

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Fifty Percent Royalty Rate Affirmed Against Generic Manufacturer

In the past two months, the U.S. Supreme Court handed down a trademark decision addressing when a Trademark Trial and Appeal Board decision regarding likelihood of confusion can have issue-preclusive effect in an infringement lawsuit, holding that TTAB decisions can be issue preclusive if the usages for which registration is sought before the TTAB are materially the same as the commercial usages at issue in the lawsuit. We also address appellate decisions regarding reasonable royalty rates and the “entire market value” rule in generic-pharmaceutical cases, application of the new test for patent indefiniteness, and whether the Copyright Act preempts state law claims.

Trademark: Issue Preclusion

The Lanham Act creates at least two procedural mechanisms to protect trademarks: registration of the mark with the Patent and Trademark Office, and infringement suits in federal court. Under the first mechanism, when a PTO examiner believes that registration of a mark is warranted, the mark is published in the PTO’s Official Gazette, and anyone who faces harm from the registration may file an opposi-



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tion proceeding, to be decided by the Trademark Trial and Appeal Board. The two mechanisms often occur in parallel, with simultaneous TTAB opposition proceedings and district-court infringement suits. That raises the question whether a decision of the TTAB can have issue-preclusive effect in an infringement suit.

On March 24, in *B&B Hardware v. Hargis Industries*, — U.S. —, 135 S.Ct. 1293 (2015), the Supreme Court held that TTAB decisions can have preclusive effect, where the ordinary elements of issue preclusion are met and where the TTAB considers usages of the marks that are materially the same as the usages at issue in the infringement suit. The decision is likely to affect how mark owners decide whether and when to bring infringement suits, and how mark opponents decide whether and when to challenge registration.

B&B owned and registered the mark “SEALTIGHT” for fasteners—self-sealing

nuts, bolts, screws, etc.—for use in the aerospace industry. Hargis sought to register “SEALTITE” for metal screws used in the manufacture of buildings. The two companies battled in court and before the TTAB for nearly 20 years, spawning two jury trials and three Eighth Circuit appeals. When the PTO published SEALTITE in the Official Gazette, B&B commenced an opposition proceeding before the TTAB. It prevailed. The TTAB found a likelihood of confusion between SEALTITE and SEALTIGHT, based primarily on the similarity of the marks and the similarity of the goods when used in building construction and aerospace applications. Hargis could have sought judicial review of the TTAB’s decision in federal court, but did not.

Hargis did, however, sue B&B for infringement. B&B argued that the TTAB’s likelihood-of-confusion finding in its favor should be given issue-preclusive effect. The district court disagreed, holding that TTAB decisions can never have preclusive effect because the TTAB is not an Article III court. The U.S. Court of Appeals for the Eighth Circuit affirmed on different grounds, holding that the TTAB’s ruling in B&B’s favor on likelihood of confusion was not entitled to preclusive effect because the TTAB assessed likelihood of confusion using different factors than a court uses, and because the TTAB relied too heavily on the

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appearance and sound of the marks.

The Supreme Court reversed the Eighth Circuit, in an opinion by Justice Samuel Alito. It held that agency decisions may have preclusive effect, and that nothing in the Lanham Act reflected congressional desire to deny preclusive effect to TTAB decisions. Some agency decisions can never be precluding, specifically those that are substantive prerequisites to filing suit. For example, a plaintiff must exhaust Equal Employment Opportunity Commission remedies before suing for discrimination. To treat those agency decisions as precluding would render the subsequent lawsuit a nullify. Here there is no such concern because registration of a trademark and proceeding before the TTAB are not prerequisites to an infringement action.

Just as the TTAB itself gives issue-preclusive effect to findings of earlier district court decisions, district courts may give preclusive effect to TTAB decisions where the preclusion requirements are met. The court then held that the likelihood-of-confusion analyses for purposes of registration and for infringement are substantially the same, permitting issue preclusion.

The court held, however, that preclusion will apply only where the usages considered in the likelihood-of-confusion analysis are the same. The TTAB considers whether consumers will be confused if the mark is used only for the usages for which registration is sought. In an infringement case, on the other hand, likelihood-of-confusion can encompass any usages of the mark in commerce, registered or not.

If the usages for which registration is sought and the commercial usages are sufficiently divergent, the TTAB's finding of likelihood of confusion will not be entitled to preclusive effect in district court because there will not be a sufficient identity of issues to support preclusion. The court held, "So long as the other ordinary elements of issue preclusion are met, when the usages adjudicated by the TTAB are

materially the same as those before the district court, issue preclusion should apply." Justice Clarence Thomas dissented, stating that there should be no presumption that administrative proceedings have preclusive effect and that nothing in the Lanham Act explicitly extended preclusive effect to TTAB decisions.

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Patent: Indefiniteness

A patent must include one or more claims that point out and distinctly claim the subject matter the applicant regards as the invention, a requirement that the courts have long held includes a "definiteness" component. Claims that are indefinite are invalid. For years, the U.S. Court of Appeals for the Federal Circuit held that a claim is indefinite only where it is not "amenable to construction" or is "insolubly ambiguous." Last year, in *Nautilus v. Biosig Instruments*, — U.S. —, 134 S.Ct. 2120 (2014), the Supreme Court rejected that test, and held instead that a patent claim is indefinite "if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty those skilled in the art about the scope of the invention."

The claim in *Biosig* was to a heart rate monitor associated with an exercise machine, and the potentially indefinite claim term was that two electrodes were arranged "in spaced relationship" with each other. In the proceedings that preceded the

Supreme Court's decision, Judge Alvin Hellerstein of the Southern District of New York initially found that the term "in spaced relationship" was indefinite as a matter of law under the "not amenable to construction/insolubly ambiguous" test. The Federal Circuit reversed, finding that a skilled artisan may be able to understand the term "in spaced relationship." When it rejected the Federal Circuit's test for indefiniteness, the Supreme Court also remanded for reassessment of *Biosig's* claim under the new, "reasonable certainty" test.

On April 27, the Federal Circuit again found that the claim is not indefinite. Citing the Supreme Court's holding in *Teva Pharm. USA v. Sandoz*, — US —, 135 S.Ct. 831 (2015) that claim construction decisions based solely on intrinsic evidence should be reviewed de novo, the Federal Circuit looked only at intrinsic evidence—the specification and prosecution history—and found that *Biosig's* claims would inform a skilled artisan of the scope of the claims with reasonable certainty.

Notably, *Biosig* argued that "reasonable certainty" is not a new standard at all, but simply a different formulation of what has always been the test for patent claiming. The Federal Circuit did reject that argument, but did not adopt it either. Instead, it observed that courts "may now steer by the bright star of 'reasonable certainty,' rather than the unreliable compass of 'insoluble ambiguity.'" Subsequent cases will shed light on whether that change will actually result in different outcomes in indefiniteness cases or whether, as happened here, the change in test will produce the same outcome.

Patent: Royalty Rate

On April 7, the Federal Circuit affirmed a district court's imposition, after a bench trial, of a 50 percent royalty on sales by Apotex of generic omeprazole, the active ingredient in AstraZeneca's drug Prilosec. *AstraZeneca v. Apotex*, —

F.3d —, 2015 WL 1529181 (Fed. Cir. April 7, 2015). The decision is noteworthy not only for the royalty rate itself—a rate that might cause serious concern for manufacturers of generic drugs—but also for how the court treats the “entire market value” rule and the impact on “formulation patents” of the expiration of patent protection for the active ingredient itself.

Apotex argued that a 50 percent royalty rate is necessary for compensation for licensing its patents to Apotex. The court affirmed the district court’s finding that in a hypothetical negotiation, Apotex would have agreed to a 50 percent royalty rate in order to enter the omeprazole market.

Apotex also argued that the district court should not have based its damages calculation on the value of the omeprazole formulation as a

whole, because the patent protection on the active ingredient itself had expired, and thus that ingredient had become a “conventional element.” Apotex relied on the Federal Circuit’s “entire market value rule” cases, which hold that where a patent applies to only one component in a larger product, the damages calculation may include the value of the entire product only if it is the patented feature that creates the basis for demand for the entire product. The district court suggested that the entire-market-value rule should not apply to pharmaceutical products.

While explicitly not reaching that issue, the Federal Circuit held that it did not apply because the formulation patent covered all three elements of the drug, and thus there was no one patented component that might drive demand for a larger, non-patented whole. Instead, the court held, the fact that the three-component patent included conventional elements was relevant to the calculation of a reasonable royalty rate for the entire product, raising the question of how much new value

Copyright: Right of Publicity

Steve “Wild Thing” Ray wrestled professionally in the Universal Wrestling Federation from 1990 to 1994. ESPN and its affiliated networks sometimes rebroadcast UWF matches, including Ray’s. Ray sued the networks in state court in Missouri, alleging state-law claims based on invasion of privacy, misappropriation of his name, interference with prospective economic advantage, and infringement of his right of publicity. ESPN removed to federal court and won a motion to dismiss, with the trial court finding that the Copyright Act preempted Ray’s state-law claims.

On appeal to the Eighth Circuit, the only claim at issue was Ray’s claim for infringement of the right of publicity. The court affirmed, finding that claim preempted by the Copyright Act. The case is noteworthy less for its finding of preemption on these facts—a pure rebroadcast of a copyrighted telecast—than for the cases it distinguishes. Citing Ninth Circuit and Fifth Circuit cases, the court appeared to agree that publishing an image of Ray from the broadcast in order to promote the sale of products (wrestling uniforms like Ray’s, for example) could constitute a state-law publicity tort. Where the claimed “right of publicity,” however, is purely the right to prevent rebroadcast of the copyrighted work itself, the Copyright Act preempts that claim.

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The appeal arose from a bench trial on damages, the Federal Circuit having previously affirmed findings that the patents were valid and that Apotex’s generic omeprazole infringed AstraZeneca’s formulation patents. The patents claimed a combination of the active ingredient, omeprazole, with an enteric coating that protects the omeprazole from gastric acid in the stomach, and with a water-soluble inert core that separates the omeprazole from the enteric coating, as contact between the two can adversely affect efficacy.

Apotex argued that a 50 percent royalty far exceeded the amount needed to adequately compensate AstraZeneca for the infringement, because Apotex was the fourth generic to enter the omeprazole market, and thus its entry caused essentially no marginal harm to AstraZeneca. The Federal Circuit held that these arguments would be relevant to a lost-profits inquiry, but were irrelevant to the calculation of a reasonable royalty, which looks not at the number of sales AstraZeneca may have lost to Apotex, but at what AstraZeneca could have insisted on as com-