended as a matter of course during prosecution in the Patent Office. Now that a flexible bar is in place, the Federal Circuit will have the task of working out just what it means.

The Supreme Court's jurisdictional ruling was issued on June 3, 2002 in *Holmes Group,*

Inc. v. Vornado Air Circulation Systems, Inc., 122 S.Ct. 1869 (2002).

Under 28 U.S.C. §1295(a)(1), the Federal Circuit has jurisdiction over appeals from trial courts where jurisdiction was "based, in whole or in part" on 28 U.S.C. § 1338, the statute that gives district courts jurisdiction over patent claims. In *Holmes*, plaintiff sued for a declaratory judgment that it had not infringed defendant's trade dress, and defendant filed a compulsory counterclaim for patent infringement. The Supreme Court held that the patent counterclaim did not confer jurisdiction on the Federal Circuit.

Using the "well-pleaded complaint rule" applied both under 28 U.S.C. §1338 and under the federal question jurisdictional statute, 28 U.S.C. § 1331, the Supreme Court held that that the Federal Circuit has appellate jurisdiction only when a well-pleaded complaint — not a counterclaim — establishes that "patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law." Thus, appeals in cases with patent counterclaims will be decided outside of the Federal Circuit — a development welcomed in Justice John Paul Stevens' concurrence; he remarked that "occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias."

While *Holmes* is true to precedent, it will promote a race to the courthouse in cases where the Federal Circuit differs with other circuits on non-patent issues. That conflict is acute in the area of antitrust law, where the Federal Circuit has proved hostile to claims that the refusal to license intellectual property can amount to an antitrust violation. That position, as well as the Federal Circuit's expansive view of its jurisdiction, has drawn criticism from antitrust regulators such as Chairman Timothy Muris of the Federal Trade Commission. *Holmes* creates a real incentive for any party with such an antitrust claim to sue first and avoid Federal Circuit appellate jurisdiction.

Succeeding terms will tell whether *Festo*

Lewis R. Clayton is a litigation partner at New York's Paul, Weiss, Riffkind, Wharton & Garrison and co-chair of the firm's IP Litigation Group. **Susanna M. Buergel**, an associate at the firm, assisted in the preparation of this column. (lclayton@paulweiss.com)

and *Holmes* signal a new willingness of the Supreme Court to assert its power over the Federal Circuit.

Trademarks

Barcamerica Int'l USA Trust v. Tyfield Importers, Inc., 289 F.3d 589 (9th Cir. 2002) illustrates the risks of "naked licensing" — licensing a trademark without adequate quality controls over the licensee. The Court of Appeals held that Barcamerica had abandoned its rights in a trademark for wine by failing to exercise even minimal supervision over a licensee's production. Barcamerica had no contractual rights of inspection or supervision, had no organized testing program and "failed to demonstrate any knowledge of or reliance on the actual quality controls" of the licensee. While the consequences of naked licensing are severe, it is easy to comply with the rule — the *Barcamerica* court indicated that the result might have been different had Barcamerica simply sampled the licensee's product on an annual basis.

In *Karl Storz Endoscopy-America, Inc. v. Surgical Technologies, Inc.*, 285 F.3d 848 (9th Cir. 2002), the Ninth Circuit considered when repair of a trademarked item constitutes trademark infringement. Storz, a maker of surgical endoscopes, sued firms that repair those instruments for hospitals that own the items. Reversing summary judgment for defendant, the court held that repair is "use in commerce" of the mark (a jurisdictional requirement of the Lanham Act) when the "trademarked product is so altered that the substance of the transaction is a sale, and it would be misleading to sell the product without noting the alterations." On this test, an owner is allowed to repair the item itself or to arrange for minor repairs by others, without infringing the mark. While this holding makes practical sense, it is difficult to square with the broad language of §45 of the Lanham Act, which deems a mark "in use in commerce" when goods "are sold or transported in commerce."

While most courts will not stay an infringement action pending a decision of the Trademark Trial and Appeal Board (TTAB), a Delaware court did just that in *Microchip Technology, Inc. v. Motorola, Inc.*, No. 01-264-JF (D. Del. May 28, 2002). After Microchip sued Motorola for infringement of its PIC mark, Motorola instituted a TTAB proceeding seeking cancellation of the mark on the ground that it is generic. Although the TTAB sus-

pending those proceedings pending the federal case, the district court nevertheless stayed the action, reasoning that "the issue of genericism is within the special expertise of the TTAB" and that the court would ordinarily give deference to the TTAB's findings on that issue.

Copyright

In *Veeck v. Southern Building Code Congress Int'l, Inc.*, 2002 WL 1270117 (5th Cir. June 7, 2002), the 14 judges of the en banc Fifth Circuit debated whether the Copyright Act prohibits copying of the building codes of Anna and Savoy, two small north Texas towns. Like many local governments, the towns had

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adopted verbatim a model code authored by the Southern Building Code Congress. Splitting 8-6, the court held that, once enacted into law, the codes lost their copyright protection, because "the law," whether articulated in judicial opinions or legislative acts or ordinances, is in the public

domain and thus not amenable to copyright." The majority also found that, when adopted, the codes became "facts" exempt from copyright protection under the merger doctrine of §102(b) of the act. Surprisingly, the court never considered whether the license agreement under which the codes were provided, which prohibits copying, is enforceable as a matter of contract law, even if the underlying content is not copyrightable.

Ty, Inc. v. Publications Int'l, Ltd., 2002 WL 1068020 (7th Cir. May 30, 2002), provides an economist's view of fair use, presented by Judge Richard Posner, a prominent advocate of the "Chicago School" law and economics approach. Judge Posner analyzed fair use strictly from the perspective of the market impact of the proposed use: "copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work, is not fair use." On that basis, the court reversed and remanded a summary judgment finding that several books featuring pictures of Beanie Babies, including a "Collector's Guide," were not protected by fair use. While Judge Posner's approach will explain many fair use decisions, the statutory fair use factors in §107 of the act (which the court dismisses as "not illuminating") direct consideration of matters such as the "purpose

and character of the use" and the "nature of the copyrighted work" that cannot be reduced to purely economic terms.

A California district court in *United States v. Elcom Ltd a/k/a Elcomsoft Co., Ltd.*, 2002 WL 1009662 (N.D.Ca. May 8, 2002), sanctioned criminal prosecution of a Russian software company and one of its employees for violation of the anti-circumvention provisions of the Digital Millennium Copyright Act (DMCA), 17 U.S.C. §§ 1201(b)(1). Defendants were prosecuted for selling software that allows users to remove copying restrictions embedded in books distributed in digital form ("e-books"). The court rejected a host of constitutional challenges, finding that the statute is not overbroad or vague. The court determined that the statute does not prevent fair use of copyrighted materials, but merely limits the technological means of exercising those rights. The decision opens the way for vigorous criminal enforcement of the DMCA.

Patents

In *Juicy Whip, Inc. v. Orange Bang, Inc.*, 2002 WL 1270909, (Fed. Cir. June 7, 2002), the Federal Circuit applied the extraordinarily stringent rules governing proof of prior public use under §102(b) of the Patent Act. Citing precedent extending back to *The Barbed Wire Patent*, 143 U.S. 275 (1892), where the testimony of 24 witnesses was held insufficient to invalidate a patent, the court reversed a jury verdict of invalidity based on the testimony of six witnesses. In addition to finding that the testimony was not sufficiently precise as to certain elements of the patent claims, that testimony was not "clear and convincing evidence" because there was no written corroboration concerning an essential element of the claims, and because each of the six witnesses had some interest in the case.

Another stringent rule was applied by the Seventh Circuit Court of Appeals in *Scheiber v. Dolby Laboratories, Inc.*, 2002 WL 1307414 (7th Cir. June 17, 2002). Relying on the often-criticized but still binding decision in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), the court held that a patent owner may not enforce a contract for the payment of patent royalties beyond the expiration date of the patent. It reached that result even though the licensee had itself requested the arrangement, proposing a lower yearly royalty in order to stretch out the total payment. As *Scheiber* indicates, federal courts will not enforce such contracts, despite equitable reasons to do so. The result likely would have been different if the contract were structured to include the transfer of trade secrets or trademarks, or the provision of consulting services.