



IDEAS ON INTELLECTUAL PROPERTY LAW

AUGUST/SEPTEMBER
2016

Playing with fire

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Playing with fire

Inequitable conduct results in outsized antitrust award

Bringing a patent infringement lawsuit always comes with certain financial risks. For example, if you lose a case, you forfeit costs and fees. That isn't the only potential risk, though. One patent infringement lawsuit, *TransWeb, LLC v. 3M Innovative Properties Co.*, backfired in a much bigger way. The patentee was ordered to pay \$26 million — in *antitrust* damages — based on its inequitable conduct.

AIRING COMPLAINTS

TransWeb and 3M both manufacture filters for respirators that workers wear in a dirty or otherwise contaminated worksite. The two companies independently developed the same technique for improving the filters using plasma fluorination. In 1997, TransWeb's founder distributed samples of his company's improved filter at an industry expo. 3M obtained two patents on its improved filter in 1998 and subsequently sued TransWeb for infringement. TransWeb countersued.

The jury found that the patents were not infringed and were unenforceable due to 3M's inequitable conduct. It also found that TransWeb was entitled to lost profits and attorneys' fees as antitrust damages. The jury's damages award included treble (or tripled) damages, which are allowed under the federal antitrust law.

INEQUITABLE CONDUCT

On appeal, 3M challenged the finding of inequitable conduct. To establish such conduct, an accusing party must show three elements:

1. Materiality,
2. Knowledge of materiality, and
3. A deliberate decision to deceive (or specific intent).

According to the Federal Circuit Court of Appeals, the expo samples presented "a definitional case



of but-for materiality." The patent examiner only allowed the patent claims because 3M attested that the samples weren't "prior art" that would preclude the issuance of a patent. Had the samples been properly disclosed as prior art, the examiner wouldn't have allowed the claims.

The appellate court also agreed with the trial court and jury that both an inventor of the patents and 3M's in-house attorney had acted with specific intent to deceive the U.S. Patent and Trademark Office (USPTO). It found evidence at trial which made it obvious that 3M generally, and the inventor in particular, were "very much aware" of the expo samples. What's more, the company's attorney waited several years between learning of the potential prior art and informing the USPTO.

The court found no clear error in the lower court's determinations regarding materiality and specific intent. It therefore upheld the conclusion of unenforceability for inequitable conduct.

One of the elements required for a monopolization claim is “a dangerous probability of achieving monopoly power.”

RELEVANT MARKET

3M also contested the propriety of the jury's finding that the company had committed a “Walker Process” antitrust violation. (The Walker Process is named after the U.S. Supreme Court case where the Court held that a plaintiff can bring an antitrust lawsuit based on the alleged maintenance and enforcement of a fraudulently obtained patent.) To prevail on such a claim, the plaintiff must show that the defendant obtained the patent by knowing and willful fraud on

the USPTO and maintained and enforced the patent with knowledge of the fraud. The plaintiff must further show all the other elements necessary to establish a monopolization claim.

One of the elements required for a monopolization claim is “a dangerous probability of achieving monopoly power.” To assess this element, courts look at the relevant market and the defendant's ability to reduce or destroy competition in it. 3M contended that the trial court had improperly defined the relevant market. But the Federal Circuit disagreed and found that the product and geographic markets considered were both relevant.

CLEARING THE AIR

The damages award in this case makes clear the high risk of pursuing infringement lawsuits based on unenforceable patents. Specifically, accused infringers may bring antitrust counterclaims and possibly obtain treble damages. Such claims are rarely successful because of the high bar for proving a Walker Process violation, but a defendant that shows “knowing and willful fraud” on the patentee's part stands to reap significant damages. □

FINDING A PROPER BASIS FOR DAMAGES

The defendant in *TransWeb, LLC v. 3M Innovative Properties Co.* (see main article) argued that the trial court shouldn't have awarded trebled attorney-fee damages. 3M claimed that TransWeb hadn't shown any link between the fees incurred defending an infringement lawsuit and an impact on competition. It also argued that the fees had had no effect on competition because they hadn't forced TransWeb out of the market or otherwise affected market prices — making them an improper basis for antitrust damages.

As the appellate court saw it, this argument focused on the fact that the harmful effect on competition never actually came about because the alleged infringer had prevailed at trial. But the court found that the defendant's attempt to achieve a monopoly by bringing a lawsuit based on a patent known to be fraudulently obtained was unlawful. The attorneys' fees, the court held, flowed directly from this unlawful act. Therefore, the fees were an antitrust injury and could form the basis for antitrust damages.



How to outhustle a hustler

Court modifies the terms of a permanent injunction

An injunction against a trademark infringer may be permanent, but that doesn't mean its *terms* are necessarily final. As its ruling in *LFP IP, LLC v. Hustler Cincinnati, Inc.* shows, the Sixth Circuit Court of Appeals believes a court can modify an injunction's terms — in certain circumstances.

DUELING BROTHERS

Jimmy and Larry Flynt opened The Hustler Club in Cincinnati in 1969. It eventually grew into Larry's Hustler enterprise, a conglomerate that produced sexually explicit magazines and sold adult-themed products. In 2000, Jimmy opened his own retail store, Hustler Cincinnati. It initially used the "Hustler" trademark owned by Larry's Hustler parent corporation free of charge, but it began paying licensing fees in 2004.

After a falling out between the two brothers, Jimmy's store stopped paying licensing fees despite continuing to use the mark. Larry sued for infringement and obtained a permanent injunction prohibiting Jimmy from using any trademark owned by Larry. Subsequently, Larry sought to modify the injunction when Jimmy opened a new retail store in Kentucky, using the name Flynt Sexy Gifts.

The trial court modified its earlier injunction to block the use of the name "Flynt" in connection with adult entertainment products and services unless the name was accompanied by the name "Jimmy" in the same design. It also required a conspicuous disclaimer for all uses other than on store signage, stating that the goods or services aren't sponsored, endorsed by, or affiliated with Larry Flynt or Hustler. Jimmy appealed.

The appellate court determined that the trial court had ample justification to modify the injunction.

JUSTIFYING MODIFICATIONS

The Sixth Circuit observed that courts can modify injunctions if the circumstances at the time an injunction was issued have changed. Specifically, parties can obtain modifications when the injunction's original purposes aren't being fulfilled in any significant respect.

In this case, the appellate court determined that the trial court had ample justification to modify the injunction. The trial court found that Jimmy had placed a sign in front of his new store that said "Flynt Sexy Gifts," with the name "Jimmy" written in a barely visible font nearby. He also created a website at



flyntsexygifts.com and printed the phrase “Flynt Sexy Gifts” on the store’s receipts.

The trial court also decided Jimmy’s marketing scheme would be likely to mislead consumers into thinking his store was associated with Larry, the Hustler empire’s public figurehead. Therefore, the traditional test for trademark infringement was satisfied. Because the original injunction was intended to prevent trademark infringement, and Jimmy had committed new violations since it was issued, the appellate court found that the trial court had acted appropriately in modifying the injunction to cover Jimmy’s conduct at the new store.

The appellate court noted that the modified injunction was “suitably tailored” to the changed circumstance. It allowed Jimmy to use his full name while protecting Larry’s interest in the “Larry Flynt” trademark. And the modified injunction accounted for the fact that Jimmy sought to use his own last name by permitting him to give the store, any website and other products the mark “Jimmy Flynt.”

THE NAKED TRUTH

Trademark holders who have obtained an injunction against an infringer can take comfort in this appellate court ruling. If circumstances change, an issuing court has the option of modifying an injunction to ensure its original goals are met. □



Copyright law defeats right-of-publicity claims

The right to copyright protection is bestowed by federal law, while the right of publicity from the use of one’s name or likeness is bestowed by state law. So which prevails when these rights come into conflict? In *Dryer v. The National Football League*, the Eighth Circuit Court of Appeals shed some light on how that answer should be determined.

FORMER PLAYERS CALL FOUL

NFL Films creates audiovisual products that cover significant games, seasons and players in the league’s history. The films include compilations of game

footage and interviews with players, coaches, and other individuals involved in the sport. The NFL sells copies of the films to consumers and licenses the right to show them to distributors such as ESPN. It also broadcasts some of the films on its television network and website.

Three former players sued the NFL over the league’s use of footage of games in which they had participated. The trial court dismissed their individual right-of-publicity claims, holding that the federal Copyright Act preempted, or effectively prevented, claims brought under state right-of-publicity law.

CLAIMS BLOCKED

The appellate court affirmed the trial court's decision. When determining whether federal copyright law preempts a claim brought under state law, the court asks:

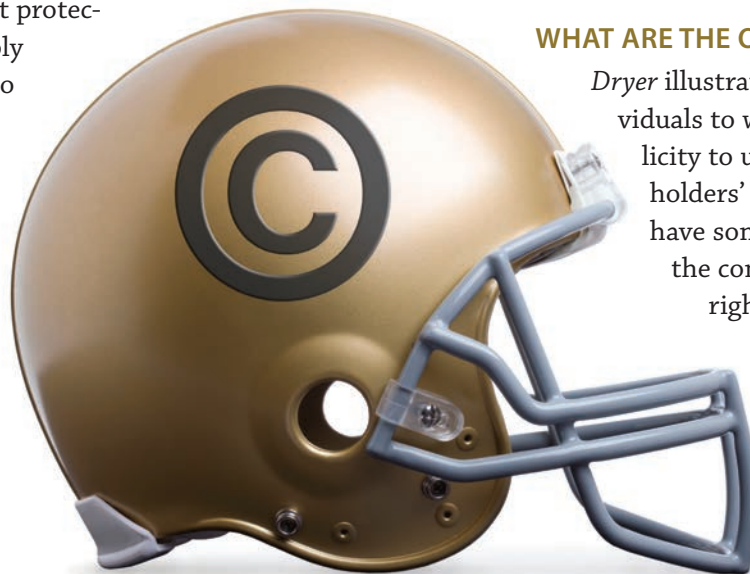
1. Whether the work at issue (here, the films) is covered by the Copyright Act, and
2. Whether the state law right (in this case, the right of publicity) is equivalent to any of the exclusive rights protected by the Copyright Act.

If the court finds that both criteria are met, copyright law preempts the claim.

The Copyright Act generally covers original works that are fixed in a tangible medium of expression. The players argued their performances in football games during their NFL careers constitute part of their identities rather than fixed works eligible for copyright protection.

The appellate court acknowledged that courts have found that the initial performance of a game is an "athletic work" outside the scope of copyright, but pointed out that the Copyright Act specifically includes fixed recordings of such live performances. The use of the players' images in recordings therefore falls within the Copyright Act.

Moving to the second criterion, the court explained that copyright protection is intended to supply an economic incentive to create and disseminate ideas by establishing a marketable right to the use of a person's expression. The right of publicity is in part based on the desire to protect consumers from misleading advertising. To protect consumers, a state might make a



right-of-publicity claim challenging the use of a copyrighted work in a commercial ad for purposes unrelated to the copyright law's aims. For example, in an earlier case against the NFL involving the use of a copyrighted voice recording in an ad for an unrelated product, no preemption was found.

But in this case, the court found that a right-of-publicity claim challenging the expressive, noncommercial use of a copyrighted work seeks to override the copyright holder's right to exploit the value of that work. In other words, it asserts rights equivalent to the exclusive rights protected by the Copyright Act.

Three former players sued the NFL over the league's use of footage of games in which they had participated.

The appellate court rejected the players' contention that the films are commercial. It found the films aren't advertisements because they didn't propose a commercial transaction and they don't reference the league as a specific product. Finally, consumer demand for the films demonstrates that they are products in their own right.

WHAT ARE THE ODDS?

Dryer illustrates the limits on individuals to wield their right of publicity to undermine copyright holders' rights. Individuals may have some success challenging the commercial use of a copyrighted work with their image, but right-of-publicity claims based on noncommercial use in a copyrighted work appear likely to fail. ▣

At the Federal Circuit

Some patentees *might* receive preissuance damages

Owners of infringed patents typically are limited to recovering damages that occur after the patent was issued. However, they may also be entitled to damages for infringing conduct that occurs preissuance, but after publication, of the patent application if the accused infringer had “actual notice” of it. In *Rosebud LMS Inc. v. Adobe Systems Inc.*, the Federal Circuit Court of Appeals has addressed what constitutes such notice for the first time since the statute authorizing such preissuance damages was enacted in 1999.

THREE STRIKES

Rosebud filed three patent infringement lawsuits against Adobe. The first two were dismissed. In the third case, the plaintiff alleged infringement of a patent that is a continuation of the patent at issue in the second suit (the “parent patent”), which, in turn, was a continuation of the patent in the first suit (the “grandparent patent”).

In the third case, Adobe asserted that Rosebud wasn’t entitled to preissuance damages because Adobe had no actual notice of the published patent application that led to the patent. But Rosebud argued that the defendant had actual notice because Adobe had actual notice of the grandparent patent to the application. Also, Adobe monitored Rosebud and its product and sought to emulate some of its features.

The trial court dismissed Rosebud’s claim. It found, at most, Rosebud had only showed constructive notice.

DOWN AND OUT

Rosebud appealed. In response, Adobe claimed that “actual notice” requires an affirmative

act by the patent applicant. Mere knowledge of the patent isn’t enough — notice must come directly from the patentee.

The appellate court agreed that constructive knowledge doesn’t satisfy the requirement, but it rejected the notion that an affirmative act is required. Although “actual notice” includes a party affirmatively acting to provide notice, it also includes knowledge obtained without an affirmative act.

Nonetheless, the court denied preissuance damages because of the lack of evidence of actual notice. Knowledge of related patents, it said, is insufficient to establish actual notice of the application. Further, Rosebud offered no evidence that Adobe actually monitored Rosebud or its product. Finally, the court noted that, because Rosebud had missed all of its court-ordered deadlines, the second lawsuit against Adobe never reached the stage where counsel would have reviewed related patents and applications.

BE AFFIRMATIVE

It’s unusual for patentees to recover preissuance damages, but not impossible. Even though affirmative acts aren’t required, taking such actions to provide suspected infringers with actual notice could increase the odds of receiving damages later. □

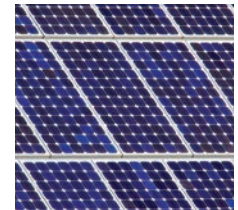
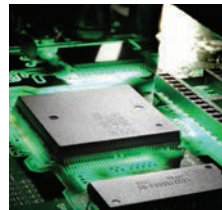




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