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EUROPE'S UNITARY PATENT SYSTEM: A HORSE DESIGNED BY A COMMITTEE

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After decades of failed attempts it appears that Europe may finally be about to implement a unitary patent system. This has been greeted with much fanfare by politicians from the European parliament and from national governments, with claims being made that this will bring about a cheaper and more efficient system for both obtaining and enforcing patents, increasing innovation and benefitting in particular European SMEs.¹ At the same time those most closely involved with the patent system, including practitioners, judges, and, most importantly, patentees, have expressed considerable scepticism as to whether these admirable goals will be realised. It is clear that some of these goals are not addressed in the agreed system, whilst others will depend upon decisions not yet made.

OBTAINING A UNITARY PATENT

Despite misguided promises about being able to obtain patents more efficiently,² the application process for a unitary

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patent will be exactly the same as that for applying for a European patent. The differences arise only after grant. Presently, when a European patent is granted the patentee must decide in which European countries the patent is to take effect, and then validate the patent in each of those countries. By contrast, the applicant will be able to opt for a single unitary patent covering all 24 signatory countries, and will also be able to decide whether to validate in countries outside the unitary patent system. The EU countries which would not currently be covered by the unitary patent, and so for which separate national validations would be necessary, are Croatia, Italy, Poland, and Spain, although it is likely that Croatia, and Italy will join the unitary patent at some stage. Non-EU countries, such as Turkey, Switzerland, and Norway, will not be covered by the unitary patent, and so the process for obtaining and enforcing patents in these states is unchanged.

It is questionable as to whether the unitary patent will be cheaper than the present system. It is true to say that the unitary patent will be considerably cheaper than seeking protection in all of the relevant states, and the predicted cost savings cited by politicians tend to rely on such a comparison. However, that is to ignore

the current realities. The fact is that outside of the pharmaceutical and biotech industries, most patentees do not seek protection in all states. Instead, it is more common to seek protection in between three to five countries, with just over half of all European patents being validated in only France, Germany, and the UK. For those patentees it seems likely that the unitary patent will be more expensive to both obtain and maintain.

It is presently predicted that there will be no fee for opting for a unitary patent, the intention being that the cost of administering this will be taken from the associated renewal fees. However, translation costs for a unitary patent may be higher than for separate validations, given the changes brought about by the London Agreement³. Via means of the London Agreement, many countries have significantly reduced the need for translations, and therefore the costs incurred, when validating a European patent.⁴ For example, no additional translations are now required to validate a European patent in the UK, France, or Germany. In contrast, a single translation of the patent will be required, initially, for a unitary patent, and so, dependent upon which countries the patent would otherwise have been validated in, the unitary patent might actually increase translation requirements. It is ultimately envisaged that machine translations will be of sufficient quality to remove the translation requirement for a unitary patent.

A unitary patent will likely be more expensive to maintain, as the renewal fees, although not yet decided, are also predicted to be similar to the cost of renewing six to eight national patents. Further, with a unitary patent there will be no opportunity to whittle down the number of territories in which protection exists in order to reduce costs later in the life of the patent, when renewal fees are higher,⁵ unlike with a bundle of national patents.

These potential increases in cost will inevita-

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bly be most strongly felt by SMEs, who tend to seek protection in a smaller number of territories. There have been suggestions that a reduced fee system should operate for SMEs but as yet no proposals have been forthcoming. Without such a scheme, SME's may well be disinclined to use a system supposedly brought about for their benefit.

LITIGATING A UNITARY PATENT: FORUM SHOPPING

Another claimed advantage of the unitary patent is that only a single litigation need take place, rather than multiple actions in different European jurisdictions. Again some fairly significant claims have been made as to the potential cost savings this will bring, as well as increased efficiency, and that this new system will also favour SMEs;⁶ however, once again these claims have been questioned by those more closely involved in the patent system as having little to do with reality. The fact is that it tends to be only the largest, most commercially significant cases, which are litigated on a multijurisdictional basis. Most litigations, however, especially those involving SME's, tend to take place in a single jurisdiction before a single court. Thus the alleged greater efficiency and cost savings will in most cases be something of a mirage.

One feature of the present multijurisdictional system for European patent protection is the potential for forum shopping. With a bundle of national patents it is possible to select a territory in which the local procedures will give the greatest advantage to one side, and/or most disadvantage the other side. At one stage it was predicted that the unitary patent system would remove this by imposing a single set of procedures across all courts. These Rules of Procedure are still being finalised (the 15th draft being published on 25 June 2013), but it is clear that forum shopping will remain a reality under the new system.

Under the unitary patent court system, there

will be a number of courts throughout Europe which will potentially be competent to hear a patent litigation. Each contracting state will be able to set up a local division, and countries with more than 100 cases per year, such as Germany, will be permitted to set up multiple local divisions. Alternatively contracting states may combine to form regional divisions, with one or more courts being created for all the countries in that region. There will also be three central divisions. The Munich central division will hear cases related to mechanical engineering, the central division in London will hear cases related to metallurgy, chemistry, and "human necessities" (for example pharmaceuticals), whilst the main central division, in Paris, will hear everything else. Whichever court is used, though, its ruling will be applicable for all the contracting states. Appeals from any of these courts will be heard at the Court of Appeal in Luxembourg.

Infringement actions may be brought before a local or regional division of a contracting state in which the alleged infringement has occurred, or the local or regional division of a contracting state in which the defendant (or one of the defendants if there are more than one) has their place of business.⁷ Infringement actions may be brought at the central division only where the defendant has no residence or place of business in a contracting state, or where the relevant Contracting State has no local division and is not part of a regional division, although infringement actions may be transferred to the central division in certain circumstances.

The local and regional divisions may hear infringement actions and counter claims for revocation together.⁸ Alternatively, these courts may bifurcate proceedings,⁹ in which case infringement will be heard by the local/regional division, whilst validity is tried before the competent central division. *De novo* revocation actions and declarations of noninfringement must be brought at the relevant central division.¹⁰

It is therefore likely that a number of courts will be competent to hear an infringement action and there are at least two Courts which will be competent to determine revocation issues. Even though there will be a single set of rules of procedure for all courts, there will be a some discretion for each court to set its own specific procedures, and this will inevitably lead to forum shopping as litigants seek to ensure that their cases are heard in the Court which they perceive as giving them the maximum advantage.¹¹ The ability to choose the forum is primarily the patentee's, not only because they are able to bring actions before local and regional divisions, whereas a nonpatentee initiating a revocation action or declaration for noninfringement is restricted to the central division, but also because even if a declaration of noninfringement action is started at a central division, if the patentee then initiates infringement proceedings at a local or regional division within three months, the central division proceedings are stayed.¹² If an application for revocation is pending at the central division, and then an infringement action is brought before a local or regional division, the local/regional division will then decide how the case proceeds, including whether the invalidity proceedings are transferred to the local/regional division.¹³

This weighting in favour of the patentee in choice of forum has given rise to fears that one or more local or regional divisions might set their rules of procedure in favour of the patentee, so as to attract work, much as the Eastern District of Texas has done in the US. However, this fear is ameliorated somewhat by the fact that any country setting up a local division will have to pay for that division.

Another factor potentially relevant to the issue of forum shopping is that of language. The language of the local or regional divisions will prima facie be that of the country or countries in which they are located, although they will be free to adopt other languages and it is specu-

lated that a number may also permit English as a (or perhaps the only) language of proceedings. Nevertheless, where there are a number of languages which might be used, then absent the agreement of the parties,¹⁴ it will be the patentee who generally decides the language at the local/regional division, as the language of proceedings is the language in which the case is first filed.¹⁵ However, the language of proceedings at the central division is the language in which the patent is granted. This means that where a case is bifurcated, the infringement and revocation actions may be heard in different languages.¹⁶ The prospect of an appeal court having to reconcile decisions of two courts analysing the same claim terms in separate languages is less than attractive.

Further, in contracting states in which there is presently little patent litigation, there are likely to be very few specialised lawyers, at least initially, which means a well-funded patentee seeking to bring a case in such a jurisdiction could buy-up the pool of patent specialists, leaving the defendant to rely, at least in part, on less experienced local attorneys for their defence.

As mentioned, local and regional divisions will have the option to bifurcate proceedings. Currently, Germany is the only significant jurisdiction which does bifurcate, and it was initially expected that the German local divisions will continue to do so. However, the German courts bifurcate not of their own volition but because they are required to constitutionally, and it may well be that given the opportunity to hear counterclaims for revocation, the German judges elect to do so. Nevertheless, there is a perception that bifurcation favours the patentee, and so courts may elect to bifurcate in order to attract work, and so this may be a factor in forum shopping.

COST OF LITIGATION

It is claimed that the unitary patent will

provide cheaper litigation.¹⁷ This may well be the case when compared to actions which are brought in multiple jurisdictions. However, as stated this normally only occurs in the biggest cases. In practice most cases are fought only in a single jurisdiction, and it is by no means certain that proceedings before the Unified Patents Court (UPC) will be cheaper than this. The unified patent court system is expected to be self-funding. Although the court fees have yet to be set, it is expected that the fees will be significantly greater than those of most national jurisdictions. Translation costs may also be significant, especially if proceedings are bifurcated such that the infringement and validity actions are heard in different languages. There are also no provisions at present for a low-cost option for smaller cases (for example as is presently provided in the UK via the Intellectual Property Enterprise Court, formerly known as the Patents County Court), and so it is not clear how SMEs will be catered for.

QUALITY OF THE COURTS

There will be a significant demand for judges for the new UPCs. Each local and regional division will require three judges (and four if a technical judge is appointed) per case, whilst the central division requires four and the court of appeal five. Even though the UK, Germany, and the Netherlands have agreed to make their patent judges available to the unified courts on a part time basis, it is still unclear as to where a sufficient number of suitably experienced judges (with the requisite language skills) might be found, and so there are concerns over the quality of the judiciary likely to hear the cases.¹⁸ This may be exacerbated if there is political pressure to ensure the judiciary includes judges from all contracting states, regardless of whether or not there are judges in a particular country with sufficient experience of handling patent matters, and indeed when appointing judges the responsible committee will be required to ensure “a balanced composition of the

Court on as broad a geographical basis as possible among nationals of the Contracting Member States.” It should be noted that not all jurisdictions regard specialisation of the judiciary as necessary or even desirable.

A related concern is the potential involvement of the Court of Justice of the European Union (“CJEU”). The CJEU has a track record in the area of intellectual property, as it is the ultimate court for adjudication on the law relating to European trade marks and designs, and on supplementary protection certificates. However, there is a widely held belief that the CJEU’s involvement in IP has been, at best, unfortunate, with a number of decisions being issued which show a marked lack of understanding of the issues under consideration. Moreover there have been many instances of the CJEU making pronouncements which should clarify the law but which in practice tend to obfuscate it, leading to further references on the same or similar points. The effect is to add uncertainty, cost and delay. This led to significant concern that the CJEU would be responsible for adjudicating on issues of patent law, to the extent that the British Prime Minister intervened to try and ensure this was not the case. Consequently, a last minute amendment was introduced into the unitary patent legislation to try and avoid this, but it is by no means clear that this has been successful. The provisions governing the law on infringement have been placed in the Unitary Patent Agreement¹⁹ in the hope that as this is a non-EU agreement, the provisions will not be subject to the jurisdiction of the CJEU. However, given the CJEU has recently been prepared to assume jurisdiction for the implementation of the WTO TRIPS agreement by EU Member States,²⁰ there is a real prospect that the CJEU will nevertheless end up ruling on infringement and possibly even validity. Indeed, Bernard Rapkay, the Member of the European Parliament who led the committee group responsible for the unitary patent, has been quoted as com-

menting that the attempts to remove the CJEU's competence for ruling on substantive patent law has simply meant that the CJEU will be involved earlier in proceedings than would otherwise be the case.²¹

For these reasons, there are real concerns as to the predictability of the UPCs, at least in the early years.

EUROPEAN PATENTS AND OPT-OUTS

The unitary patent will not become mandatory. It will remain possible to instead seek to validate a European patent in one or more individual territories, as is the case now. However, the UPC system will be applicable to not only unitary patents, but also to European patents. Although ultimately the UPC will become the only system via which a European patent may be litigated in the applicable territories, the transitional period and opt-out available will mean that the jurisdiction of the UPC can be avoided for some considerable time.

There will be a transitional period of seven years from the date the Agreement comes into force, during which time any European patent or Supplementary Protection Certificate ("SPC") can be litigated either via the UPC or via the national courts.²² This transitional period may be extended by a further seven years dependent upon the popularity of the system.²³

Whilst this means the patent proprietor will retain the option, for at least seven years, of litigating via either system, it also means that a third party could bring a revocation action against the patent via the UPC system. This would mean that a patent could be invalidated for most of Europe via single procedure, an outcome not currently possible once the opposition period (nine months after the grant of the patent) has expired. Consequently, patentees may seek to opt their European patent or SPC out of the UPC system.²⁴ The patent can be

opted back in at a later date²⁵ and so opting out retains flexibility for the patentee. However, there will be a fee both for opting out and opting back in. It is not yet clear what this fee will be, but as this will be the courts' main source of funding in its early days, there is a concern that the fees may be significantly more than a small administrative charge.

It has been proposed that there should be a "sunrise period" in which patentees are able to opt out before the Agreement comes into effect.²⁶ This is important as otherwise patentees would risk having their patent put into revocation proceedings on the day the Agreement comes into force, before they have had time to initiate their opt-out. Once such proceedings have begun, a patent cannot then be opted out. However, the details of any sunrise period have not yet been finalised.

It is not yet certain that the opt-out will apply only during the transitional period or for the life time of the patent (or SPC). The strong prediction is that the opt-out will apply for the life of the patent, and indeed the committee preparing the Rules of Procedure of the Unified Patents Court have commented that this is clearly the case;²⁷ nevertheless this will ultimately be determined by the courts.

NATIONAL PATENTS

It will remain possible to file national patent applications via the national patent offices of the contracting states, and so directly filed national patents will still be an alternative to the unitary patent. It should be noted that some territories, such as France, do not permit direct national filings from a PCT application, and so for these countries, once the transitional period expires, patent protection derived from a PCT patent application will necessarily be subject to the jurisdiction of the UPC.

WHEN WILL IT HAPPEN?

In order to come into force, the legislation

needs to be ratified by 13 contracting states, including France, Germany and the UK. European harmonisation is increasingly controversial in British politics, and there are also questions as to whether the Agreement is consistent with the German constitution. In addition, Spain have challenged the legality of the Agreement and their case is currently pending before the CJEU. Although Austria have ratified the agreement, other countries, such as Denmark and Ireland, require a referendum in order to enact the necessary national legislation. There are therefore still some hurdles to be overcome and it is possible that the implementation of the unitary patent system will not happen. Nevertheless, implementation seems likely, with the relevant legislation probably coming into force at some point in 2015 or 2016.

WHAT TO DO NOW

For those wishing to obtain a unitary patent, it may be worth considering slowing down prosecution of an existing European patent application to delay grant to a point after the coming into force of the legislation.

Because of the long transitional period (seven years, potentially extendable to 14), and the ability to opt-out of the unified court system, action need not be taken immediately by those wishing to avoid the UPC. Nevertheless, patentees would be well advised to monitor the progress of the unitary patent system. Once the mechanism and cost of opting patents out of the system becomes clear, patentees will then need to consider carefully whether the cost of opting out outweighs the uncertainty of relying on an untested system for litigation, and in particular the risk for central revocation.

Nevertheless, applicants may also wish to consider filing in the national patent offices around Europe. Although there is a general view that the opt out will extend for the life of the patent, this is by no means clear, and if the transitional period is only seven years, then

European applications being filed now may be unavoidably subjected to the UPC for the second half of their term. Some patentees may wish to maintain the additional protection of a national patent in one or a few key European territories, as an insurance against the realisation of the worst fears associated with the UPC. Additionally, with the European Patent Office (EPO) seemingly becoming increasingly intransigent when assessing issues such as added matter and clarity, as well as in assessing the inventiveness of some specific technical areas such as antibodies, there has been increased interest in the use of the national patent offices regardless of the unitary patent. This can be as an alternative to using the EPO, or where the application is of sufficient importance, as a back-up, with some applicants filing in Germany and/or the UK as a fall-back in case their application fares badly at the EPO. Whilst the increased cost of such an approach will not be suitable for all applicants or all cases, it may be worth considering for certain applications. It should be noted though that some countries presently have restrictions which prevent the “double-patenting” of an invention by obtaining national and European patents for the same invention, and at least the UK is likely to enact similar legislation preventing the double-patenting of an invention by both a national and unitary patent.

Third parties may also wish to monitor the progress of the legislation. It may be the case that a troublesome third party patent may not be opted out, or at least not opted out in time, providing an opportunity for that patent to be revoked for most of the EU via a single court proceeding.

A HORSE DESIGNED BY A COMMITTEE. . .

The designer Sir Alex Issigonis is attributed as having said that “A camel is a horse designed by a committee.” Given the very real concerns as to the practicalities of the unitary patent,

there is a feeling amongst many in Europe that that is exactly what has happened here.

The system seems unlikely to provide costs savings except for the largest users, such as pharmaceutical companies, who validate their European patents in all available jurisdictions and who engage in multiple-jurisdiction litigation. However, these patentees are unlikely to want to use the system due to the uncertainty involved. In particular, it seems unlikely that companies are going to risk their blockbuster patents being invalidated on Europe-wide basis by an inexperienced judiciary. For patentees who presently only seek protection in a small number of territories, the system is predicted to be more expensive, and with a more complex system of litigation, and so is unlikely to be popular. SME's in particular appear to be short changed by the system. Not only is the cost of obtaining protection likely to rise; they could well find themselves sucked into litigation in "foreign" jurisdictions using multiple languages and having to instruct lawyers who are not experienced.

. . . AND RIDDEN BY A TROLL?

Ironically, however, it appears that there is one type of litigant which the proposed system is likely to favour, namely nonpractising entities, or so called "patent trolls." With a pro-patentee system and a single patent covering a market comprising most of Europe, there will be advantages to patent trolls which are not currently found within the present system.

Perhaps unsurprisingly given the issues set out above, there has been some condemnation of the proposed system, not only from practitioners but from European patent judges (who were dismissed by the European Parliament as being a special interest group), and also from industry, academia, and some areas of government. The UK Parliament's House of Commons European Scrutiny Committee commented that:

"We conclude overall that the [then] draft agreement on the Unified Patent Court is likely to hinder, rather than help, the enforcement of patents within the European Union. This will particularly be so for SMEs, the main intended beneficiaries."

Concerns have been expressed by industry, for example by David Rosenberg (Vice President of IP Policy at GlaxoSmithKline):

"It will be systematically disastrous. Business does not want a system that is pro-patentee—we want one that is fair. It will be a trolls' paradise—an NPE will be able to sue to Europe-wide effect in a distinctly pro-patentee system."

The highly respected Max Planck Institute released a document entitled "The Unitary Package: Twelve Reasons for Concern. This was published under a covering letter from Professor Hilti, which noted:

"While a superficial glance may create the false impression of a patent law advancement through the proposal, it instead actually threatens to forestall the necessary legal progress and innovation capacities for the foreseeable future."

These concerns of the Max-Planck-Institute are shared by experts throughout Europe. Likewise, considerable parts of the industry harbor doubts as to the proposed system's efficiency. Large undertakings might indeed benefit from a reinforcement of their patent portfolios through the proposed system. Particularly small and medium-sized enterprises are however likely to experience significant obstacles to their innovation activities."

Our criticism of the package is underpinned by a series of legal arguments . . . Many of these points are also uncontested in the current debate. Yet remedies are only promised for the time after the entry into force of the package."

Experience shows that this promise for subsequent improvement is unlikely to be delivered on. Consequently, it might prove disastrous to implement patent system which is already known to be detrimental from both the legal as well as the innovation perspectives. Much rather, the correct course must be set now."

Despite the bold claims of politicians respon-

sible for bringing about the unitary patent system, there are many who believe it is likely to be detrimental to Europe. Whilst we are promised an equine thoroughbred, to this author and many others, the proposals are looking decidedly “dromedary like.”

ENDNOTES:

¹See for example the press release issued by the European Parliament at <http://www.europa.europa.eu/news/en/news-room/content/20121210IPR04506/html/Parliament-approves-EU-unitary-patent-rules>; “After over 30 years of talks, a new regime will cut the cost of an EU patent by up to 80%,.....MEPs cut costs for small firms and tailored the regime to their needs, in a compromise deal with the Council endorsed by Parliament on Tuesday.”

²For example, the press release of 8 August 2013 from the Austrian Foreign Ministry, which stated “Until now, seeking approval for an EU-wide patent was a costly, laborious process that deterred many. However, thanks to the agreement reached on the patent package for unified patent protection, things are set to change.”

³Agreement dated 17 October 2000 on the application of Art. 65 EPC.

⁴The London Agreement was in fact agreed in part due to earlier failures to agree a unitary patent, and by reducing translation requirements has significantly removed one of the main reasons for bringing about a unitary patent.

⁵Renewal fees will increase through the life of the patent (Article 12(1)(a) of Regulation (EU) No 1257/2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (“the Regulation”)), as is the case with most patents validated in European states.

⁶For example the press release of the European Parliament of 11 December 2012, “The new patent will be cheaper and more effective than current systems in protecting the inventions of individuals and firms. The new regime will provide automatic unitary patent protection in all 25 participating member states, cutting costs for EU firms and hence boosting their competitiveness” and “[The unitary patent] is good news for EU economy (sic) and especially for European small and medium enterprises (SMEs).”

⁷Article 33(1) of the Agreement on a Unified Patent Court (“the Agreement”).

⁸Article 33(3)(a) of the Agreement.

⁹Article 33(3)(b) of the Agreement.

¹⁰Article 33(4) of the Agreement.

¹¹This is similar to the federal systems in the US and Germany, whereby although operating similar procedures overall, specific local rules are adopted, the effect of which is to make some courts more attractive to litigants.

¹²Article 33(6) of the Agreement.

¹³Article 33(5) of the Agreement.

¹⁴Article 49(3&4) of the Agreement.

¹⁵Rule 14.3 of the 15th Draft of 31 May 2013 of the Rules of Procedure of the Unified Patent Court (“the Rules”).

¹⁶It is possible to construct scenarios where four or five languages are involved in a litigation, once the languages of the court registries are taken into account. On the hypothetical assumption that a Scandinavian regional division is formed, and by way of example, proceedings might be brought before the Stockholm court of the Scandinavian regional division. The patent is in English. The statement of claim is filed in Danish, so Danish is the language of proceedings. The administration of the court is in Swedish. The case is bifurcated, with the German central division hearing the validity case in English, with the administration of the court being in German. On appeal, the case is heard in Danish, but with the Court of Appeal being in Luxembourg the administration of the court will be in French.

¹⁷For example the press release of the European Commission Web site, which states that “it will be possible to obtain a European patent with unitary effect—a legal title ensuring uniform protection for an invention across 25 Member States on a one-stop shop basis, providing huge cost advantages and reducing administrative burdens.”

¹⁸At present the UK has approximately four Judges who hear patent cases on a regular basis.

¹⁹Articles 25-29 of the Agreement.

²⁰C-414/11 Daiichi Sankyo Co. Ltd. et al v DEMO Anonimos Viomikhaniki kai Emporiki Etairia Farmakon.

²¹Taken from a recording of the 19 November 2012 meeting of the Legal Affairs Committee of the European Parliament, as commented

on in Unitary Patent and Court System—The “Sub-Sub-Suboptimal Compromise” of the EU Parliament, Dr Ingve Bjrn Stjerna, 26 August 2013.

²²Article 83(1) of the Agreement.

²³Article 83(5) of the Agreement.

²⁴Article 83(3) of the Agreement.

²⁵Article 83(4) of the Agreement.

²⁶Rule 5.9 of the Rules.

²⁷Note to Rule 5 of the Rules.

UPDATES

LICENSOR SHOULD BEAR BURDEN OF PROVING INFRINGEMENT, MEDTRONIC SAYS

Medtronic Inc. has asked the U.S. Supreme Court to rule that federal patent law places the burden of proving an accused product infringes a licensed patent on the patent licensor, not the licensee. See *Medtronic Inc. v. Boston Scientific Corp. et al.*, No. 12-1128, *reply brief filed*, 2013 WL 5666595 (U.S. Oct. 16, 2013).

In a suit seeking a declaratory judgment of noninfringement of patents subject to a license, Medtronic says it should not have to breach the licensing agreement to discover if the company would infringe the patents without a license. The Supreme Court agreed to hear the case in May following the U.S. Court of Appeals for the Federal Circuit’s decision requiring Medtronic to prove it did not need a license for U.S. Patent Nos. RE38,119 and RE39,897.

Minnesota-based Medtronic manufactures medical instruments, including implantable cardiac-stimulation devices that provide cardiac resynchronization therapy, according to the Federal Circuit opinion.

Mirowski Family Ventures LLC, as assignee of the inventions of Dr. Michel Mirowski, licensed patents for heartbeat-monitoring devices to pacemaker-manufacturer Guidant Corp., a subsidiary of Boston Scientific Corp., the opinion says. As part of a prior settlement

of an unrelated matter, Guidant licensed MFV’s implantable cardiac defibrillator patents to Medtronic in exchange for royalty payments, the opinion says. The agreement allowed Medtronic to challenge the validity, enforceability and scope of the patents without breaching the license as long as it continued paying royalties, the opinion says.

Medtronic brought suit against MFV in 2003 challenging the validity of one patent, adding a second patent to the dispute in 2007, the opinion says.

In 2011, the district court ruled that MFV, as patent holder, bore the burden of proving the patents were valid and that Medtronic would infringe them if it stopped paying royalties. In reversing, the Federal Circuit in 2012 ruled that Medtronic should bear the burden of proof.

In its opening brief Medtronic argued that *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S. Ct. 764, 166 L. Ed. 2d 604 (2007), clearly established that a patent-licensor must prove its patent would be infringed if practiced without a license.

MFV responded that in *Schaffer ex rel. Schaffer v. Weast*, 546 U.S. 49, 126 S. Ct. 528, 163 L. Ed. 2d 387, 203 Ed. Law Rep. 29 (2005), the high court held that the party seeking relief normally carries the burden of proof. MFV said the dispute was over “claim coverage” and thus should be subject to the “normal” default rule.

In its reply brief, Medtronic said the distinction between a “claim coverage” suit and an “infringement” suit is “purely semantic,” and the patent holder should prove infringement in either case. Medtronic further argued MFV’s reliance on *Schaffer* is misguided, as the plaintiff in that case did not seek a declaration of nonliability, as Medtronic has here. In its reply brief Medtronic gives examples of numerous cases in which someone other than the plaintiff was burdened with the responsibility of proving liability.

According to Medtronic, MFV fails to distinguish the instant case from the cases it cites and assumes the burden of proof automatically goes to the plaintiff when seeking a declaration of nonliability. Allocating the burden of proof in such a way attaches “a substantial penalty” to parties trying to establish their nonliability, it says.

According to Medtronic, its suit does not challenge the licensing agreement but rather upholds it, because it could have easily breached the contract and forced MFV to initiate an infringement suit in which MFV would necessarily have had to bear the burden of proof.

This article originally appeared in Westlaw Intellectual Property Daily Briefings.

U.S. MUST PAY KOREAN WAR MEMORIAL SCULPTOR \$684K FOR INFRINGEMENT

The U.S. Postal Service must pay over \$684,000 to the artist who sculpted the figures for the Korean War Veterans Memorial in Washington for infringing his copyright by using a photo of the sculpture in a commemorative stamp, the U.S. Court of Federal Claims has ruled. See *Gaylord v. United States*, 112 Fed. Cl. 539 (2013).

The decision follows a remand by the U.S. Court of Appeals for the Federal Circuit ordering the Court of Federal Claims to recalculate the \$5,000 in damages it had previously awarded Frank Gaylord. *Gaylord v. U.S.*, 678 F.3d 1339 (Fed. Cir. 2012). The Federal Circuit said Gaylord’s award should be based on the fair market value of his work.

“Justice has been done,” Gaylord’s attorney, Heidi Harvey of Fish & Richardson, said in an e-mail in response to a request for comment. The Department of Justice declined to comment.

The case stems from Gaylord’s success in a

competition to create a sculpture honoring Korean War veterans at the National Mall in Washington. His sculpture, known as “The Column,” was completed in 1995 and features 19 steel statues depicting a platoon of foot soldiers in formation.

In 1996, John Alli, a retired Marine Corps pilot, photographed the memorial during a snowstorm. In 2003, the Postal Service used the photo in a stamp commemorating the 50th anniversary of the armistice of the Korean War. Gaylord sued the government in 2006, in the Claims Court, alleging the postage stamp infringed his copyright in the sculpture.

Judge Thomas C. Wheeler ruled that Gaylord owned a valid copyright in “The Column” and that the Postal Service copied the sculpture in the stamp. *Gaylord v. U.S.*, 85 Fed. Cl. 59 (2008), *aff’d in part, rev’d in part and remanded*, 595 F.3d 1364 (Fed. Cir. 2010). The judge said, however, that the Postal Service’s use of the image constituted fair use, which is a defense against copyright infringement allegations. The judge said the stamp had a new and different character and expression than Gaylord’s sculpture and was likely to have little or no impact on the sculpture’s market or value.

On appeal, the Federal Circuit said the Postal Service could not rely on the fair-use defense. The appeals court said the stamp did not transform the work by altering its appearance and used a substantial portion of the sculpture. *Gaylord v. U.S.*, 595 F.3d 1364 (Fed. Cir. 2010).

In an April 2011 ruling, Judge Wheeler capped Gaylord’s damages at \$5,000. The judge based the award on what the Postal Service said was the most it had ever paid to license an existing image for use on a stamp.

Gaylord appealed the damages award, resulting in the Federal Circuit’s remand order directing the judge to recalculate the damages based

on the fair market value of a license for the full scope of the Postal Service's infringing use.

Judge Wheeler said that ordinarily the value of a license is based on a hypothetical, arm's-length negotiation between the parties, but the government's infringement deprived Gaylord of the opportunity to negotiate with the Postal Service, leaving the court to surmise what might have occurred. The judge based his calculation on three categories of infringing goods identified by the Federal Circuit: stamps used to send mail, unused stamps purchased by collectors and commercial merchandise featuring an image of the stamp.

For the first category, the judge said it was difficult to know if consumers bought the Korean War Veterans Memorial stamp because of the image or simply because they needed to mail something. He awarded no damages for this category. For the second and third categories, the judge said Gaylord usually received a 10 percent royalty on licensed images of his sculpture. He applied the same royalty to the estimated \$5.4 million the Postal Service collected on the stamps, and to the \$330,919 it received on merchandise sales, entitling Gaylord to a total of \$573,092 in damages. Prejudgment interest of \$111,752 boosted the award to \$684,844.

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DETERMINING EXCEPTIONAL-CASE STATUS AS BASIS FOR AWARDING ATTORNEY FEES TO PREVAILING ACCUSED PATENT INFRINGER

Granting certiorari in two cases concerning attorney fee requests made by prevailing accused patent infringers, the United States Supreme Court will review the Federal Circuit's two-part test for determining whether a case is exceptional, as the basis for an award of prevailing-party attorney fees in patent cases under 35 U.S.C.A. § 285, and will also consider

whether deferential review applies to a district court's determination that an infringement claim was objectively baseless. See *Highmark Inc. v. Allcare Health Management Systems, Inc.*, 2013 WL 1217353 (U.S. 2013).

The petition for a writ of certiorari in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184, which was filed by a prevailing accused infringer of patents for elliptical exercise equipment that allowed for adjustable stride length, challenged the two-part test from the Federal Circuit's decision *Brooks Furniture Mfg., Inc. v. Dutailier Intern., Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). Under that test, absent misconduct in the course of the litigation or in securing the patent, a case in which a prevailing accused infringer seeks attorney fees is exceptional only if: (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.

The Federal Circuit panel's unpublished opinion in *Octane Fitness* stated that there was "no reason to revisit the settled standard for exceptionality," and applied that standard in rejecting the prevailing accused infringer's arguments that the case was exceptional because the patentee took unreasonable claim construction positions, made unreasonable privilege assertions for its presuit investigation, and engaged in bad-faith litigation to "go after" the accused infringer. The panel said the accused infringer was seeking to lower the "objectively baseless" standard to an "objectively unreasonable" standard in order to rebalance the alleged power of large companies over smaller companies in patent infringement litigation.

Prior to *Brooks Furniture*, according to the certiorari petition, Federal Circuit precedent generally held that exceptional-case status, in cases in which a prevailing accused infringer seeks attorney fees, is warranted in a variety of contexts depending upon the totality of the circumstances, to prevent gross injustice. The

newer test has made it nearly impossible for prevailing accused infringers to recoup attorney fees, the petition contended, and it has gutted the deterring effect of § 285 on the assertion of spurious patent claims.

“By setting the standard too high, it encourages overly aggressive and unscrupulous patent owners to assert weak patent claims to coerce patent settlements or otherwise gain unfair competitive advantage in the United States marketplace,” the petition stated.

The certiorari petition in *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, No. 12-1163, which was filed by the prevailing accused infringer of patents directed to managed health care systems, challenged a divided Federal Circuit panel’s lack of deference to a district court’s finding that the patentee’s infringement claims were objectively baseless. The majority opinion for the panel viewed the “objectively baseless” element of the exceptional-case test as a question of law based on underlying mixed questions of law and fact, so that de novo review was appropriate.

A dissenting judge believed that reasonableness is a finding of fact, which may be set aside only for clear error. A petition for rehearing en banc was denied, with five judges dissenting.

APPLE/HTC PATENT DEAL WON'T FIGURE INTO SAMSUNG RETRIAL

Samsung cannot use Apple’s 2012 patent deal with Taiwanese phone maker HTC as evidence in an upcoming retrial between Apple and Samsung to decide over \$400 million in damages, a U.S. judge has ruled. At a hearing in San Jose, California, federal court, U.S. District Judge Lucy Koh ruled that a Samsung expert witness could not refer to the HTC deal to help calculate the size of the damages Apple should be paid.

Apple and Samsung are engaged in global litigation over each other’s mobile patents. Last

year a jury awarded Apple over \$1 billion, but in March, Koh slashed the verdict and ordered a retrial on about \$400 million in damages. That retrial was scheduled for jury selection on November 12.

After the verdict last year, Apple struck a broad patent licensing agreement with HTC, which, like Samsung, manufactures phones that run on Google’s Android operating system. Terms of the Apple/HTC deal were not disclosed. However, Apple was compelled to share the details with Samsung’s lawyers as part of discovery for the ongoing patent litigation. If Apple received a relatively small amount of money from HTC, Samsung could use that fact to argue that it should not have to pay large damages to Apple.

Some analysts estimated that HTC likely agreed to pay between \$6 and \$8 per phone to Apple under the agreement, though HTC chief executive Peter Chou called those figures “outrageous” last year.

In court, Apple attorney Harold McElhinny argued that including the HTC deal would unnecessarily lengthen the retrial. The two companies would then argue over whether the HTC deal really applied to damages in this case, McElhinny said. Koh agreed, saying that it was only a “retrial as to a limited issue,” and that since the HTC deal was not at issue in the first trial it should not be included now.

Samsung attorney Victoria Maroulis asked Koh for more time to respond to the ruling in an attempt to change her mind, a request that Koh granted.

The case is *Apple Inc. v. Samsung Electronics Co. Ltd.*, U.S. District Court, Northern District of California, No. 11-1846.

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MICROSOFT WINS WORDPERFECT ANTITRUST CASE

The Tenth U.S. Circuit Court of Appeals has ruled that Microsoft Corp. did not violate anti-trust laws two decades ago by refusing to share key intellectual property with Novell Inc. See *Novell, Inc. v. Microsoft Corp.*, 2013-2 Trade Cas. (CCH) ¶ 78523, 2013 WL 5303259 (10th Cir. 2013).

In a lawsuit spanning nearly nine years, Novell alleged the software giant withheld technical support that would have allowed Novell's WordPerfect software to be compatible with Microsoft's Windows 95 operating system. Novell claimed that Microsoft's allegedly anti-competitive conduct destroyed the competitive viability of Novell's word processing application.

But the Tenth Circuit backed a lower court finding that Novell did not produce enough evidence to prove Microsoft had violated § 2 of the Sherman Act, 15 U.S.C.A. § 2. "Novell complains that Microsoft refused to share its intellectual property with rivals after first promising to do so," the three-judge panel wrote. "But the antitrust laws rarely impose on firms—even dominant firms—a duty to deal with their rivals."

Novell still has the option to request a review of the decision before the full Tenth Circuit or appeal the case to the U.S. Supreme Court.

According to Novell's suit, Microsoft intentionally withheld application programming interfaces for Windows 95 before launching the operating system. An API is a programming specification that works as an interface to allow software components to communicate with each other.

Microsoft allegedly delayed the release of the APIs knowing they were critical to the development of Novell's office suite applications, according to the suit in the U.S. District Court for

the District of Utah. The delay meant that Novell could not launch its software packages within 90 days of the release of Windows 95, causing it to lose significant market share to Microsoft's own office suit software, the suit says.

Throwing out the complaint last year, the District Court ruled Novell failed to show that Microsoft's conduct was part of an overall goal to maintain its operating system monopoly. *Novell, Inc. v. Microsoft Corp.*, 2012-2 Trade Cas. (CCH) ¶ 77979, 2012 WL 2913234 (D. Utah 2012), *judgment aff'd*, 2013-2 Trade Cas. (CCH) ¶ 78523, 2013 WL 5303259 (10th Cir. 2013).

The Tenth Circuit affirmed the decision September 23, finding that Microsoft was merely acting as an aggressive competitor when it decided to withhold tech support for the WordPerfect application. "There's no evidence that Microsoft took any course other than seeking to maximize the company's net profits in the short as well as long term," the panel wrote. "At the end of the day it is clear to us, as it was to the District Court, that Microsoft's conduct does not qualify as anti-competitive behavior."

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INTERNET MESSAGE BOARD COMMENTS REGARDING TRADEMARKED PRODUCT FELL WITHIN NOMINATIVE FAIR USE

In *Stevo Design, Inc. v. SBR Marketing Ltd.*, 2013 WL 4648581 (D. Nev. 2013), the court found that discussions of a plaintiff's trademarked product which had been posted on an Internet sports Web site did not constitute trademark infringement, in violation of the Lanham Act, but instead, fell within nominative fair use, since there was no confusion as to the owner's sponsorship or endorsement.

Plaintiff Stevo is a Florida corporation with its principal place of business in Florida. Stevo

is in the business of selling, on pay-per-view and subscription bases, licenses to access electronically distributed sports betting reports, including compiled sports handicapping information. Plaintiffs Budin and Rolli are Stevo officers, and neither are Nevada residents.

Defendant SBR is a foreign corporation with its principal place of business in Costa Rica. SBR operates a Web site, www.sbrforum.com, which publishes sports betting and handicapping information. SBR also operates a message board allowing users to post messages related to sports betting and handicapping and to send messages to other users.

SBR encourages users to frequent its Web site through the award of “loyalty points.” For instance, a user receives two loyalty points for logging on to the Web site, and a user receives four loyalty points for contributing content to the message board. SBR awards more than four loyalty points for well thought-out “original” content. Users can also give each other loyalty points. These loyalty points may be turned in for “credits” at off-shore gambling Web sites, and these credits are redeemable for cash as long as they are gambled with first.

Plaintiff Stevo filed a against SBR in 2011 alleging that SBR and its users had published its protected works without having obtained a license, and asserting trademark infringement, copyright infringement, and Florida and Nevada state law claims. Stevo moved for entry of clerk’s default and defendants moved to dismiss.

The court found that Stevo failed to establish the plausibility of its trademark claims, but successfully alleged state law and copyright claims against SBR.

To prevail on a claim of trademark infringement under the Lanham Act, the owner of a federally registered mark must show that the defendant used the mark in interstate com-

merce in connection with the “sale, offering for sale, distribution, or advertising of any goods or services,” and that such use is likely to cause consumer confusion. 15 U.S.C.A. § 1114(1).

The doctrine of nominative fair use bears on this question. To use a mark as a mark—a “trademark use”—the defendant must attempt to identify the source of the mark with the defendant itself. “Nominative fair use” is not a trademark use; it is to refer to a particular product for purposes of comparison, criticism, point of reference or any other such purpose. The Ninth Circuit has identified three factors in attempting to carve out nominative fair use from trademark use. First, the product or service in question must not be readily identifiable without the trademark. Second, the mark may only be used to identify the product or service. And third, the mark user must do nothing to imply “sponsorship or endorsement” by the trademark holder.

Here, Plaintiffs failed to allege anything beyond nominative fair use. In an attempt to shoehorn their copyright claims into trademark claims, Plaintiffs alleged that (1) SBR encouraged message board users to post to its message board, (2) SBR knew that these users would mention Plaintiffs’ marks, (3) and that these mentions drove search engine results that favored SBR’s site over Plaintiffs’. Thus, their argument targets the third factor, suggesting that SBR’s conduct implied that Plaintiffs “sponsor[ed] or endors[ed]” SBR’s Web site.

The problem with this argument was its breadth. It may be, with some inferential heavy lifting by the court, that this sketch of SBR’s conduct is compatible with infringing trademark use. However, this sketch is also compatible with noninfringing uses, and Plaintiffs’ other allegations made clear that these are the uses they had in mind. For example, Plaintiffs identified posts critical of Plaintiffs’ analysts. As another court found, when a Web site includes comments critical of the mark owner,

confusion as to the mark owner's authorization or sponsorship is "incredible." Nor did the screennames under which the message board users posted their comments—names like "Pin Fish," "goldengreek," etc.—indicate Plaintiffs' sponsorship or endorsement. Nor did search engine results based on the users' posts' contents constitute "initial interest confusion" with Plaintiffs' sites; indeed, Plaintiffs often alleged that their own sites appeared before SBR's in the search results.

Plaintiffs' failure to allege a trademark use beyond nominative fair use was fatal to all of their trademark claims, the court found. Their direct infringement and false-designation-of-origin claims failed, bringing with them the contributory infringement claims. Nominative fair use is not actionable as dilution. Therefore, the court dismissed Plaintiffs' trademark claims.

APP INDUSTRY GROUP, LAW SCHOOLS TEAM UP VS. INFRINGEMENT CLAIMS

In a move to help small companies targeted for patent infringement claims, an industry association for app creators has teamed up with six U.S. law schools to provide free legal services to fight so-called patent trolls. The formation of the Law School Patent Troll Defense Network was announced recently by the App Developers Alliance, whose membership includes 30,000 individuals as well as small startups and companies like Google and AT&T.

The network includes established clinics at Brooklyn Law School, American University Washington College of Law, John Marshall Law School in Chicago, the S.J. Quinney College of Law at the University of Utah, New York University School of Law and the University of Southern California Gould School of Law. The clinics will not only provide individual legal representation to small app companies accused of patent infringement by nonpracticing enti-

ties, but also participate in policy advocacy against nefarious patent litigation, the alliance said.

According to alliance president Jon Potter, the idea for the network developed after the alliance repeatedly heard from members that they were uncertain what to do when they received a demand letter claiming a member's app infringed a patent, and that they could not afford attorneys' fees. He said the network would focus on nonpracticing entities who make demands of dozens or more small companies at a time for amounts from about \$3,000 to \$10,000, or what he called "smash-and-grab patent trolls."

Jack Lerner, the director of USC's Intellectual Property and Technology Law Clinic, said he expects the work to include representing clients in litigation, advising parties on how to respond to cease-and-desist letters and, on a wider scale, setting up an apparatus for entrepreneurs to share demand letters they have received. Gathering such information, Lerner said, may allow students to identify particular patents small businesses are repeatedly accused of infringing and, in turn, determine whether those patents are good candidates for legal action to try to invalidate them. He said the network will give his students the opportunity to work with small entrepreneurs "who are vastly under-represented in patent policy debates."

Law school students participating in the clinics will also do broader-focused work like preparing patent re-examination actions to submit to the U.S. Patent and Trademark Office or drafting amicus briefs in high-profile patent lawsuits, Potter said.

There are plans to expand the program to law schools across the United States, Potter told Reuters, and to eventually pair the clinics with law firms if the cases turn into full-blown litigation.

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SUPREME COURT ASKED TO DEFINE “PUBLIC PERFORMANCE” IN SUIT AGAINST AEREO

Numerous television stations have urged the U.S. Supreme Court to define the scope of “public performance” as it pertains to retransmissions of broadcast TV shows streamed to online subscribers, maintaining that the practice violates the exclusive rights of copyright holders. See *American Broadcasting Cos. Inc. et al. v. Aereo Inc.*, No. 13-461, petition for cert. filed, 2013 WL 5616728 (U.S. Oct. 11, 2013).

In a petition for *certiorari*, ABC Inc., CBS Broadcasting Inc., Fox Television Stations Inc. and others ask the high court to stop Aereo Inc. from “free-riding on broadcasters’ investments,” by streaming their programming on the Internet.

Aereo provides normally free, live TV programs to mobile devices, computers and laptops for a fee by capturing over-the-air broadcasts and converting them to a digital format before streaming them online, according to the petition. Aereo has compared its service to a that provided by a digital video recorder, using a remote antenna to make a unique copy and transmit that copy to a single customer, making a rebroadcast a “private” performance, not actionable under § 106(4) of the Copyright Act, 17 U.S.C.A. § 106(4). In contrast, the network broadcasters claim Aereo acts not as an equipment provider but as a “re-transmitter” comparable to a cable provider that requires licenses from copyright holders to perform the works publicly.

The networks claim Aereo’s technology violates the “transmit clause” of the Copyright Act, 17 U.S.C.A. § 101, which “draws no distinction” between a display in one place and one in many places, according to the appellants’ reply brief.

The networks filed suit in March 2012 seek-

ing an injunction barring Aereo from operating its rebroadcasting service.

In response, Aereo presented a consumer-protection argument, saying people should have the right to watch broadcast TV through the means of their choice, with a traditional antenna or through Aereo’s service, according to the district court opinion. In July 2012 U.S. District Judge Alison Nathan of the Southern District of New York denied the networks’ motion for summary judgment, ruling that the “balance of hardships” test tipped in Aereo’s favor, as an injunction would have only a marginal effect on the networks and would put Aereo out of business. However, Judge Nathan admitted there was a public interest in barring Aereo’s service, saying “the copyright system’s function of motivating individuals to make available their creative works” was a worthwhile public goal.

On appeal, the Second U.S. Circuit Court of Appeals in April also decided in Aereo’s favor, finding that Congress in drafting the 1976 Copyright Act predicted that some transmissions would be considered private performances or Congress would not have included the phrase “to the public” in the transmit clause. The majority of the panel relied heavily on *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008), where the Second Circuit in reversing a district court decision said that DVRs such as TiVo did not infringe copyrights because each customer watched a single copy of a given performance, making them “private.”

In his dissent, Judge Denny Chin said there was no legitimate reason for Aereo to use transmission devices, describing Aereo’s technology as “a Rube Goldberg-like contrivance,” engineered to circumvent the Copyright Act.

In the petition, the networks plead with the high court to resolve the apparent inconsistent rulings among district courts in other circuits,

as other courts have enjoined “copycat” services using Aereo’s technology and business model. Explaining the alleged harm retransmission services are causing the broadcast TV industry, the petitioners say cable and satellite companies are questioning why they should obtain licenses when Aereo does not. Further, the petitioners say the Second Circuit misinterpreted Congress’ intent. “As technology has evolved over the years, so too has Congress’ understanding of how a copyrighted work can be performed ‘publicly’—particularly when it comes from television programming,” the petition says. The petitioners note that Congress in drafting the latest version of the Copyright Act was explicit in its desire to include as “public” anyone outside of “the performer’s family and friends.”

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GENETIC-TESTING PATENT RAISES CONCERNS ABOUT ‘DESIGNER BABIES’

A controversial new patent for technology that allows people to choose egg and sperm donors, based on the traits they want in their prospective children, is raising questions among experts about the moral bounds of what can be patented.

The U.S. Patent and Trademark Office (USPTO) on September 24 granted genetic testing company 23andMe’s patent application on a method for picking egg and sperm donors based on genetic calculations for certain characteristics, such as eye color or athletic prowess. The company, based in Mountain View, California, sells personal genetic testing kits to consumers.

“It’s pushing the envelope towards individualized eugenics, where people feel that they have to have a child with certain characteristics,” said Sheldon Krinsky, a professor at Tufts University who is on the board of the Council for Responsible Genetics, a nonprofit focused

on the ethical implications of genetic technologies. Others said the case raises the question whether the USPTO should play a more active role in blocking patents that are immoral or pose a threat to the well-being of society.

The USPTO did not immediately respond to a call for comment.

The patent filing by 23andMe noted that fertility centers have long provided clients with choice in reproduction, allowing them to browse through donor profiles showing qualities such as race, height, eye color and educational background. But such profiles offer only “limited insight,” the filing said. Instead, the 23andMe technology allows clients to choose the visible traits they desire, and then it statistically analyzes the genomes of the donor and recipient, coming up with a combined score for each pair. For example, users can select for muscle performance, choosing between offspring likely to become a sprinter versus an endurance athlete.

“Some people might say this is in some respects similar to dating Web sites to the extent you look for traits in somebody you want to have children with,” said Dov Fox, a law professor at the University of San Diego. But the important question, he said, is whether the accuracy from the genetic testing, albeit imperfect, makes 23andMe’s service more troubling.

In response to criticism that the patented technology threatens to usher in a new era of designer babies, 23andMe said in a statement that it does not intend to apply the technology in the context of fertility treatment. The company said when it applied for the patent in 2008, it considered that the technology would have potential applications for fertility clinics and therefore included that language in the patent. Since then, the company said, its strategic focus has changed and now it only intends to use the technology in its Family Traits In-

heritance Calculator. That tool has been offered to couples since 2009 as a “fun way” to look at what eye color their future child might have or whether the child would be able to perceive bitter taste or suffer from lactose intolerance.

“The company never pursued the concepts discussed in the patent beyond our Family Traits Inheritance Calculator,” 23andMe said, “Nor do we have any plans to do so.” Instead, it offered people “an enjoyable way to dip their toes into genetics.”

Nita Farahany, a law professor at Duke University who specializes in bioethics and the law, said that while there are ethical risks to expanding access to genetic information, the solution is not to restrict access to such information and technologies. She commended 23andMe for helping people better understand their genomes and how to incorporate information about themselves and their partners into their decision-making.

23andMe is not the first company to use genetic testing of sperm and eggs to select for desired offspring. The New York-based start-up GenePeeks matches female sperm bank clients with potential sperm donors by filtering out those likely to produce a child with a genetic disorder. Instead of using preconception genetic testing to prevent disability, however, 23andMe is also selecting for traits unrelated to disease such as eye color or muscle performance.

According to Tufts’ Krimsky, the preferred traits are likely to be those that have divided society in the past, such as skin color and body build. The technology may also encourage couples without fertility problems to choose in vitro fertilization in order to select for certain traits, he said.

Most technologies that allow for genetic selection have focused on testing the embryo or the fetus for certain characteristics, said the University of San Diego’s Fox. For example, preimplantation genetic diagnosis has become

a common service at fertility clinics, letting couples undergoing in vitro fertilization test multiple embryos for genetic disorders before deciding which one to implant. But concern about what happens to the unused embryos contributes to the moral considerations in those cases, said Fox. The tests offered by 23andMe and GenePeeks do not deal with that issue, Fox said, and therefore wade into uncharted ethical territory. He said the 23andMe patent highlights the need to expand the USPTO’s authority to consider ethical arguments, and to appoint an ethics officer.

Unlike in Europe, under U.S. law, moral considerations have little weight, if any, in the decision of whether to grant a patent. Under U.S. law, an inventor must show three elements to get a patent: that the invention is novel, that it is not obvious and that it has utility.

In the 1817 case *Lowell v. Lewis*, an invention could only meet the utility requirement if it did not damage the “well-being, good policy or sound morals of society.” However, U.S. courts have since moved away from such moral reflection, Fox said. For example, in the 2013 case *Association for Molecular Pathology v. Myriad Genetics*, the U.S. Supreme Court did not consider moral implications in deciding whether human genes could be patented.

This article originally appeared on Reuters.com.

VERSE, “MAY THE STRENGTH OF THE HOLY SPIRIT BE WITH YOU, GUIDING YOU EVERY DAY OF YOUR LIFE,” WAS NOT COPYRIGHTABLE

In *Personal Keepsakes, Inc. v. Personalizationmall.com, Inc.*, 2013 WL 5348329 (N.D. Ill. 2013), the court found that the short verse, “May the strength of the Holy Spirit be with you, guiding you every day of your life,” was too common and unoriginal to receive copyright protection in itself.

PKI designs and produces gift items person-

alized with poetry verses for special occasions and then sells them on its Web site, www.poetrygifts.com. Specifically, PKI's owner writes literary and poetic verses, portions of which are then incorporated into gift items. Techny Advisors, LLC. sells the same types of personalized gift items on various Web sites, including www.giftsforyounow.com. PKI alleged that Techny unlawfully used PKI's copyrighted material on its merchandise.

The gist of PKI's complaint is that Techny took PKI's copyrighted poems and put them on its competing products. PKI alleged that the pirated poems contain substantial material that is an original work that constitutes copyrightable subject matter under the copyright laws of the United States of America. Specifically, PKI put four of Techny's gift items at issue. Techny moved only to dismiss Count I as it applied to the verse used for the "On Your Confirmation Day" gifts, which reads: "May the strength of the Holy Spirit be with you, guiding you every day of your life."

PKI maintained that the copyright established by means of Certificate of Registration TXu 586-707, effective date of August 6, 1993, covered the "On Your Confirmation Day" poem. PKI alleged that no license was granted to or obtained by Techny for the reproduction or use of the Infringed Work for any purpose. Further, PKI alleged that Techny (1) made unauthorized digital copies of the Infringed Work; (2) reproduced and sold products containing the Infringed Works; and (3) displayed items containing language from Infringed Work on their Web sites.

Techny argued that the claim for copyright infringement, with respect to the verse associated with "On Your Confirmation Day," needed to be dismissed on the following grounds that the phrase "May the strength of the Holy Spirit be with you, guiding you every day of your life" is not copyrightable as a matter of law.

The court said that the short verse at issue

was too common and unoriginal to receive copyright protection in itself. The excerpt is a common expression of a blessing. The expression, "May the strength of the Holy Spirit be with you," is of a kind with the common blessings "May the strength of the Lord be with you," "May the Lord be with you," or "God be with You," which are widely used and decidedly not original to PKI. Blessings invoking the strength and guidance of the Holy Spirit are simply too ubiquitous to warrant copyright protection.

That is particularly so when, as here, they are brief. It has been established that "[s]hort phrases and expressions . . . are not protected by copyright." *Peters v. W.*, 776 F.Supp.2d 742, 750 (N.D.Ill.2011) *aff'd*, 692 F.3d 629 (7th Cir.2012). Additionally, text that is "merely a 'short phrase or expression' . . . hardly qualifies as an 'appreciable amount of original text.'" *Alberto-Culver Co. v. Andrea Dumon, Inc.*, 466 F.2d 705, 711 (7th Cir.1972). The allegedly copied portion of the collection of poems here is a single sentence of two short phrases; it is perhaps long enough to be copyrightable if it were original, but there is not an appreciable amount of original text presented here. For that reason, the cases cited by PKI, in which courts upheld copyright protection for short phrases, are distinguishable. [] Phrases such as "E.T. Phone Home" and "You might be a redneck if . . . [punchline]" are original phrases possessing at least "minimal creativity," whereas the blessing at issue here has no claim of creative authorship. Beyond defending the blessing by labeling it part of a "poetic verse," PKI does not make any argument regarding the creative authorship of the phrase. It defends the larger poems as artistic works, but its complaint in this case does not allege that the poems are copyrighted; the complaint says that PKI has copyright protection specifically for a single sentence.

In light of the generic nature of the allegedly copyrighted phrase, the court found that PKI's assertion that it had a valid copyright did not meet the plausibility threshold.

NINTH CIRCUIT OVERTURNS CRIMINAL COPYRIGHT INFRINGEMENT CONVICTION

After finding that a San Francisco federal judge gave the jury the wrong liability standard in a criminal copyright infringement case against the owner of a commercial DVD and CD replication business, an appellate panel has vacated his conviction and sentence. See *U.S. v. Liu*, 108 U.S.P.Q.2d 1371, 2013 WL 5433753 (9th Cir. 2013).

Super DVD founder and CEO Julius C.L. Liu could be found liable for criminal infringement only if he knew that he was illegally copying protected material, a three-judge panel of the Ninth U.S. Circuit Court of Appeals ruled October 1.

U.S. District Judge James Ware of the Northern District of California, however, had instructed the jury that Liu could be criminally liable even without knowledge that he acted illegally. “[T]he jury instructions, as delivered, resulted in a criminal conviction on what was basically a civil negligence or strict liability standard,” Liu’s attorney Jason T. Campbell at Bay Area Criminal Lawyers said in an e-mail.

The San Francisco U.S. attorney’s office did not immediately respond to a request for comment.

Because the judge’s error was not harmless, the appellate panel vacated the conviction and sentence and remanded the case. According to the appeals court’s opinion, Liu founded Super DVD in 2000. The DVD-manufacturing company operated four replication machines at a warehouse in Hayward, California, the opinion said.

Around 2003, Immigration and Customs Enforcement agents raided one of Super DVD’s customers, a computer software reseller in Coral Springs, Florida, where they found counterfeit copies of Symantec’s Norton Anti-Virus

2003, the opinion said. The same year, government agents obtained a warrant and searched Super DVD’s warehouse.

The agents found counterfeit copies of four music compilation CDs and DVDs of the film “Crouching Tiger, Hidden Dragon,” which Liu had no authorization to replicate, the opinion said.

The government charged Liu with criminal copyright infringement under 17 U.S.C.A. § 506(a)(1)(A) and 18 U.S.C.A. § 2319(b)(1), and trafficking in counterfeit software labels under 18 U.S.C.A. § 2318(a). During the criminal prosecution, Liu denied any knowledge or involvement in replicating the unauthorized copies of the software or music compilations, the opinion said. He admitted that Super DVD manufactured the “Crouching Tiger” DVDs, but said he or the business did not know at the time that they were counterfeit because the customer merely titled the work “Tiger,” the opinion said.

Once Super DVD’s client refused to pay for its order, Liu discovered that the customer did not have the rights to duplicate the movie. Super DVD then sued the customer for payment and alleged that the customer deceived it about owning the copyright, the opinion said.

Despite this evidence, Judge Ware instructed the jury that it only had to find that Liu knew that he was reproducing or distributing copyrighted works. Specifically, he instructed the jury that the government “is not required to prove that the defendant knew that his act was unlawful,” the appellate opinion said.

After a three-day trial, the jury convicted Liu on all counts, and Judge Ware sentenced him to four years in prison and then three years of supervised release. Liu appealed, saying the judge committed a harmful error when he failed to tell the jury that criminal infringement requires knowledge that the defendant commit-

ted an unlawful act. The Ninth Circuit panel agreed, vacating his conviction and sentence.

According to the docket, the U.S. attorney's office requested an extension to petition the Ninth Circuit for a rehearing *en banc*. It was given until November 14 to file its petition.

If full appellate court refuses to rehear the case, Campbell said, "it remains to be seen whether the government will seek to try Liu again." Based on the appeals panel's opinion, Campbell said, the government now "must demonstrate [Liu's] personal awareness that the items he replicated infringed valid copyrights."

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APPLYING LACHES DEFENSE TO INFRINGEMENTS THAT TRIGGER NEW LIMITATIONS PERIODS UNDER COPYRIGHT ACT

The United States Supreme Court has granted certiorari in a Ninth Circuit case that affirmed a district court's decision that the equitable defense of laches applied to copyright infringement claims against the movie production and distribution companies for the 1980 film *Raging Bull*, about the boxer Jake LaMotta. See *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 2013 WL 5430494 (U.S. 2013). The high court will address a circuit split on the applicability of laches to copyright infringement claims.

The Copyright Act provides a three-year statute of limitations for civil copyright claims, 17 U.S.C.A. § 507(b), but the three-year period accrues separately for each act of infringement, even if it is one of a series of continuing acts of infringement.

Under Ninth Circuit precedent for copyright infringement claims, if any part of the alleged wrongful conduct occurred outside of the limitations period, courts presume that the plain-

tiff's claims are barred by laches. *Danjaq LLC v. Sony Corp.*, 263 F.3d 942, 51 Fed. R. Serv. 3d 71 (9th Cir. 2001).

The copyright infringement suit was brought by Paula Petrella, as heir to her father, Frank Peter Petrella, who wrote a book and two screenplays about the life of Jake LaMotta. The father transferred his rights to those works to a production company in 1976, and two years later, those rights were acquired by one of the defendant companies. Thereafter, during the original 28-year term of the copyrights, the father died.

In 1990, the daughter learned of the Supreme Court's decision in *Stewart v. Abend*, 495 U.S. 207, 110 S. Ct. 1750, 109 L. Ed. 2d 184 (1990), which held that when an author dies before the copyright renewal period begins, his statutory successors are entitled to renewal rights even when the author has previously assigned the rights to another party.

The daughter waited eight years before she contacted the defendants and asserted that she had obtained the rights to one of the screenplays and that the exploitation of derivative works, including the movie *Raging Bull*, was an infringement of those rights. She waited another ten years before filing suit.

The Court of Appeals panel agreed with the district court that laches was applicable, stating that the daughter's proffered reasons for the 18-year delay in bringing suit were unsupported by evidence other than the daughter's own declaration, and the evidence suggested the true cause of the delay was, as the daughter admitted, "the film hadn't made any money." During the delay period, the defendants invested financial and other resources for marketing, advertising, distribution, and promotion, under the assumption that they had the legal right to exploit *Raging Bull*. Allowing the suit to go forward would put their anticipated profits "in Petrella's pocket," causing expectations-based prejudice, the panel reasoned.

One judge on the Court of Appeals panel filed a concurring opinion, recognizing a “severe circuit split” on the availability of a laches defense in copyright cases, and stating that there was nothing in the Copyright Act or its history to indicate that laches was a proper defense to a suit brought under the Copyright Act, but the panel was compelled to follow *Dan-jaq* as circuit precedent.

The concurring opinion observed that modern courts seeking to justify the application of laches in copyright cases typically quote a passage from Judge Learned Hand’s opinion in *Haas v. Leo Feist, Inc.*, 234 F. 105 (S.D. N.Y. 1916). The passage begins: “It must be obvious to every one familiar with equitable principles that it is inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive while the proposed infringer spends large sums of money in its exploitation, and to intervene only when his speculation has proved a success.” That passage, the concurring opinion declared, “is a classic invocation of equitable estoppel, which is distinct from its equitable cousin, laches.”

According to the concurring opinion, in the Fourth Circuit, there is no laches at all, and as long as a copyright suit is brought within the statute of limitations, it may go forward. *Lyons Partnership, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 56 Fed. R. Evid. Serv. 982 (4th Cir. 2001).

The Eleventh Circuit applies a strong presumption that a plaintiff’s suit is timely if it has been filed before the statute of limitations has run, and only in the most extraordinary circumstances will laches be recognized as a defense, and even if laches is found, it serves as a bar only to the recovery of retrospective damages, not prospective relief. *Peter Letterese And Associates, Inc. v. World Institute Of Scientology Enterprises*, 533 F.3d 1287 (11th Cir. 2008).

In the Second Circuit, laches is available as a

bar to injunctive relief but not money damages. *New Era Publications Intern., ApS v. Henry Holt and Co., Inc.*, 873 F.2d 576 (2d Cir. 1989), cert. den., 493 U.S. 1094, 110 S.Ct. 1168, 107 L.Ed.2d 1071 (1990). In the Sixth Circuit, laches is available only in the most compelling of cases. *Chirco v. Crosswinds Communities, Inc.*, 474 F.3d 227, 2007 FED App. 0011P (6th Cir. 2007), cert. den., 551 U.S. 1131, 127 S.Ct. 2975, 168 L.Ed.2d 703 (2007) (petition presented one question on availability of laches defense in copyright cases and two questions regarding standard of review for application of laches doctrine).

“Our circuit has taken a wrong turn in its formulation and application of laches in copyright cases,” the concurrence stated, and “[w]e should revisit our case law to provide appropriate protection to innocent copyright owners who have brought infringement suits within the statute of limitations. A recognition of the distinction between equitable estoppel and laches would be a good place to start.”

NINTENDO GETS BOOST FROM FEDERAL COURT IN WII PATENT CASE

A U.S. appeals court has issued a rare directive to a district court judge to reconsider whether patent infringement claims against Nintendo over its Wii system should be severed from other issues in the case and moved to the gaming company’s district of choice.

In litigation brought against Nintendo by Houston-based UltimatePointer, the U.S. Federal Court of Appeals said Judge Leonard Davis of Tyler, Texas, erred by denying Nintendo’s requests without properly considering whether it was fair or reasonable to do so.

UltimatePointer sued Nintendo and a host of major retailers, including Wal-Mart Stores Inc. and BestBuy Co. Inc., in September 2011 in federal court in the Eastern District of Texas. It claimed that Nintendo’s Wii system infringed

an UltimatePointer patent that covered a “direct-pointing system.” UltimatePointer later added additional claims against the retailers, based on their sale of hundreds of Wii games and accessories manufactured by a third party.

In August 2012 Nintendo and the retailers moved to sever the claims against Nintendo and stay the claims against the retailers, arguing that the technology at issue was Nintendo’s and the other defendants were peripheral. Nintendo also asked for the case to be transferred to federal court near the company’s headquarters in Seattle. In March, Judge Davis denied the defendants’ severance and transfer motions, saying UltimatePointer had asserted “at least one common claim of patent infringement against all defendants for the same accused product” and that UltimatePointer was also within its rights to add the additional claims.

In May, Nintendo and the retailers filed a petition for writ of mandamus to the Federal Circuit, asking it to intervene and force Davis to reconsider.

In the recent opinion, Circuit Judge Kathleen O’Malley noted that issuing a writ of mandamus is limited to extraordinary situations where the petitioner has clear right to the writ and no other adequate means of relief. The court found that Nintendo and the retailers had met those requirements, and it sent the case back to district court for Davis to readdress the motions.

The district court erred, O’Malley wrote, when it “did not assess the propriety of severance of transfer with respect to Nintendo,” by looking only at whether Nintendo’s claims could be joined with the others and not if they should be. Davis should also have considered, the court said, whether the initial claims against the retailers should be stayed while the case against Nintendo goes forward. The retailers are likely to “have very little to offer in the way

of evidence” for the substantive aspects of the infringement claims, O’Malley wrote. The appeals court, she said, was “not unsympathetic to the fact that it is sometimes difficult to sort out the interaction” between procedural joinder and venue rules, but that did not excuse the district court from its failure to exercise its discretion to consider the severance and transfer motions.

Counsel for UltimatePointer did not respond to requests for comment. In a statement, Nintendo said it was pleased with the appeals courts’ decision.

The case is *In re Nintendo Co.*, U.S. Court of Appeals for the Federal Circuit, No 13-151.

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PLAINTIFF IN “SHOPPING CART” PATENT SUIT URGES HIGH COURT REVIEW

When online retailer Newegg Inc. convinced an appeals panel that three online “shopping cart” patents were invalid, it created “an ideal vehicle” for the U.S. Supreme Court to review the standard for obviousness, according to a software patentee. See *Soverain Software LLC v. Newegg Inc.*, No. 13-477, petition for cert. filed, 2013 WL 5652556 (U.S. Oct. 16, 2013).

In its petition for *certiorari*, software-licensor Soverain Software LLC asserts that the U.S. Court of Appeals for the Federal Circuit erred in invalidating Soverain’s patents for obviousness under § 103 of the Patent Act, 35 U.S.C.A. § 103. While Soverain admits obviousness is ultimately a question of law, it asserts in its petition that obviousness can only be determined through “fact-intensive inquiry.”

In 2007, Soverain brought patent infringement suits against Newegg and several other online retailers, including Systemax Inc. and Zappos.com Inc. The suits alleged the compa-

nies infringed U.S. Patent Nos. 5,715,314 and 5,909,492, which involve triangulated and interconnected systems for online payments. Soverain also accused the companies of infringing Patent No. 7,272,639, for an “Internet server access control and monitoring system,” which monitors access to network servers, according to the complaint.

After most of the disputes were resolved with licensing agreements, Newegg remained the only defendant when the case came before a jury, which awarded Soverain more than \$2.5 million in damages, according to court documents. The jury found Newegg liable for induced infringement of several “shopping cart” claims of one of the patents and found all the patents “not invalid,” according to court documents.

In August 2010 Newegg moved for judgment as a matter of law before U.S. District Judge Leonard Davis of the Eastern District of Texas, claiming a reasonable jury could not find infringement and the patents were invalid as obvious. Newegg argued that its shopping cart system could not have infringed the claims, distinguishing Soverain’s “single instantiation” system from Newegg’s use of cookies to transfer information to a database during “checkout,” the opinion says.

While Soverain argued that Newegg infringed several claims of each patent, Newegg countered that Soverain’s failure to disclose certain prior art demonstrated they were invalid, according to the opinion.

Ruling Newegg did not establish a *prima facie* case for obviousness, Judge Davis did not send the obvious issue to the jury, the opinion says. Instead, Judge Davis approved the jury award and Newegg appealed, arguing that it

was wrongfully deprived of a jury determination on the obviousness question.

In January 2013 the Federal Circuit reversed, ruling that the allegedly infringed claims were invalid as a matter of law and required neither a jury determination nor consideration of new expert testimony.

In a petition for an *en banc* rehearing filed in March, Soverain said the Federal Circuit should have remanded the case for a jury determination, as Newegg originally wanted. While the Federal Circuit amended its ruling in September, it only corrected its position as to one of the claims, and did not consider factual evidence to re-evaluate its previous ruling, the opinion says.

Soverain responded to the Federal Circuit’s refusal to rehear Soverain’s position on the obviousness issue with the *certiorari* petition. Soverain’s petition says that the Federal Circuit’s obviousness determination is particularly “striking” given that the challenge to Soverain’s patents in the District Court was so “deficient” that the issue did not even go to trial. However, Soverain maintains that the Federal Circuit’s decision is “not an isolated occurrence,” and says that the Federal Circuit has often “strayed” from Supreme Court precedent.

As a result of the Federal Circuit’s practice of reviewing patents for obviousness based solely on “pure law,” patents are easier to invalidate, conflicting with authority of the U.S. Patent and Trademark Office and lower courts, the petition says. Soverain says if the decision is not reversed, the Federal Circuit will threaten “all who rely on the stability and predictability of the patent system.”

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