



IDEAS ON INTELLECTUAL PROPERTY LAW

YEAR END
2021

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Heads up!

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Establishing infringement of “thin” copyrights

They’re ba-a-ack! The copyright troll, whose business model the U.S. Court of Appeals for the Seventh Circuit has described as an “intellectual property shakedown,” again found its claims under scrutiny by the court. This time, the court took the occasion to clarify what’s necessary for a successful claim of infringement of works with “thin” copyright protection.

CASE BLUEPRINT

The court didn’t hide its disdain for the plaintiff. It described the company as “opportunistic holders of registered copyrights” on thousands of floor plans for suburban, single-family homes “whose business models center on litigation rather than creative expression.”

According to the court, the company’s employees “trawl the Internet in search of targets for strategic infringement suits of questionable merit” with the goal of securing prompt settlements from defendants that don’t want to get tied up in expensive litigation. (See “Anatomy of a copyright troll” on page 3.) The company has filed more than 100 such lawsuits over the past decade or so.

Here, it sued a construction firm and its related companies, alleging they copied 10 of its registered floor plans. The district court dismissed the case before trial, following

the same reasoning the Seventh Circuit had used in an earlier case brought by the plaintiff against a different builder.

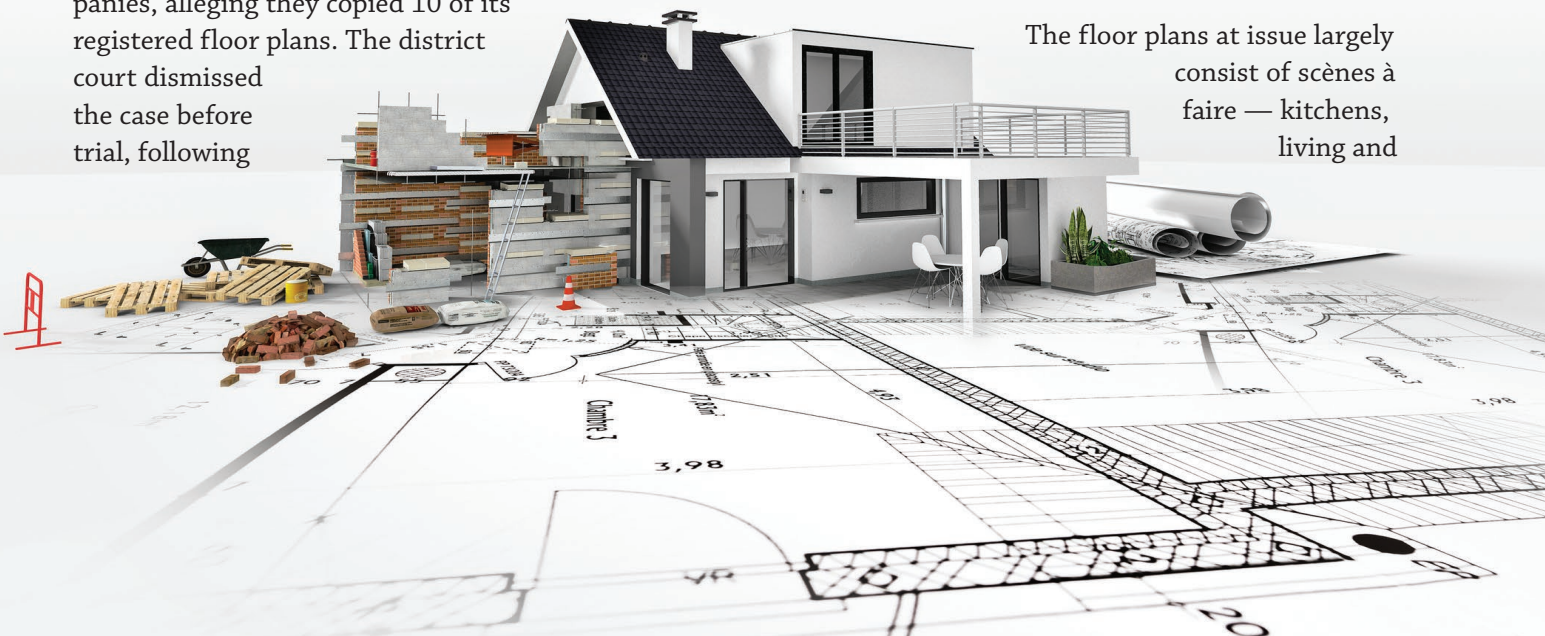
On appeal, the plaintiff asked the appellate court to overrule that case. The court declined to do so and instead restated and clarified the basic elements a plaintiff must establish to get to court when claiming copyright infringement of a thinly protected work.

LEGAL DOCTRINES

As the court explained, its earlier decision was guided by two well-established copyright doctrines: *scènes à faire* and merger. The doctrines restrict the ability of the copyright owner to claim expansive intellectual property rights in a way that impedes future creativity.

Scènes à faire refers to standard elements in a genre that are “so rudimentary, commonplace, standard or unavoidable” that they don’t distinguish one work in the genre from another. These elements can’t be protected by copyright because the creation of a single work in a genre with such elements would prevent others from contributing to the genre, giving the copyright holder exclusive rights in the genre’s basic elements.

The floor plans at issue largely consist of *scènes à faire* — kitchens, living and



ANATOMY OF A COPYRIGHT TROLL

The U.S. Court of Appeals for the Seventh Circuit in the *Design Basics* case (see main article) went into some detail about how that particular copyright troll plaintiff operates. The description provides useful insights into the operations of such trolls in general.

According to the court, the owners bought the company as an investment opportunity, and litigation proceeds have been a principal revenue stream for the firm. It incentivizes employees to find litigation targets online by paying a finder's fee (a percentage of net recovery) for locating a prospective infringement defendant.

The firm maintains an easily accessible website with more than 2,800 floor plans and regularly sends mass mailings of its designs to members of the National Association of Home Builders. It has sent millions of these publications to builders, in the hope that future defendants will have some of the designs in their files. Sure enough, the defendant in the recent case had photocopies of four of the firm's designs, which provided the basis for the lawsuit.

dining rooms, bedrooms, and so forth. The arrangements also are scènes à faire, with, for example, the kitchen close to the dining room and the bedrooms near a bathroom.

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only in limited ways, the expression
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These arrangements, the court said, are driven by functionality, which is where the merger doctrine comes into play. Copyright protects only expression — not ideas, procedures or concepts. If an idea can be expressed only in limited ways, the expression “merges” into the idea and isn't subject to copyright protection.

That was the situation here, the court concluded. Only a limited number of possible floor plans exist. By creating more than 2,800 of these plans, the plaintiff has attempted to occupy the entire field.

THIN PROTECTION

Applying the two doctrines, the court again found the copyright in the floor plans is thin. The designs comprise primarily unprotectible stock elements to a large extent dictated by functional considerations and existing design conventions for suburban, single-family homes.

In this architectural genre, in which copyright protection is thin, the court said, a plaintiff needs to show more than substantial similarity. Only a “virtually identical” plan will infringe a copyrighted floor plan.

In the absence of direct evidence of actual copying by the defendant, the plaintiff had to rely on circumstantial evidence of both access to the copyrighted work and “probative similarity.” The court didn't bother addressing access because it found that the allegedly infringing plans were materially dissimilar. They had, for example, different room dimensions, ceiling heights and style.

THE FUTURE OF TROLLING

It remains to be seen how, or if, the ruling affects the troll's business model going forward. At the very least, the company might want to avoid targets in the Seventh Circuit. ■

Supreme Court shakes up the PTAB

A decade after the America Invents Act of 2011 (AIA) brought significant change to the U.S. patent system, the courts and players in the patent regime continue to grapple with some aspects of the law. In *U.S. v. Arthrex, Inc.*, the U.S. Supreme Court weighed in on one lingering issue regarding the Patent Trial and Appeal Board (PTAB). In doing so, it delivered a new level of review to parties unhappy with PTAB decisions.

PATENTEE QUESTIONS AUTHORITY

The AIA established the PTAB within the U.S. Patent and Trademark Office (PTO). The Secretary of Commerce appoints the PTAB's members, including more than 200 administrative patent judges (APJs) who are so-called "inferior officers." The exception is the PTO director, who also sits on the PTAB and, as a "principal officer," is nominated by the president and confirmed by the Senate according to the Appointments Clause of the U.S. Constitution.

Under inter partes review (IPR), the PTAB can reconsider and cancel an already-issued patent based on certain types of prior art. A party that disagrees with the decision can request a rehearing, but it's solely up to the board whether to grant the request. The PTAB's final decision is subject to review by the U.S. Court of Appeals for the Federal Circuit.

A panel of APJs conducted an IPR for a patent owned by Arthrex, and concluded it was invalid. On appeal to the Federal Circuit, Arthrex argued that the PTAB's structure was unconstitutional. Specifically, it asserted that APJs are principal officers who must be appointed by the president with the advice and consent of the Senate. The Court of Appeals came down in Arthrex's favor. The Supreme Court took up the case.



SUPREME COURT LAYS DOWN THE LAW

The Supreme Court focused on the lack of supervision over APJs by a "superior executive officer." Neither the PTO director nor any other such officer can directly review APJ decisions. Moreover, the director can fire APJs only "for such cause as will promote the efficiency of the service." APJs, therefore, exercise power that is incompatible with their status as inferior officers and, in turn, political accountability.

According to the PTO,
an advisory committee will evaluate
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merit review.

The Supreme Court concluded that the proper remedy is to allow the PTO director to review final PTAB decisions and, on review, issue decisions on behalf of the board. Accordingly, it remanded the case to the acting director to determine whether to grant Arthrex's rehearing request.

THE PTO GETS ON BOARD

Shortly after the Supreme Court released its ruling, the PTO issued some guidance on the implications. Among other things, the guidance explains the interim internal process for director review of PTAB final decisions.

According to the PTO, an advisory committee will evaluate review requests and advise the director whether decisions merit review. Relevant factors include:

- Material errors of fact or law,
- Matters that the PTAB misunderstood or overlooked,
- Novel issues of law or policy,
- Split panel decisions,

- Issues of particular importance to the PTO or patent community, and
- Inconsistencies with PTO procedures, guidance or decisions.

The director may initiate review (even if not requested by a party) of any final written decision or corresponding decision on rehearing. An internal management review team that reviews all PTAB final written decisions will alert the director to decisions that might warrant such review.

STAY TUNED

The PTO guidance also addresses the effect of the Supreme Court ruling on ongoing PTAB proceedings, as well as board proceedings in general, and includes several critical deadlines. Additional guidance is expected. □

Heads up!

SCOTUS upholds, but limits, “assignor estoppel”

It seems like a simple matter of fairness that an inventor who assigns its patent rights can't later challenge the validity of the underlying patent. But, as the U.S. Supreme Court recently explained in *Minerva Surgical, Inc. v. Hologic, Inc.*, assignors can do just that in certain limited circumstances.

THE ISSUE COMES TO A HEAD

An inventor came up with a device to treat uterine bleeding that uses a moisture-permeable applicator head. He filed a patent application and subsequently assigned the application to a company he founded. The U.S. Patent and Trademark Office (PTO) granted the company a patent, which eventually was acquired by Hologic when it bought the company.

The inventor went on to start another company, Minerva Surgical. There, he developed another device to treat uterine bleeding — this one with a moisture-impermeable head. The PTO issued a patent, and the device was approved for commercial sale.

Meanwhile, Hologic filed a continuation application on its patent to add claims. One of those claims included applicator heads generally, regardless of permeability. The PTO issued another patent in 2015, and Hologic proceeded to sue Minerva for infringement.

Minerva countered that Hologic's patent was invalid because the newly added claim didn't match the patent's written description, which refers only to water-permeable applicator heads. Hologic invoked the

doctrine of assignor estoppel, arguing that Minerva and the inventor couldn't contest the validity of a patent the inventor had assigned to it.

The district court and the U.S. Court of Appeals for the Federal Circuit agreed. Minerva turned to the Supreme Court for relief.

Assignor estoppel provides that one who lawfully conveys a patented right should be prevented by fair dealing from later derogating the right.

IT'S ALIVE!

On review, the Court noted the lengthy history of assignor estoppel. Essentially, the doctrine provides that one who lawfully conveys a patented right should be prevented by fair dealing from later derogating the right. (An assignor, however, can still raise arguments about the correct interpretation of the patent's language.)

Courts have long applied the doctrine to deal with inconsistent representations about a patent's validity. The doctrine, the Court said, is grounded in a principle of fairness.

With this in mind, the Court rejected Minerva's contention that assignor estoppel should be abandoned altogether. Among other reasons, it

said that doing so would block the application of multiple "preclusion doctrines" — the doctrines of equitable estoppel, collateral estoppel and res judicata in addition to assignor estoppel — in patent cases. The Court said this result would conflict with earlier rulings.

However, the Supreme Court made clear that the doctrine comes with limits. Specifically, it applies *only* when the assignor's claim of invalidity contradicts explicit or implicit representations the assignor made in assigning the patent. The Court laid out three examples of circumstances with no grounds for applying the doctrine:

1. When an assignment occurs before an inventor can possibly make a warranty of the validity for specific patent claims (such as when an employee assigns an employer patent rights in any future inventions developed during employment),
2. When a later legal development renders irrelevant the warranty given at the time of assignment, and
3. A post-assignment change in patent claims.

The latter situation most often occurs when, as here, an inventor assigns a patent application rather than an issued patent. If the assignee asks the PTO to expand the patent's claims, the assignor didn't warrant the new claims' validity. In such a case, the Court said, the assignor can challenge the validity of those claims.

HEADING BACK TO THE FEDERAL CIRCUIT

Ultimately, the Supreme Court found that the Federal Circuit improperly failed to apply the limits to the doctrine. It therefore vacated the decision and sent the case back so the Federal Circuit can determine whether the new claim was indeed broader than those assigned and vulnerable to invalidity arguments. ▣



What constitutes an “exceptional case”?

Court adopts new standard for attorneys’ fees in trademark cases

The U.S. Court of Appeals for the Tenth Circuit has for the first time addressed whether the U.S. Supreme Court’s standard for awarding attorneys’ fees under the Patent Act also applies to such awards under federal trademark law’s Lanham Act. In doing so, the court took the same position as three other federal appellate courts.

A FEE FOR ALL

In *Derma Pen, LLC v. 4EverYoung Limited*, the plaintiff obtained a permanent injunction prohibiting several companies and “their officers, agents, servants, employees, attorneys, licensees, and anyone in active concert or participation with, aiding, assisting, or enabling [the companies]” from using its trademark. It subsequently sought an order of contempt against one of the defendants, alleging that the defendant, with the help of related parties, had violated the injunction.

The trial court found the defendant in contempt but that the related parties hadn’t participated in the violations. The defendants then asked the court to order the plaintiff to pay their attorneys’ fees under the Lanham Act, which allows a court to award fees to a prevailing party in an “exceptional case.”

The court awarded fees, relying on a provision of the Patent Act, as interpreted by the Supreme Court in a separate case. *Derma Pen* appealed, arguing the exceptional case standard wasn’t satisfied.

CONTEMPTIBLE BEHAVIOR

On review, the appellate court cited its earlier decision in *King v. PA Consulting Grp., Inc.*, where it held that a case may be deemed exceptional because of:

- Its lack of any foundation,
- The plaintiff’s bad faith in bringing the suit,

- The unusually vexatious and oppressive way it’s prosecuted, or
- Other reasons.

Generally, a court considers both the objective strength of the Lanham Act claim and the plaintiff’s subjective motivations.

The appellate court highlighted several of the lower court’s findings, including that 1) the plaintiff presented no evidence of damages, 2) the trademark was abandoned, and 3) the plaintiff was entitled to no relief against the related parties. These findings indicated the claim that the related parties had violated the injunction lacked objective strength. And the plaintiff’s misconduct and delay during discovery constituted evidence of a lack of good faith.

Thus, the fees were justified under Tenth Circuit case law. But the trial court’s ruling hinged on the Supreme Court’s holding that an exceptional case under the Patent Act can stand out because of the substantive strength of a party’s position or for the unreasonable tactics used in litigation.

The fee provisions in the Patent Act and the Lanham Act are identical. The court therefore concluded that the standard also applies to the Lanham Act.

GUIDANCE ON TWO FRONTS

Notably, the Tenth Circuit didn’t overturn its earlier decision. It said that both its earlier decision and the Supreme Court case provide guidance on whether attorneys’ fees are warranted in Lanham Act cases. □





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