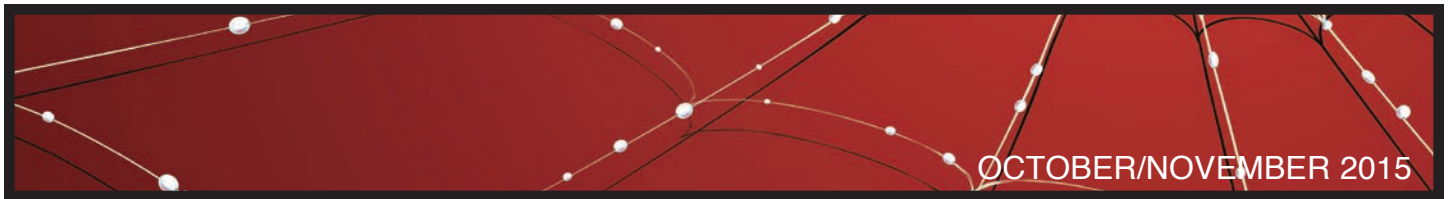


IDEAS ON INTELLECTUAL PROPERTY LAW



OCTOBER/NOVEMBER 2015

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Cantor Colburn LLP

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Caught in a web

Supreme Court addresses royalties and patent expiration

In late June, the U.S. Supreme Court issued the much-anticipated ruling regarding the availability of royalties beyond a patent's expiration date. Its decision in *Kimble v. Marvel Enterprises, Inc.* may leave many patent holders grumbling. But the Court's likely response would be along the lines of that old axiom, "With great power, there must also come great responsibility."

Making toys

Stephen Kimble invented a Spider-Man toy that allowed users to mimic Spider-Man's web-shooting abilities with foam string. He obtained a patent on the toy that expired on or about May 25, 2010. In December 1990, Kimble met with Marvel about the toy. Marvel passed on it but subsequently released a similar toy called the Web Blaster.

In 1997, Kimble sued Marvel for patent infringement and breach of a verbal contract under which Marvel allegedly agreed to compensate Kimble if it used any of his ideas. The patent claim was dismissed before trial, but a jury ruled in Kimble's favor on the contract claim and awarded him 3.5% of past, present and future net product sales of the Web Blaster. Kimble appealed the dismissal of the patent claim, and Marvel appealed the contract verdict.

The parties settled the case in 2001. Under the settlement terms, Marvel paid about \$500,000 to buy the patent and also agreed to pay a 3% royalty on "net product sales," defined as "product sales that would infringe the patent but for the purchase and sale thereof ... as well as sales of the Web Blaster product that was the subject of the action and to which the judgment refers." The agreement had no expiration date.

The Supreme Court has long opted not to enforce laws and contracts that restrict free public access to formerly patented inventions.

After several disagreements, Kimble eventually filed a breach of contract lawsuit concerning the calculation of royalty payments. Marvel counterclaimed, seeking a declaration that it wasn't required to pay Kimble royalties after the patent expired in 2010. The trial court sided with Marvel, and Kimble appealed.

Affirming reluctantly

Citing an earlier Supreme Court case known as *Bruhlote*, the U.S. Court of Appeals for the Ninth Circuit



“reluctantly” affirmed the district court’s decision. In *Brulotte*, the High Court ruled that “a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent is unlawful per se” because it extended the patent monopoly beyond the patent period. And, in doing so, the Supreme Court said, the agreement would conflict with patent law’s policy of establishing a post-patent expiration public domain.

The appellate court acknowledged that Kimble might have been able to obtain a higher royalty rate if the parties had understood that royalties would cease on patent expiration. Neither party was aware of *Brulotte* when the royalty agreement was made. Nonetheless, the court was bound by the *Brulotte* rule and, therefore, held that the licensing agreement was unenforceable. The case then moved to the Supreme Court.

Superseding the decision

Kimble asked the High Court to override the *Brulotte* rule and adopt a case-by-case approach based on the so-called “rule of reason.” But the Court, in a 6-3 decision, declined to do so.

Justice Kagan’s majority opinion began by noting that the Supreme Court has carefully guarded the 20-year patent expiration date established under the federal Patent Act. It has long opted not to enforce laws and contracts that restrict free public access to formerly patented inventions. As Kagan put it in her pun-filled opinion: “Patents endow their holders with certain superpowers, but only for a limited time.”

The Court’s ruling relied largely on the doctrine of “stare decisis.” According to the doctrine, overruling a case always requires special justification — over and above the belief that the earlier case was wrongly decided. Moreover, in cases such as this, where the earlier case interprets a statute, the doctrine carries enhanced force because critics can take their objections to Congress if change is desired. “As against this superpowered form of stare decisis,” Kagan wrote, “[the Court] would need a superspecial justification to warrant reversing *Brulotte*.”

But traditional justifications for abandoning stare decisis didn’t apply here, the Court found. For example, nothing about the *Brulotte* rule has proved

unworkable. To the contrary, according to the Supreme Court, the decision is simple to apply — particularly compared to Kimble’s proposed approach, which would likely produce high litigation costs and unpredictable results.

Recognizing alternatives

The Supreme Court’s ruling in this case wasn’t what patent holders had hoped for, but all is not lost. In fact, the Court’s opinion enumerates several alternative approaches that can be taken to accomplish Kimble’s desired effect. (See “How to avoid a sticky situation” below.) ○

How to avoid a sticky situation

The U.S. Supreme Court’s ruling in *Kimble v. Marvel Enterprises, Inc.* (see main article) doesn’t necessarily leave patent holders without financial recourse after their patents expire. The Court’s opinion notes several alternatives to circumvent the limitations of the *Brulotte* rule.

For example, a cash-strapped licensee could defer payments for pre-expiration use of a patent into the postexpiration period. In the case of a licensing agreement that covers multiple patents or additional nonpatent rights, royalties can run until the latest-running patent covered in the agreement expires.

And postexpiration royalties are allowable as long as they’re tied to a nonpatent right — even when closely related to a patent. So, for instance, a license involving both a trade secret and a nonpatent right can set a 5% royalty during the patent period, as compensation for the two combined, and a 4% royalty afterward, as payment for just the trade secret.

Finally, the Court observed, the *Brulotte* rule poses no bar to business arrangements other than royalties that allow parties to share. Parties could, for example, enter a joint venture that provides for compensation beyond the life of a patent.

Supreme Court disconnects patent infringement defense

Good news, patent holders. The U.S. Supreme Court has struck down a defense that had been available to accused inducers of infringement.

Specifically, in *Commil USA, LLC v. Cisco Systems, Inc.*, the high court rejected the notion that a defendant's good-faith belief that a patent was invalid — even if it was actually valid — was a defense to claim for induced infringement. This reverses a decision previously made by the U.S. Court of Appeals for the Federal Circuit.

Hung up in litigation

Commil USA holds a patent related to a method of providing faster and more reliable handoffs of mobile devices from one base station to another as the devices move through a wireless network area. Cisco Systems is a major supplier of Wi-Fi access points and controllers.

Commil sued Cisco. It alleged, among other things, that Cisco had induced other parties to infringe the patent by selling them infringing equipment.

A jury found Cisco liable for induced infringement and awarded Commil about \$64 million in damages.

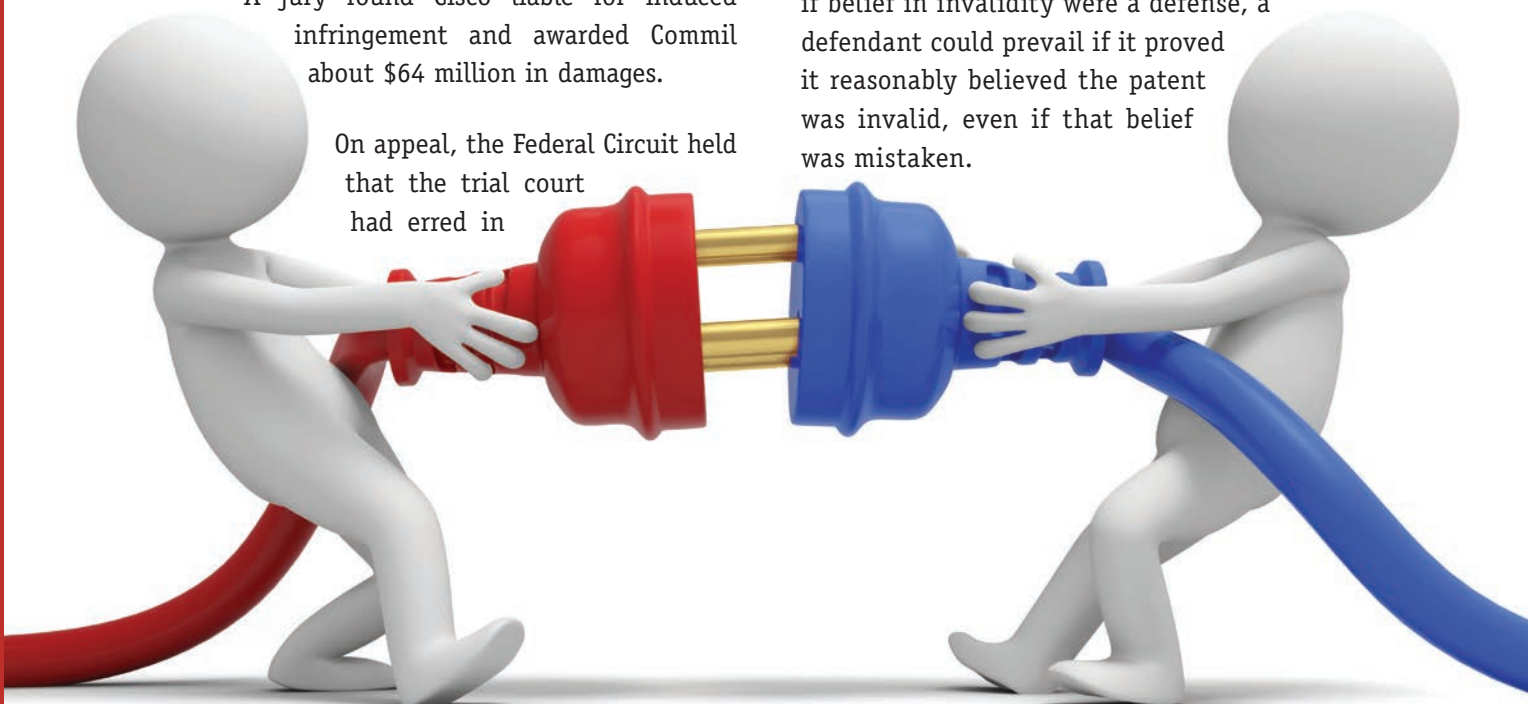
On appeal, the Federal Circuit held that the trial court had erred in

excluding Cisco's evidence of its good-faith belief that the patent was invalid. The case then moved to the Supreme Court for review.

Call rejected

The Supreme Court has previously held that, in a lawsuit for induced infringement, the plaintiff must show that the defendant both knew: 1) of the patent, and 2) that the induced acts were infringing. Here, the Court considered whether the defendant must also know of, or believe in, the patent's validity to be liable for induced infringement. In other words, is a defendant's good-faith belief that a patent is invalid a defense to induced infringement liability?

The answer, according to the Supreme Court, is no. When infringement is the issue — whether direct, contributory or induced — the validity of the patent isn't the question. Infringement and invalidity are separate issues and have separate defenses under the Patent Act, the Court said. If the Court interpreted the law as permitting a defense of belief in invalidity, it would conflate the issues. Moreover, if belief in invalidity were a defense, a defendant could prevail if it proved it reasonably believed the patent was invalid, even if that belief was mistaken.



An accused infringer, the Court explained, can still attempt to prove that the patent is invalid. If it's indeed invalid, and shown to be so under proper procedures, no liability exists — because invalidity is a defense to liability, not infringement.

Alternative numbers available

According to the Supreme Court, its ruling doesn't leave defendants who question patent validity without recourse. It noted that accused infringers, or accused inducers of infringement, continue to have various proper ways to obtain an invalidity ruling.

For example, defendants can file a declaratory judgment action asking a federal court to declare the patent invalid. Defendants may also seek review from the Patent Trial and Appeal Board or seek re-examination of the patent by the U.S. Patent and



Trademark Office. And, the Court reiterated, they can raise the defense of invalidity. If defendants prevail on it, they can be immune from liability. ○

Laying a low floor for copyright originality

Things found in nature are generally considered in the public domain and not subject to copyright protection. Yet the U.S. Court of Appeals for the Eleventh Circuit recently ruled that a flooring design based on the *natural* aging of wood was indeed copyrightable.

The court's opinion in *Home Legend, LLC v. Mannington Mills, Inc.* illustrates how, depending on originality, a work using uncopyrightable elements can be copyright-eligible itself.

Deeply stained maple

Mannington Mills and Home Legend are competitors in the laminate flooring market. Mannington's Glazed Maple laminate is intended to duplicate the appearance of a deeply stained maple floor that had been through years of wear and tear. The company obtained a copyright for the design in 2010.

When Mannington discovered Home Legend was selling similar flooring, it accused the company of infringing its copyright. Home Legend preemptively sued Mannington, claiming that the copyright was invalid and the design wasn't copyright-eligible. The trial court agreed with Home Legend, and Mannington appealed.

Modicum of creativity

The appeals court initially considered the trial court's finding that the design wasn't original enough to qualify for a copyright. It noted that copyrightable originality requires only "independent creation" by the author "plus a modicum of creativity." In other words, the court said, the originality requirement is a low bar.

The trial court found that the design merely depicted elements found in nature — the look of a rustic, aged



wooden floor. The appellate court acknowledged that a scan of a raw wood plank probably wouldn't be sufficiently original to support a copyright of such an individual image.

Mannington's designers, however, didn't just scan wooden planks. Rather, they imagined what a distressed maple floor might look like and used stain, paint, hand tools and digital photo retouching to express their concept first on wood and then as digital images. Although the idea of a distressed maple floor is not protectable, the court said, the idea's expression in the design was the product of creativity and, therefore, copyrightable.

The design was protectable as a compilation expressing original selection and creative coordination of elements, too. A compilation even of uncopyrightable elements is copyright-eligible as long as the compiler independently selects or arranges the elements and displays some minimal level of creativity in doing so. The designers exercised such creativity in their selection of planks that best captured their conception of an aged and rustic maple floor.

Separate design

The appeals court also reviewed the trial court's conclusion that the design wasn't copyrightable because it was inseparable from a "useful article" — the floor to which Mannington applied the design. Separability for purposes of copyright eligibility requires that a design be either physically or conceptually severable from the useful article.

The design met both tests in the appeals court's view. Mannington sold otherwise identical flooring with decor paper other than the design (physical separability), and the design could easily be applied to wallpaper or used as the veneer of a picture frame (conceptual separability).

The designers exercised creativity in their selection of planks that best captured their conception of an aged and rustic maple floor.

Not particularly strong

Although the appeals court reversed the trial court's ruling against Mannington and held that it owned a valid copyright, it wasn't all good news for the company. The court emphasized that the copyright's protection isn't particularly strong because much of the design reflects uncopyrightable plank features like wood grain and shape.

The copyright, therefore, extends only to identical and near-identical copies of the design. Mannington would have no copyright infringement claim against a party that used similar processes to make its own aged-maple designs as long as the final designs were its own expressions and not copies of Mannington's design. ○

Is that trademark *too* concise?

Generally, an effective trademark is both concise and memorable. But being *too* concise can backfire on a trademark applicant if the mark is found to be “merely descriptive.” Case in point: *In Re: TriVita, Inc.*

Prickly situation

TriVita, Inc., filed a trademark application to register the mark NOPALEA for dietary and nutritional supplements containing nopal cactus juice. Nopalea is the name of a genus of cactus used in food and supplements. Both *Opuntia* and *Nopalea* cacti may be referred to as nopal cacti, but the application didn’t state whether TriVita’s nopal juice is derived from cacti in either genus.

The application was rejected. The Trademark Trial and Appeal Board (TTAB) subsequently affirmed the refusal, finding that NOPALEA was “merely descriptive” of the related goods.

Relevant points of law

The federal trademark law (the Lanham Act) provides that a term can’t be registered on the Principal Register as a trademark if it consists of a mark that, when used on or in connection with the applicant’s goods, is merely descriptive of them. A mark is “merely descriptive” if it consists of only words descriptive of the qualities, ingredients or characteristics of the related goods or services.

Whether a mark is merely descriptive turns on whether someone who’s presented the mark in connection with the related goods or services would understand that the mark describes the goods or services. A merely descriptive mark can be registered as a trademark only if the applicant shows that the mark has acquired secondary meaning.

For example, before it acquired secondary meaning, ChapStick was a brand that created *sticks* of lip balm for *chapped* lips and was “merely descriptive.”



Another stab

On appeal to the Federal Circuit Court of Appeals, TriVita argued that the TTAB failed to compare the word “nopalea” to the word “nopal” — the common name for prickly pear cacti of the *Nopalea* and *Opuntia* genera and the word used in TriVita’s description of its goods. It claimed that the addition of the letters “EA” made the mark substantially different in sight and sound.

But the appeals court pointed out that “nopalea” isn’t just a made-up word obtained by adding arbitrary letters. Nopalea is a genus of cacti from which nopal juice, the product at issue, is derived. It also noted abundant scientific and nonscientific evidence of the words “nopalea” and “nopal” being used interchangeably.

Pithy decision

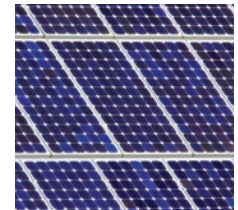
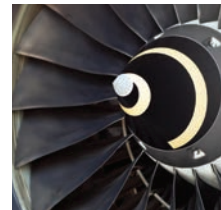
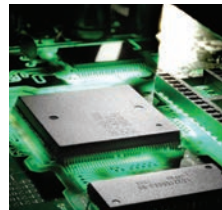
It took the appellate court only six pages to find substantial evidence supporting the TTAB’s ruling that “nopalea” was merely descriptive of TriVita’s supplements containing nopal juice. The mark, therefore, couldn’t be registered for the products. ○



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