

## INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

### *Attempts to Create Exceptions to 'Florida Prepaid' Rejected*

The Eleventh Amendment to the U.S. Constitution provides that federal judicial power “shall not be construed to extend” to any suit against a state. In a pair of decisions issued in 1999, the Supreme Court strongly reaffirmed that the sovereign immunity established by the amendment bars federal court litigation against states and state instrumentalities for violations of federal intellectual property rights.

*College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 US 666 (1999), held that a state agency had not waived sovereign immunity by conducting activity in interstate commerce that is regulated by the Lanham Act. And *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 US 627 (1999), struck down a federal statute that purported to extinguish state sovereign immunity for patent infringement. The Court acknowledged that Congress is able to abrogate sovereign immunity under §5 of the Fourteenth Amendment, which gives it the power to prevent violations of federal constitutional rights. But the Court found that the statute before it was not authorized by §5, because Congress failed to identify specific constitutional violations and tailor the statute to prevent that conduct.

The *Florida Prepaid* decisions instantly became controversial—detractors argued that they permit state actors to infringe others’ intellectual property rights, and to seek damages in federal court for infringement of their own rights, but to prevent private parties from bringing suit against them for damages in federal court (a federal court may be able to issue injunctive relief despite the Eleventh Amendment). Owners of federally protected intellectual property are reduced to seeking compensation directly from state legislatures, or filing tort claims in state courts.

This issue has become more acute as state



agencies—particularly state universities—become more active creators and users of intellectual property. Congress repeatedly has considered, but failed to pass, legislation that attempts to limit sovereign immunity for intellectual property claims.

As illustrated by two decisions issued earlier this month, the U.S. Court of Appeals for the Federal Circuit has repeatedly turned aside the arguments of patent owners attempting to create exceptions to the broad bar of the *Florida Prepaid* cases.

In *Pennington Seed, Inc. v. Produce Exchange No. 299*, 2006 WL 2267033 (Fed. Cir. Aug. 9, 2006), Pennington sued the University of Arkansas and several officials of the university and the state university system, alleging infringement of a patent on a grass designed as livestock feed. Affirming dismissal of the complaint, the Court of Appeals rejected Pennington’s argument that federal jurisdiction was necessary because Arkansas failed to provide any adequate remedy for patent infringement. The Court noted that Pennington could petition the state legislature for a monetary award, or sue in state court for conversion. The fact that these remedies might be “uncertain” or “less convenient” than a federal suit did not amount to a denial of federal due process rights.

The Court also refused to recognize a claim against the university officials for injunctive relief under the doctrine of *Ex parte Young*, 209 US 123 (1908), which allows injunctive relief against state officials acting in violation of federal law.

The Court stated that “continuing prospective violations of a federal patent right by state officials may be enjoined by federal courts” under *Ex Parte Young*. Relief is available, however, only against state officials whose actions violate federal law, and Pennington failed to allege a sufficient “nexus” between the individual defendants and a violation. The fact that defendants supervised the university’s intellectual property activity was insufficient.

Plaintiff in *Tegic Comm. Corp. v. Board of Regents of the University of Texas System*, 2006 WL 2290989 (Fed. Cir. Aug. 10, 2006), unsuccessfully tried to vitiate sovereign immunity for the purpose of changing the venue of a patent dispute. Tegic sued the Regents of the University of Texas in federal court in Washington State for a declaration that a patent owned by the university was invalid and unenforceable, and not infringed by text-input software marketed by Tegic. The university previously filed a patent infringement suit in federal court in Texas against 48 of Tegic’s licensees and customers (but not against Tegic).

Affirming dismissal of the Washington suit, the Federal Circuit held that the university’s decision to file suit in Texas—which waived immunity for counterclaims in the Texas suit—did not waive immunity for a new suit, commenced by a different party in a different forum. The Court also turned aside Tegic’s argument that sovereign immunity could be defeated under the “customer suit exception,” a doctrine that gives venue preference to a suit filed by the manufacturer of an accused product over a patent owner’s earlier-filed suit against customers. The court left open the possibility that the exception could, in some circumstances, effect a waiver of sovereign immunity. It determined, however, that the exception was inapplicable in this case, largely because some of the defendants in the Texas case were not Tegic customers, so that a resolution of the Washington action would not necessarily dispose of the Texas litigation.

Unless and until Congress acts to limit sovereign immunity—and the Supreme Court agrees that Congress’ action is constitutionally permissible—state instrumentali-

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ties will continue to enjoy unique advantages in intellectual property litigation.

## Patents

In *Agfa Corp. v. Creo Products, Inc.*, 451 F3d 1366 (Fed. Cir. 2006), a sharply divided Federal Circuit panel held that a district court has discretion to conduct a bench trial to determine whether a patent is unenforceable for inequitable conduct, even where issues of validity will be tried to the jury.

*Beacon Theatres, Inc. v. Westover*, 359 US 500 (1959), held that equitable issues may not be tried to the bench where the trial would resolve issues that are “common” to legal claims to be determined by the jury. Writing for the panel majority in *Agfa*, Judge Randall R. Rader explained that the issues germane to inequitable conduct—materiality of information withheld from or misrepresented to the Patent Office, and the applicant’s intent—are “distinct” from the issues considered in determining validity, and therefore not “common” with issues reserved for the jury under *Beacon Theatres*.

The majority stressed that an applicant’s duty to disclose “material prior art” to the Patent Office may require disclosure of material that would not be germane to the issues of anticipation and obviousness typically considered in determining validity. Therefore, the majority held, inequitable conduct can be determined by the court, or sent to the jury. Judge Pauline Newman’s dissent argued that “materiality and intent are quintessential questions of fact, and have been tried to a jury throughout the nation’s history.” The dissent complained that the “continuing conflict [on this issue] within our court’s precedent disserves the public, ... leaving litigants and trial judges with the burdensome jousting here illustrated.” Because of the prevalence of inequitable conduct allegations in patent litigation, this is an extremely significant procedural issue.

## Copyright

*Clean Flicks of Colorado, LLC v. Soderbergh*, 433 FSupp2d 1236 (D. Colo. 2006), rejected a fair use defense advanced by producers of sanitized versions of movies that delete scenes deemed to show “sex, nudity, profanity and gory violence.” These producers made unauthorized copies of DVDs, editing out or altering “offensive” content. Consumers were required to buy the original DVD along with the sanitized version. The court rejected the argument that the producers’ conduct amounted to “criticism” of “the objectionable content commonly found in current movies,” holding that a court “is not free to determine the social value of copyrighted works.” Nor was the court persuaded that the sale of edited versions enhanced the market for the original works by stimulating sales to consumers offended by the expurgated content. While that argument “has superficial appeal,” it

“ignores the intrinsic value of the [copyright owner’s] right to control the content of the copyrighted work” and decide “what audience” it wishes to reach. The court noted that §110(11) of the Copyright Act, added in 2005, authorizes “a member of a private household” to delete or alter portions of a movie (and allows the sale of computer programs for that purpose), provided that no “fixed” copy of the altered work is created. The producers in *Clean Flicks* did market fixed copies of altered works.

“Copying” of a copyrighted work typically can be established by showing access to the work and “substantial similarity” between the work and the infringing material. Many courts have held that the substantial similarity analysis has two parts: similarity of “ideas”—which is evaluated on an objective standard—and similarity of “expression,” which considers the subjective reactions of an ordinary, reasonable person.

Expert testimony is typically allowed on the former issue, but not on the latter. In *The Rottlund Co. v. Pinnacle Corp.*, 452 F3d 726 (8th Cir. 2006), the U.S. Court of Appeals for the Eighth Circuit strictly enforced these rules, holding that a district court had abused its discretion by allowing expert testimony on similarity of expression. In a case involving copyrighted architectural design plans and works, the district court found on summary judgment that plaintiff had shown that the ideas in its works were substantially similar to those in defendants’ materials. Nevertheless, defendants’ expert was permitted to testify to his analysis and comparison of the works, opining that there was no direct evidence of copying. Finding it likely that the “aura of reliability and trustworthiness” enjoyed by an expert had influenced the jury in a “close case,” the Court of Appeals reversed the jury’s verdict for defendants.

The House is considering legislation that would amend the Copyright Act to create two new crimes. H.R. 5921, 109th Cong. (2006), the “Intellectual Property Enhanced Criminal Enforcement Act of 2006,” would add attempted infringement and conspiracy to infringe to §506 of the act. It would also amend §602 to prohibit both importation and exportation of infringing copies of protected works, and subject such acts to both civil and criminal liability. Current §602 applies only to importation and does not allow for criminal liability. The proposed amendments, which incorporate aspects of legislation the Bush administration said it would pursue in late 2005, reflect an increased focus on criminal sanctions to curb copyright piracy.

## Trademarks

In *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, 2006 WL 2325105 (9th Cir. Aug. 11, 2006), the U.S. Court of Appeals for the Ninth Circuit held that Au-Tomotive Gold, a maker of “automobile accessories,” could not market key

chains and license plate covers bearing Volkswagen and Audi trademarks. Au-Tomotive Gold attempted to invoke the “aesthetic functionality” doctrine, arguing that the marks were used only for their artistic appeal, not to identify the source of the products. The Court of Appeals found, however, that “the alleged aesthetic function [of the marks] is indistinguishable from and tied to the mark’s source-identifying nature”—consumers were interested in the products not simply for aesthetic reasons, but because they wanted “Volkswagen accessories, not beautiful accessories.”

In a right of publicity case, a Missouri district court approved the use of player’s names and playing records in a fantasy baseball game. *C.B.C. Distribution and Marketing, Inc. v. Major League Baseball Advance Media, L.P.*, 2006 WL 2263993 (E.D.Mo. Aug. 8, 2006). The right of publicity assigns liability where defendant “commercially exploited the plaintiff’s identity” to “obtain a commercial advantage.” The court found no evidence plaintiff was trying to secure a commercial advantage, because the game does not suggest that the players are associated with, endorse or sponsor it. Player names are not used as a symbol of identity, because the game “does not involve the character, personality, reputation, or physical appearance of the players,” focusing instead on historical facts about player performance. Turning to public policy concerns, the court noted that the players’ records are available in the public domain and that plaintiff’s use of the information does not deprive the players of their ability to earn a living playing baseball.

*Board of Supervisors of the Louisiana State University v. Smack Apparel Company*, 2006 WL 2006339 (E.D.La. July 18, 2006), held that Louisiana State and three other universities could assert trademark rights in their school colors—marks described as “color schemes in the context of merchandise that makes reference” to the universities or their accomplishments. Citing *Qualitex Co. v. Jacobson Prods. Co.*, 51 US 159 (1995), the Court observed that a color scheme may be trademarked “if it ‘identifies and distinguishes a particular brand (and thus indicates its source).’” The universities’ use of specific color schemes, in conjunction with their school initials, had acquired secondary meaning because they had been in use for a long period, and the schools had conducted extensive and lucrative marketing efforts using school colors—Louisiana State University (LSU), for example, calls itself the “Purple and Gold.”

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