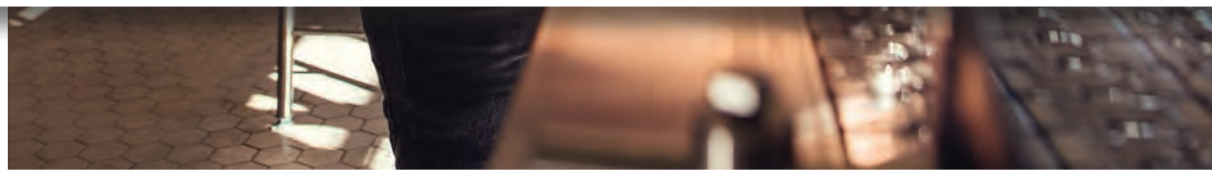
IDEAS ON INTELLECTUAL PROPERTY LAW



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Cantor Colburn LLP

When a surname can be registered as a trademark

Family businesses often like to use their surname as a mark for their products and services, whether as a point of pride or simply because they feel the name is memorable. These businesses can run into obstacles, though, when it comes time to register trademarks with the surname. A prolonged court battle over one such mark shows how problems can arise — and how businesses can overcome them.

THE BREWING CONTROVERSY

St. Louis Brewery (SLB), co-founded by Thomas Schlafly and Daniel Kopman, sells 60 kinds of craft beer in 15 states and the District of Columbia. It sells through wholesalers, retail locations and several national restaurant chains. The brewery began selling Schlafly beer in 1991 and, from 2009 to 2014, sold more than 75 million units, not including restaurant sales.

According to SLB, it has made substantial investments in marketing the brand, and all labels for Schlafly beer prominently feature the Schlafly mark. It has featured the mark in radio, print, billboards and social media, as well as at over 500 events.

Prior to the application at issue, SLB had already obtained two trademark registrations for logo marks with the Schlafly name. In 2011, it applied to register the word mark in standard character format for a variety of types of beer and malt-based alcoholic beverages.

Two individuals with the surname of Schlafly opposed the most recent application. The now deceased Phyllis Schlafly was a well-known conservative activist and proponent of "traditional values" who lived in Missouri. Dr. Bruce Schlafly (Phyllis's son) is a Missouri physician who has used his name in his practice since 1986. They asserted that, if granted, the mark would have a negative connotation because of drunk driving and intoxication leading to injuries.

The Trademark Trial and Appeal Board (TTAB) ruled in SLB's favor and found that the Schlafly mark had acquired secondary meaning under the federal trademark law — that is, the mark had become distinctive as applied to SLB's goods in commerce. The opposers appealed to the U.S. Court of Appeals for the Federal Circuit.

ANOTHER ROUND

The Lanham Act allows the registration of marks that have acquired distinctiveness (also known as secondary meaning) from use in commerce. The federal regulations for the law provide that the

CONSTITUTIONAL CLAIMS FALL FLAT

The opposers to the Schlafly mark in *Schlafly v. St. Louis Brewery, LLC*, also took the approach of claiming that registration of the mark violated the U.S. Constitution, including the First and Fifth Amendments. The U.S. Court of Appeals for the Federal Circuit rejected these arguments.

As to the First Amendment claim, the court found that the opposers didn't adequately explain how registration improperly impinged on their rights. Their Fifth Amendment claim likewise failed because trademark registration isn't a taking of property for government use.

The court also dismissed the opposers' claim that their due process rights were violated by the Trademark Trial and Appeal Board's recognition of the secondary meaning in the Schlafly mark without proof of a change in public perception. It concluded that the trademark opposition procedure, which the opposers took advantage of, provides appropriate due process of law.

following types of evidence can indicate acquired distinctiveness:

- Ownership of prior registration(s) of the same mark,
- Five years of substantially exclusive and continuous use in commerce, or
- Other evidence — including verified statements; depositions or other appropriate evidence showing duration; extent and nature of the use in commerce and advertising expenditures; and verified statements, letters or statements from the industry or public, or both.

The appeals court found that SLB had presented all three types of evidence, including evidence of the commercial success of Schlafly-branded beer, sales of more than 75 million servings in the 2009 to 2014 period, and media coverage in local and national media outlets. SLB also had demonstrated more than 25 years of continuous use of the mark.

A BEER BY ANY OTHER NAME

The opposers raised two arguments focused on the fact that the mark was a surname. The court shot down both.

First, the opposers claimed that "Schlafly" was significant to the public primarily as Phyllis Schlafly's surname and urged the court to adopt a new test for surnames. Under the proposed "change in significance" test, a surname couldn't be registered as a trademark in the absence of a showing of a change in significance to the public — from a surname to an identifying mark for specified goods. The court found the request for a new test to be unsupported and pointed out that the Schlafly mark had acquired secondary meaning for beer products, regardless.

> The Lanham Act provides that trademarks that are primarily merely a surname can be registered if they have acquired distinctiveness.

The opposers further argued that the TTAB should have considered whether the mark was "primarily merely a surname" because the Lanham Act prohibits the registration of such marks. As the court noted, though, the law also provides that trademarks that are primarily merely a surname can be registered if they have acquired distinctiveness.

SURNAMES CAN TRIGGER BAR FIGHTS

SLB filed its registration for the Schlafly mark eight years ago. While the brewery seems likely to secure registration, the case illustrates some of the risks in selecting and registering a surname as a mark. ◻

Lens manufacturer loses the blame game

Circumstantial evidence seals induced patent infringement liability

It may seem apparent to patentees when someone is inducing third parties to infringe their patents, but it's not always easy to prove in a court of law. The U.S. Court of Appeals for the Federal Circuit, which hears all patent-related appeals, recently provided a welcome reminder that sometimes circumstantial evidence can go a long way. The court also weighed in on the proper calculation of lump-sum reasonable royalty damages.

A LENS INTO THE DISPUTE

Enplas Display Device Corporation (EDD) is a Japanese manufacturer of plastic lenses used in the light bars that backlight flat-screen televisions. Seoul Semiconductor Company (SSC) is a Korean company that manufactures and sells light-emitting diodes (LEDs), which also are used in light bars. It holds two U.S. patents on light bars.

From November 2010 to June 2011, the companies collaborated to make lenses for SSC's light bars. Although SSC informed EDD that the bars, including the lenses, were covered by its patents, EDD sold the lenses to other manufacturers. Some of the resulting light bars ended up in products sold in the United States.

SSC sent EDD a letter alleging that EDD was inducing the infringement of its patents. EDD responded by seeking a declaratory judgment that SSC's patents were invalid and not infringed. SSC counterclaimed for induced infringement and sought damages. Specifically, it claimed that EDD induced its direct and indirect customers to import, use, sell or offer for sale products infringing SSC's patents.

After trial, the jury found that EDD had indeed induced infringement of the patents and awarded SSC $4 million in damages for a one-time "freedom-to-operate" (or right to use without legal liability) payment for one patent and $70,000 for the other. The verdict form specified that the freedom-to-operate payment was for all EDD products, including lenses *not* accused of infringement. EDD appealed.

LIGHT, BUT SUFFICIENT, EVIDENCE

To succeed on a claim of induced infringement, a patent owner must show, among other things, that the defendant knowingly induced infringement and had specific intent to encourage another's infringement. The appeals court acknowledged that this was "a close case" but determined that the jury could reasonably find that EDD had the requisite knowledge and intent.

> Mere knowledge of possible infringement isn't enough to establish specific intent to support a claim of induced infringement.

The court noted that EDD didn't dispute its knowledge of the patents or that it was informed that they covered the collaborated product. EDD had a 50% worldwide market share, and its customers sold televisions in the United States — supporting the inference that it knew of the likelihood its lenses would end up in the United States.

However, the appeals court conceded that mere knowledge of possible infringement isn't enough to establish specific intent. It nonetheless concluded that the evidence provided sufficient circumstantial evidence to uphold the jury's finding of knowledge and intent.

DAMAGES REFLECT EXPERT ERROR

The news was better for EDD on the damages front. EDD contended that the only evidence supporting the $4 million award was expert testimony that improperly included noninfringing devices in the royalty calculation.

SSC countered that, because its expert characterized her use of the volume of sales of nonaccused lenses as a "paid-up, lump sum royalty" to ease an "administrative burden," her application of a royalty to nonaccused lenses was acceptable. The appeals court disagreed.

A jury can award a lump-sum, paid-in-full royalty in lieu of a running royalty on future sales, it said. But that lump sum must be based on an estimate of the extent of future sales of accused products, not on past sales of nonaccused products.

STAY TUNED

Notably, the court's ruling on the damages award doesn't let EDD off the hook. The appeals court upheld the finding of induced infringement and sent the case back to the trial court for further proceedings on the proper amount of damages. □

Music platform hits a sour note

Resale of digital music violates Copyright Act

The introduction of digital works has raised a variety of questions about how the Copyright Act applies in the modern age. But one thing is now clear: Neither the first-sale doctrine nor the fair use defense allows the resale of copyrighted digital music files.

THE ORIGINAL SCORE

Capitol Records, Capitol Christian Music Group and Virgin Records IR Holdings (the "record companies") own copyrights or licenses in sound recordings of musical performances. They distribute the music as licensed digital files through authorized agents such as Apple iTunes and other methods. Purchasers download the files onto their own devices. ReDigi is an online marketplace that brokers the sale of legally purchased digital music files through an online platform, including files with the record companies' music.

The record companies sued ReDigi for copyright infringement. The trial court found that ReDigi had infringed the plaintiffs' copyrights by unauthorized reproduction and distribution of their copyrighted music. It awarded the plaintiffs $3.5 million in damages and permanently blocked ReDigi from operating its system. The company appealed to the U.S. Court of Appeals for the Second Circuit for relief.

THE REMIX

ReDigi argued that its system lawfully enabled the resales of its users' digital files under the first-sale doctrine. The doctrine provides that a copyright holder's control over the distribution of any

particular copy or phonorecord is distributed to its first recipient. The right to control reproduction, however, remains with the copyright holder.

ReDigi claimed that, from a technical standpoint, its process didn't make a reproduction. Because its system removed blocks of data (known as packets) from the file that remains on the user's computer as the packets are copied and transferred to its server, the complete file never exists in more than one place at the same time. The file on the user's computer shrinks as the file on the server grows, and the sum of the data never exceeds the size of the original file. Thus, ReDigi asserted, no reproductions are made during the process.

> Under the first-sale doctrine, the right to control reproduction remains with the copyright holder.

The appeals court wasn't convinced. The fact that the amount of data remained constant throughout didn't rebut or nullify the fact that the eventual receipt and storage of a file in ReDigi's server, as well as in the new purchaser's device, involved the making of new phonorecords.

The creation of such phonorecords, the court said, involved unlawful reproduction, unless justified by the fair use defense. Under the Copyright Act, fair use of a copyrighted work for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research isn't an infringement of copyright. After considering the statutory fair use factors, the appeals court found that fair use didn't save these reproductions.

ReDigi made no "transformative" change to the sound recordings and was motivated purely by a commercial purpose. It also made identical copies of the recordings, copying them in their entirety. Most important, the court said, ReDigi made the reproductions to resell in competition with the copyright holders — it sold the reproductions to consumers whose objective was to obtain the copyright holders' music. The primary difference between the originals and the reproductions was the lower cost of the reproductions.

UNSUNG VERSE

Because it found that ReDigi's system infringed the copyright holders' rights of reproduction, the appellate court made no ruling on whether the digital files it resold were subject to the first-sale doctrine. It remains undetermined whether such resales also infringe the copyright holder's right of distribution. ◻

Confidential sales can trigger the on-sale bar to patentability

The U.S. Supreme Court has unanimously defeated an attempt to limit the on-sale bar in cases where an invention was sold under a confidentiality agreement. The secrecy about the details might keep the sale from public knowledge, but it can still block a patent under the America Invents Act (AIA).

ANTINAUSEA DRUG COMES WITH GAG RULE

Helsinn Healthcare makes a treatment for chemotherapy-induced nausea and vomiting. In 2001, while developing the product, the company entered into two agreements allowing a Minnesota company to sell a 0.25 mg dose of the chemical used in the treatment in the United States. The agreements required the company to keep any proprietary information received confidential.

In 2003, Helsinn filed a provisional patent application for a 0.25 mg dose of the chemical. Ten years later, it filed a patent application for a fixed dose of 0.25 mg of the chemical in a 5 ml solution, with priority dating back to the 2003 patent.

The next year, it sued Teva for infringing that patent. Teva argued the patent was invalid under the AIA's on-sale provision. This precludes a person from obtaining a patent on an invention that was "in public use, on sale, or otherwise available to the public before the invention's effective filing date."

The trial court found the bar didn't apply, but the U.S. Court of Appeals for the Federal Circuit reversed. The case then went to the Supreme Court.

A SALE IS A SALE

The trial court reasoned that an invention isn't "on sale" unless the sale makes it available to the public. Because the public disclosure of the agreements between Helsinn and the Minnesota company didn't disclose the 0.25 mg dose, the court found, the invention wasn't on sale before the critical date of January 30, 2002.

The Supreme Court, however, agreed with the appeals court that it didn't matter whether the invention's details were publicly disclosed, because *the sale* was publicly disclosed. Pre-AIA interpretations of the on-sale bar found that "secret sales" could invalidate a patent. Thus, when Congress included essentially the same on-sale language in the AIA, it likewise adopted the judicial interpretations of that language.

LANGUAGE DOESN'T LIMIT

Inventors who haven't yet been granted a patent shouldn't disclose any type of sales activities, even if the other parties to the deal sign confidentiality agreements and the details aren't revealed. Disclosing a sale to the public in just a broad, undetailed way could trigger the on-sale bar to patentability. □

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