

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Supreme Court Patent Rulings; Copyright Law and Attorney Fees

In the past two months, the U.S. Supreme Court decided two significant patent cases, one rejecting a good-faith belief in the invalidity of a patent as a defense to induced infringement, and the other reaffirming a longstanding but widely discredited rule against post-patent-expiration royalties. We also report on recent Second and Ninth Circuit decisions rejecting copyright claims by actors and directors in motion pictures, and on a Ninth Circuit case confirming the availability of fee-shifting provisions in license agreements even where the Copyright Act itself would not afford fee-shifting.

Patent: Good-Faith Belief

The direct acts of patent infringement include making, using, selling, offering for sale, or importing a patented invention. The Patent Act also provides for aiding-and-abetting liability known as induced infringement: “Whoever actively induces infringement of a patent shall be liable as an infringer.”

Direct infringement is a strict-liability offense, but induced infringement has long been recognized to have an intent requirement. The precise level of intent remained uncertain until the Supreme Court’s 2011 decision in *Global-Tech Appliances v. SEB*, which held that induced infringement requires that the defendant both know



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of the patent and know that “the induced acts constitute patent infringement.” A good-faith belief that the induced acts are non-infringing thus negates scienter.

Global-Tech did not address an important related question: Does a good-faith belief in the invalidity of the patent also negate the requisite finding of intent? Because one cannot infringe an invalid patent, the U.S. Court of Appeals for the Federal Circuit and many district courts held that one who believes that the patent is invalid necessarily lacks the scienter for inducement. Thus, accused inducers often raised invalidity challenges in two ways, by asserting invalidity as an affirmative defense (of obviousness, anticipation, or the like) and also as a scienter-negating defense to infringement.

On May 26, 2015, in *Commil USA v. Cisco Systems*, the Supreme Court reversed the Federal Circuit and held that a good-faith belief in the invalidity of the patent is not a defense to induced infringement. Writing for the majority, Justice Anthony Kennedy stressed that infringement and validity are separate issues, and held

that because the scienter requirement is part of the infringement analysis, belief regarding invalidity cannot negate scienter. An accused inducer remains free to assert invalidity as an affirmative defense, bearing the burden of proof by clear and convincing evidence, and if he succeeds the patent will be invalidated. But if that invalidity defense fails, the accused inducer’s good-faith belief in its invalidity arguments will not separately be a defense to inducement.

Justice Antonin Scalia dissented, joined by Chief Justice John Roberts. They would have held that “[b]ecause only valid patents can be infringed, anyone with a good-faith belief in a patent’s *invalidity* necessarily believes the patent *cannot* be infringed.” (Emphases in original.)

One important area of tension between *Commil* and *Global-Tech* is the role of claim-construction disputes. When a potential inducer is confronted with a patent, he will analyze, among other things, the claim-construction issues likely to arise in litigation. He might believe that the induced acts are not infringing under an appropriate, narrow claim construction, and that belief would defeat scienter under *Global-Tech*. He might also believe that if the court were to adopt a different, broader claim construction the patent would be invalid.

Had *Commil* come out the other way, the potential inducer would be assured that—however the court resolved the claim-construction dispute—he could argue at trial that he lacked scienter,

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based either on non-infringement or invalidity. With belief in invalidity no longer a defense, however, if the court adopts the broader claim construction the inducer would presumably have to tell the jury that he had unsuccessfully but in good faith sought a narrower claim construction under which there would have been no infringement. To do so, however, requires the inducer to tell the jury that he lost a pre-trial skirmish, and requires the jury to hear about claim-construction disputes, which patent law ordinarily prohibits. It remains to be seen how the doctrines will evolve to address this and preserve the defendant's ability to argue that it lacked the requisite intent.

Post-Expiration Royalties

In 1964, the Supreme Court held in *Brulotte v. Thys Co.* that a patent holder cannot charge royalties for the use of its invention after the patent term expires. In the decades since then, courts and commentators have called for the end of the *Brulotte* rule, asserting that it is based on invalid economic theory and that it stifles innovation. On June 22, 2015, in *Kimble v. Marvel Entertainment*, the Supreme Court re-affirmed *Brulotte* on stare decisis grounds, holding that any end to the *Brulotte* rule would have to come from Congress, not the courts.

Stephen Kimble invented a toy that shoots "webs" of pressurized foam strings from the palm of the user's hand, obtained a patent on that invention in 1990, and sought to license it to Marvel Entertainment, which makes and markets Spider-Man merchandise. Without licensing Kimble's invention or otherwise paying him, Marvel then began to market a "Web Blaster" toy that shoots webs from the user's palm. Kimble sued Marvel, and the parties settled the lawsuit.

Marvel made an up-front payment of about a half-million dollars and a 3 percent royalty on future Web Blaster sales. There was no end date for the royalties. Neither party knew about *Brulotte* during the negotiations. But Marvel found it thereafter, and sought a declaratory judgment in federal court that its royalty obligations ended in

2010 when Kimble's patent expired. The district court agreed, and the U.S. Court of Appeals for the Ninth Circuit affirmed, although the appellate court stated that "the *Brulotte* rule is counterintuitive and its rationale is arguably unconvincing." The Supreme Court granted certiorari to review the *Brulotte* rule.

In 'Commil,' the U.S. Supreme Court reversed the Federal Circuit and held that a good-faith belief in the invalidity of the patent is not a defense to induced infringement.

Writing for the majority, Justice Elena Kagan noted that there has been "a broad scholarly consensus" supporting the competitive, rather than anticompetitive, effects of post-expiration royalties, adding "we see no error in" that consensus. Nevertheless, "[o]verruling precedent is never a small matter," and "[r]especting stare decisis means sticking to some wrong decisions." The court found that there was no "special justification" to justify reversing *Brulotte*. "Congress has spurned multiple opportunities to reverse *Brulotte*," suggesting no need for the court to do so. Moreover, *Brulotte* is about property and contract rights, where "considerations favoring stare decisis are 'at their acme,'" rather than an area like antitrust in which the law is expected to evolve over time. Further, *Brulotte* has not proved unworkable, and the cases on which it relied all remain good law. Quoting from the 1962 comic that introduced the Spider-Man character—"[i]n this world, with great power there must also come—great responsibility"—the court declined Kimble's invitation to overrule *Brulotte*.

Justice Samuel Alito dissented, joined by Chief Justice Roberts and Justice Clarence Thomas. Decrying *Brulotte* as "a clear case of judicial overreach" based on nothing that "can plausibly be regard-

ed as an interpretation of the Patent Act" and instead "on an economic theory—and one that has been debunked," the dissenting justices found no reason to apply stare decisis and would have reversed *Brulotte*.

Practitioners should note that *Kimble* also recites and reaffirms the various methods parties have developed to "find ways around *Brulotte*." These include deferring payments for pre-expiration uses of a patent into the post-patent-expiration period. A licensee could agree to pay a royalty amount equal to 5 percent of sales over the 20-year life of the patent, but also agree to amortize the payment of that total over 25 or 30 or 40 years, for example. The court also reconfirmed that where an agreement covers multiple patents, *Brulotte* allows royalties to run until the last patent expires. Finally, post-expiration royalties are also permitted where tied to a non-patent right, such as a trade secret, even if licensed along with the patent itself.

Copyright: Motion Pictures

Motion pictures are among the copyrightable "works of authorship." Two recent decisions, from the Second Circuit and from the Ninth Circuit en banc, address whether an individual contributor to a motion picture—here, a director or an actress—can claim a copyright in his or her contribution to the larger film. Both courts rejected the copyright claims.

Most actors and crew members sign "work-for-hire" agreements, under which they give up any copyright interest in the film. In these two cases, however, there was no such agreement. In the Second Circuit case, *16 Casa Duse v. Merkin* (June 29, 2015), director Alex Merkin repeatedly failed to sign the work-for-hire agreements that would have covered his direction of the film "Heads Up." In the Ninth Circuit case, *Garcia v. Google* (May 18, 2015), actress Cindy Lee Garcia did not sign a work-for-hire agreement before giving a five-second acting performance that was later incorporated into an anti-Muslim propaganda film called "Innocence of Muslims," with Garcia's original dialogue

replaced with dialogue asking whether the prophet Mohammed is a child molester.

Merkin, the director, sought to prevent the film producers from distributing “Heads Up.” Garcia, who was the subject of a fatwa and received death threats, sought a mandatory preliminary injunction against Google to compel it to remove “Innocence of Muslims” from its YouTube service.

claim and the indisputable harm that Garcia faced because of her brief appearance in the film. The court accepted that she was deceived—“bamboozled”—into thinking she was appearing in an action-adventure thriller called “Desert Warrior,” that she had no idea that her performance would appear in an anti-Muslim polemic, and that the words that appear in the final product over

not preempt fee-shifting provisions in a contract between private parties.

Victoria Ryan, a pastel-on-paper artist, sued ELW, a publisher of art posters, under a contract licensing ELW to publish some of Ryan’s works. The agreement awarded reasonable attorney fees to the winner in any litigation between the parties. Ryan sued ELW and prevailed on Copyright Act claims. The district court awarded fees to her, though less than she sought. On appeal, ELW argued that Ryan was not entitled to attorney fees because the Copyright Act itself authorizes attorney fees only if the copyright holder timely registered the copyright, which Ryan conceded she had not done.

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The Second Circuit and the Ninth Circuit majority en banc opinions both concluded that, respectively, Merkin’s direction of “Heads Up” and Garcia’s five-second performance in “Innocence of Muslims” did not merit copyright protection. Both cited and approved of the Copyright Office’s rejection of Garcia’s application for a copyright on her performance, based on the office’s “longstanding practices” not to “allow a copyright claim by an individual actor or actress in his or her performance contained within a motion picture.” Both also agreed with Google’s assertion that to hold otherwise would make “Swiss cheese of copyrights.”

Some aspects of each decision are noteworthy: The Second Circuit explicitly left open that a director could be the sole author or a joint author of the film, and thus acquire a copyright interest in it; Merkin did not claim authorship or joint authorship. And the Second Circuit noted that authors of freestanding works incorporated into a film, such as songs or dance performances, may copyright those freestanding works. The decision holds only that a director’s contribution to an integrated “work of authorship” like a film is not itself copyrightable as an independent “work of authorship.”

Much of the Ninth Circuit en banc majority opinion addresses the perceived mismatch between a copyright

her visual performance are not the words she spoke. Those facts, however, weigh against her copyright claim, as she cannot claim to have authored the final work, even in part.

The court stressed that it was expressing no opinion about the validity or relief available to her on her many state-law tort claims, for which she had not sought preliminary injunctive relief. Judge Alex Kozinski dissented sharply, arguing that Garcia’s performance of a script, recorded on video, is a copyrightable work, and that the issue “isn’t exactly String Theory; more like Copyright 101.” He warned that the majority’s view that only the final, integrated film is a work of authorship means that every take of every scene of “Lord of the Rings” is not a work unless and until it is incorporated in the final film, and thus if “some dastardly crew member were to run off with a copy of the Battle of Morannon, the dastard would be free to display it for profit until it was made part of the final movie,” and to do so forever for outtakes that do not make the final film.

Contractual Fee-Shifting

In a May 19, 2015, decision, *Ryan v. Editions Ltd. West, Inc.* presenting a matter of first impression, the Ninth Circuit held that the federal Copyright Act does

The Copyright Act expressly preempts certain categories of state-law claims not at issue here. But the Copyright Act is not “field” preemptive; it does not preempt all claims relating to copyrights. Instead, state-law claims that fall outside the expressly preempted categories are preempted only if they are in conflict with the Copyright Act, either because it is impossible to comply with both federal and state law or because the state-law claim would undermine the policy of the Copyright Act.

The Ninth Circuit held that it is not impossible for parties to comply with both the Copyright Act and the California law authorizing fee-shifting provisions in private contracts. Nor would enforcing the fee-shifting provision “undermine the purposes of the Copyright Act,” because Congress’ decision to condition statutory fee-shifting on timely public registration of a copyright is not undermined by having two private parties agree that, in a dispute between only them, the loser should have to pay the winner’s reasonable attorney fees. The court affirmed the award of fees but vacated the fee amount because of several errors in the district court’s calculations, and remanded for further proceedings.