



## INTELLECTUAL PROPERTY LITIGATION

## Expert Analysis

## Update on Patent Reform Efforts And Developments in Case Law

Amid all the talk of health care reform, there is another potential reform movement taking shape in Washington—reform of the patent laws. When the U.S. Court of Appeals for the Federal Circuit was established over 25 years ago, there was a sense that federal courts were not affording sufficient respect for patent rights. Now, after years of criticism from academics, practitioners, courts and some federal agencies, many commentators believe the patent system has become too protective and too litigious.

The Report of the Senate Judiciary Committee on S. 515, the Patent Reform Act of 2009, notes “a growing sense that questionable patents are too easily obtained and are too difficult to challenge.” On March 10, 2009, David Kappos, then assistant general counsel of IBM and now director of the Patent and Trademark Office, testified in Senate hearings on the 2009 Reform Act that “the quality of patents issued in the U.S. has diminished,” and that “the substantial improvements needed to address this quality crisis are not possible without Congressional action.”

Many features in the 2009 Reform Act have gained the support of the Obama administration, and Judiciary Committee Chairman Patrick Leahy has said that he would like to schedule debate on the Senate floor by the end of this year. Regardless of whether some version of the bill passes, its provisions reflect the likely direction of patent law

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in the coming years. Many of the bill’s provisions make it easier to challenge patents and harder for patent holders to win substantial damage awards. Included in this article are some of the significant provisions of the bill.

**Damages.** In response to concern about what the Judiciary Committee called “excessive” damage awards, the bill establishes a “more robust, procedural, gate keeping role” for district courts. Parties would be required to specify prior to trial the damage theories and evidence they intend to present to the jury. The

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trial court would then determine which methods and arguments are permissible, and trial would be limited to those approved theories. Last month’s decision in *Lucent Tech. Inc. v. Gateway Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), indicates that, even without congressional action, the Federal Circuit is urging district judges to take a more active role in policing damage awards.

S. 515 also endorses *In re Seagate Tech.*, LLC, 497 F.3d 1360 (Fed. Cir. 2007), where the Federal Circuit held that enhanced

damages for willful patent infringement may not be awarded unless the infringer acted in a way that was objectively reckless. Willfulness would have to be proved by clear and convincing evidence, and enhanced damages would not be available where the infringer had a “good faith belief” that the patent was unenforceable, invalid or not infringed. Moreover, the issue of willfulness would not be considered until after a liability finding, so that defendants would not have to decide whether to assert advice of counsel and waive the attorney-client privilege while infringement is still at issue. An infringer’s decision not to present evidence of advice of counsel, however, would not be relevant to willfulness.

**Post-Grant Review.** The bill creates an additional post-grant review process, and strengthens existing reexamination procedure. Among other changes, inter partes reexaminations (a procedure in which third parties can respond to arguments made by the patent holder) would be heard by an administrative patent judge (APJ), rather than an examiner, and could include oral argument.

The new post-grant review procedure, to be conducted under regulations to be issued by the PTO, would afford the parties limited discovery rights. A cancellation petition initiating this review would have to be filed within 12 months of issuance of the challenged patent. The intent is to establish a mechanism that is sufficiently robust to reduce federal court litigation and improve the quality of issued patents—goals that arguably have not been met by current reexamination procedure.

**First to File.** But for the United States, the entire industrialized world grants

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patents to the first person to file. Our system favors the first person to invent. The bill would institute a “first inventor to file” rule, under which the first applicant to file would obtain the patent, unless that filer was not actually the inventor. A new “derivation” proceeding would resolve disputes about whether an applicant is actually an inventor. This rule would do away with costly interference proceedings, in which the PTO determines which applicant was the first to invent.

It is hazardous to predict when—and perhaps whether—patent reform will pass. If it does, however, it is likely to incorporate many of the features and goals of S. 515.

### Copyright

The first-sale doctrine, codified in §109(a) of the Copyright Act, provides that the owner of a particular copy of a copyrighted work may sell it without obtaining permission from the copyright holder. Last year, the U.S. Court of Appeals for the Ninth Circuit held in *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), that the first-sale doctrine does not apply to “gray market” goods manufactured and sold abroad, then imported to the United States for resale. Two recent decisions in the Southern District of New York took the same position as the Ninth Circuit, holding that importers of textbooks manufactured and sold abroad could not assert the first-sale doctrine as a defense to infringement of the publishers’ distribution rights. In both cases, *Pearson Educ. Inc. v. Liu*, 2009 WL 3064779 (SDNY Sept. 25, 2009) and *John Wiley & Sons Inc. v. Kirtsaeng*, 2009 WL 3364037 (SDNY Oct. 19, 2009), the plaintiffs published lower-priced foreign editions not intended for sale within the United States, though essentially identical in content to their U.S. counterparts.

All three courts relied on dicta in *Quality King Distrib. v. L’Anza Research Int’l*, 523 U.S. 135 (1998). *Quality King* held that the first-sale doctrine covered “round trip” importation of goods made in the United States and then exported, but suggested that the same would not be true for foreign-manufactured goods. The *Pearson* and

*John Wiley* courts expressed reservations, however, about the soundness of this distinction. *Pearson* observed that “nothing in §109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies of a work manufactured in the United States,” while *Wiley* questioned “the wisdom of a bright-line rule” in such cases. The Supreme Court may settle this question soon; a petition for certiorari seeking review of *Omega* is pending, and the Court has requested the views of the Solicitor General.

A common issue following corporate reorganizations and acquisitions is whether the surviving corporation has the right to use intellectual property licensed to an entity, such as a subsidiary, that no longer exists. *Cincom Sys. Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009), held that, as a matter of federal common law, patent and copyright licenses are “unassignable absent express language to the contrary.” *Cincom* accused *Novelis* of infringing its copyright in two computer programs by taking over a license from a former subsidiary in the course of an internal corporate restructuring.

The court held that the federal rule requiring strict construction preempted state law to the contrary. Otherwise, state law could undermine the federal policy by allowing anyone “desiring to acquire a license [to] approach either the original inventor or one of the inventor’s licensees,” thus “transform[ing] every licensee into a potential competitor with the patent or copyright holder.” Applying these principles, the U.S. Court of Appeals for the Sixth Circuit found that the plain text of the license between *Cincom* and *Novelis*’ former subsidiary prohibited transfers without express permission, and thus *Novelis* infringed *Cincom*’s copyright. *Novelis* contended that interpretation of the license should turn on the parties’ intent, arguing that *Cincom* wished to prevent its software from falling into the hands of a competitor, and was not concerned about use by an affiliate of the original licensee. The court rejected this as irrelevant: “The harm is the breach of the terms of the license.”

*Porto v. Guirgis*, 2009 WL 3075958 (SDNY Sept. 28, 2009), signaled that

plaintiffs who file baseless copyright suits against well-known authors may face consequences beyond mere dismissal. The author of a self-published novel called “*Judas on Appeal*” not only lost his infringement claim against the author and producers of the play “*The Last Days of Judas Iscariot*,” but was ordered to pay costs and attorney’s fees to the defendants, among them playwright Stephen Adly Guirgis and director Philip Seymour

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Hoffman.

Invoking its discretion to award fees to the prevailing party under §505 of the Copyright Act, the court in the Southern District of New York found that plaintiff had acted in bad faith by bringing an “abusive lawsuit” against “an award-winning play and author, and a well-known director (who is also an Academy Award-winning actor).” Additionally, the court ruled that the claim was objectively unreasonable in its assertion of copyright protection for historical and Biblical elements. “When a plaintiff cannot demonstrate a single similarity among the protectible elements of his work and the defendants’ work,” the court declared, “it is appropriate to award attorneys’ fees so as to compensate the defendants for their costs in litigating this matter, and to deter future potential plaintiffs from filing objectively unreasonable claims.”

### Patents

Section 101 of the Patent Act allows for patents on any process, machine, manufacture or composition of matter. That broad authorization is in tension with the rule that laws of nature, natural phenomena and abstract ideas cannot be patented. In *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), the Federal Circuit announced a “definitive test” for determining when a process is patent-eligible under §101: A process may be patented if “it is tied

to a particular machine or apparatus,” or “transforms a particular article into a different state or thing.”

The Supreme Court has granted certiorari in *Bilski*. In *Prometheus Lab. Inc. v. Mayo Collaborative Services*, 581 F.3d 1336 (Fed. Cir. 2009), the Federal Circuit applied the *Bilski* test to uphold a patent covering a method for calibrating the proper dosage of a drug. The method required administration of the drug and measurement of the level of the drug’s metabolites in the body. The measured level determines whether the dosage should be changed.

Rejecting the argument that the patent simply claimed natural phenomena—an observed relation between the metabolites level and the best drug dosage—the Federal Circuit held the invention patentable. It found that a human body was “transformed” when the drug was administered, and that a second “transformation” happened when the metabolites were measured. Methods of treatment are “always transformative when a defined group of drugs is administered to the body.”

#### Trademarks

*Amazing Spaces Inc. v. Metro Mini Storage*, 2009 WL 3255290 (S.D. Tex. Sept. 28, 2009), held that “a logo consisting of a raised,

fivepointed star set within a circle,” used by a self-storage company in Texas, was not entitled to trademark protection. The defendants, another self-storage company and its builder, argued that the symbol was ubiquitous throughout the state as a symbol of Texas pride. The court in the Southern District of Texas agreed, pointing out that Texas is, after all, known as the “Lone Star” state: “A drive on a highway, a walk along a downtown street, or a visit to a shopping center drives home just how common the five-point star within a circle design is.”

Given its widespread use, the court held that the logo was not inherently distinctive. Furthermore, the court found that Amazing Spaces had failed to demonstrate that the logo had acquired secondary meaning as a source identifier—indeed, there was evidence that at least 28 other self-storage businesses depicted a star or star-within-a-circle on their buildings. Though the parties disputed whether Amazing Spaces was the first business of its kind to use the image, the court considered this point immaterial and granted the defendants’ motion for summary judgment.

The Supreme Court of Pennsylvania held that the state’s Trademark Counterfeiting Statute, 42 Pa. Cons. Stat. §722(7), was unconstitutionally overbroad in *Commonwealth of Pennsylvania v. Omar*,

2009 WL 3165443 (Pa. Oct. 5, 2009). The statute criminalized the acts of “[a]ny person who knowingly manufactures, uses, displays, advertises, distributes, offers for sale, sells or possesses with intent to sell or distribute any items or services bearing or identified by a counterfeit mark.”

The Court construed the law to prohibit “the use of any items bearing an unauthorized reproduction of terms or words used by a person to identify that person’s goods or services,” which would cover a significant amount of speech protected by the First Amendment. The Court rejected the state’s argument that the statute was limited to use of a counterfeit mark for profit. As written, the Court found, “even our use of the words ‘Nike’ and ‘Penn State’ in this opinion without the permission of the company or the university would fall” within the statute’s prohibition. The Court indicated, however, that a statute clearly requiring unauthorized, intentional exploitation of a trademark for commercial purposes would likely pass constitutional muster.

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