



IDEAS ON INTELLECTUAL PROPERTY LAW



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Copyrights and software development

Interoperability doesn't make a work derivative

The U.S. Court of Appeals for the Ninth Circuit has weighed in on the latest battle in what it has described as “a pitched copyright war” that now has stretched out over a decade. In a significant ruling for both providers of interoperable software and the owners of the copyrights on the software with which such software interoperates, the court ultimately prolonged the conflict.

THE BATTLEGROUND

Oracle USA licenses customized enterprise software and sells its licensees maintenance contracts. The maintenance includes software updates.

Oracle's licenses permit its licensees to maintain their software and make development environments for themselves. Some licensees, though, outsource the maintenance to third parties, including Oracle itself and Rimini Street.

Rimini offers troubleshooting support and software updates. When troubleshooting Oracle software or creating updates for its clients, it uses Oracle's products and creates files that only work with Oracle's products.

Oracle sued Rimini for copyright infringement in 2010. Rimini was found to have infringed Oracle's copyrights by engaging in “cross-use” and creating copies of Oracle's materials on Rimini's computer systems.

Rimini subsequently changed its business model and sought a declaratory judgment that its revised process didn't infringe Oracle's copyright. Oracle countersued for infringement, among other claims. (See “False advertising findings fall, too — mostly,” at right.)

The trial court found that files and updates that Rimini developed during the new process were infringing derivative works. It relied on the fact that they were extensions to, and modifications of, Oracle's copyrighted software. They interacted and were

usable only with Oracle software. The court issued a permanent injunction against Rimini's infringement, and Rimini appealed to the Ninth Circuit.

THE NEED FOR MORE SUPPORT

A copyright owner has the exclusive right to prohibit or authorize the preparation of derivative works. The Copyright Act defines a “derivative work” as “a work based upon one or more preexisting works.”

FALSE ADVERTISING FINDINGS FALL, TOO — MOSTLY

The U.S. Court of Appeals for the Ninth Circuit in *Oracle* (see main article) also rejected most of the trial court's findings regarding Oracle's allegations that security-related statements by Rimini constituted false advertising under trademark law's Lanham Act. It found that statements that customers can be more secure with Rimini's services than Oracle's were mere “puffery,” or “exaggerated advertising, blustering, and boasting upon which no reasonable buyer would rely.”

The court also found that statements about the need for software patching, while bordering on falsehood, weren't actionable. The statements about what customers “need” or “value” resembled the kind of “generalized boasting” that reasonable buyers wouldn't rely on — especially Oracle's customers, which are some of the most sophisticated companies in the world and take security seriously.

The appellate court did, however, uphold the trial court's “unrefuted finding” that Rimini's offer of “holistic security” solutions for Oracle software was false. It interpreted that term to refer to multilayered security protection, which Rimini doesn't offer.



While this definition is broad, it's followed by several examples of derivative works "based upon" preexisting work, including translations, movie adaptations and reproductions. The Ninth Circuit thus reasoned that being "based upon" another work must require the type of copying involved in the examples — and the examples all substantially incorporate the underlying work.

According to the appellate court, though, the trial court essentially adopted an "interoperability" test for derivative works. In the trial court's view, if a product can only interoperate with a preexisting copyrighted work, the product must be derivative of the work. The appellate court disagreed, finding that neither the Copyright Act nor its own previous rulings supported such a test.

Mere interoperability alone, the court said, isn't enough to render a work derivative. Whether a work is interoperable with another work doesn't indicate whether it substantially incorporates the other work, either literally (for example, by copying copyrighted code) or nonliterally (for instance, by copying the "total concept and feel" of a preexisting work).

Even exclusive interoperability doesn't make a work derivative if the work doesn't substantially incorporate the preexisting work's copyrighted

material. Simply being an extension or modification of a copyrighted work without incorporation is insufficient to deem a work derivative.

Although the trial court concluded that a limited number of Rimini files copied Oracle's code, it made no finding that Rimini incorporated nonliteral copyrighted material in its updates or programs for Oracle software. It instead ruled that interoperability was enough to render Rimini's works derivative — even if they didn't contain any of Oracle's copyrighted code.

The appellate court therefore vacated the finding that Rimini created infringing derivative works based solely on the interoperability with Oracle's programs. It sent the case back to the trial court to apply the correct legal standard.

THE NEXT SKIRMISH

Because the trial court applied the wrong legal standard in determining whether Rimini created derivative works, the Ninth Circuit didn't consider Rimini's alternative argument that Oracle's licensing agreements nonetheless authorized any derivative work. It remains to be seen whether Rimini's works will be found to constitute derivative works and, if so, whether they were authorized. ■

How *not* to succeed on a patent inventorship or co-inventorship claim

A person may be accidentally or intentionally omitted from a patent. In one recent case, an alleged inventor sought recognition for his work for a set of computing systems configured to perform computational operations related to cryptocurrency and optimal power pricing. However, he failed to provide the evidence required by the U.S. Court of Appeals for the Federal Circuit, which handles all patent-related appeals.

POWER ON

Austin Storms designed and built a data mining center in 2017. The center was unprofitable, though, because of the price and levels of electricity required for mining. In 2018, he founded BearBox LLC to design and develop mobile cryptocurrency data centers that take advantage of fluctuating power rates.

Lancium LLC was founded in 2017 to co-locate flexible data centers at wind farms. It would “ramp down” the data centers so the wind farm could sell its power to the electrical grid when energy prices

were high and “ramp up” the data centers when power prices were low. Lancium would adjust its power usage based on real-time data on the price of power. Lancium disclosed these concepts in an international patent application in February 2018.

By October 2018, Lancium was operating 120 crypto miners at a Texas facility. Its system monitored some of the information disclosed in the 2018 international patent application to determine when it was profitable to mine Bitcoin. The system eventually evolved into proprietary software that determined a target power level at which miners should operate.

Around this same time, Storms began exploring the idea of a similar system and developed the necessary source code. In May 2019, he met one of Lancium’s co-founders, Michael McNamara, at a conference. They discussed the BearBox system over a group dinner, but Storms never shared his source code. They later exchanged some text messages, and McNamara requested the BearBox



design specifications, which Storms sent via email. The email contained four attachments:

1. A product specification sheet,
2. A diagram of his system,
3. Specification sheets on various hardware components, and
4. A data file modeling a simulation of his system.

The two men never communicated again.

Lancium subsequently obtained a patent (the '433 patent) on a set of computing systems that perform computational operations and determine performance strategies for the systems that set power consumption targets. When Storms learned of the patent, he sued Lancium, alleging he was the sole or joint inventor. After the trial court ruled against him, he appealed.

COURT BURIES CLAIM

An alleged joint inventor on a patented invention must demonstrate that he or she contributed significantly to the conception — the definite and permanent idea of the invention — or actual development of at least one patent claim. These contributions must arise from some type of joint behavior, such as collaboration or working under common direction with the other inventors.

The alleged joint inventor's testimony alone is insufficient to prevail — he or she must also present evidence corroborating that testimony. Such evidence may include contemporaneous documents, physical evidence, circumstantial evidence about the inventive process and the testimony of another person. The court then applies a “rule of reason” to assess whether the inventor's story is credible.

As the Federal Circuit noted, the only information Storms shared with Lancium was the 2019 email with attachments. Storms conceded that nothing from the hardware spec sheets related to the patented invention.

As for the other attachments, the appellate court agreed with the trial court that either they didn't establish Storms conceived of the invention or he couldn't show that he communicated any information before Lancium's independent conception of the invention. Lancium's 2018 application established that it had already conceived of such a system when Storms met McNamara.

CORROBORATING EVIDENCE

The appellate court affirmed the denial of Storms' claim that he was either a sole or joint inventor of the '433 patent. This case illustrates that corroborating evidence may be required to succeed on an inventorship or co-inventorship claim. ▣

Tapped out

Court rules against brewery in trademark dispute

Imitation is the sincerest form of flattery. Or so goes the popular quote attributed to English cleric Charles Caleb Colton. A craft brewer was anything but flattered when a less highly regarded brand appeared to imitate its trademark in a design refresh, leading to an infringement lawsuit.

BREWERIES GO HEAD-TO-HEAD

Stone Brewing Co. is a San Diego-based craft brewery that has sold its Stone beers nationwide for more than 20 years. It registered the STONE mark in 1998.

Molson Coors is a multinational beer conglomerate. Its extensive portfolio of beers includes the domestic lager brand Keystone. It has always been sold as a sub-premium beer in cans with a primary KEYSTONE mark and imagery of the Rocky Mountains. In 2017, Molson began efforts to refresh Keystone's image with an updated can and package design.

The new can design separated KEY and STONE onto separate lines, emphasizing STONE rather than KEYSTONE. Advertising campaigns started featuring



the new can, often with slogans such as “Hunt the STONE” and “Own the STONE.” Before 2017, Molson never referred to Keystone as anything other than Keystone in marketing, packing or advertising and never broke up the product name.

In 2018, Stone sued Molson for trademark infringement. A jury found infringement and awarded Stone \$56 million in damages. Molson appealed, arguing, among other things, that the trial court should have set aside the jury verdict on likelihood of consumer confusion.

THE COURT HOPS IN

The Ninth Circuit explained that the question of consumer confusion considers whether a reasonably prudent consumer is likely to be confused about the origin of the good or service bearing the mark. It went on to assess several of the so-called *Sleekcraft* factors (named for the case where they were first enumerated) that courts apply to determine whether a likelihood of confusion exists.

First, the court found that Stone provided evidence from which a jury could plausibly find actual confusion among distributors and customers who thought that Stone sold Keystone Light. The evidence included a survey of 501 beer consumers, which demonstrated a high level of confusion between the STONE products and advertising.

The appellate court also considered the similarity of the marks. It found that Molson expressly

de-emphasized KEYSTONE and instead highlighted STONE in its 2017 product refresh and noted that similarities in marks weigh more heavily in the analysis than differences.

Another factor is the proximity of the goods, or the degree to which they compete. The court pointed out that both brands:

- Compete in the “beer space,”
- Are sold in the same grocery store aisle, and
- Have registered marks under the same category of “beers and ales.”

The marketing and distribution channels also supported a finding of consumer confusion. The brands use the same channels and are sold at the same types of restaurants and stores.

Finally, the appellate court evaluated the degree of care likely to be exercised by purchasers. The lower the level of customer care, the greater the likelihood of confusion. Beer, the court said, is a relatively inexpensive product. And customer care for inexpensive items generally is quite low.

TIME TO PAY THE TAB

In light of the various factors, the Ninth Circuit concluded that a reasonable jury could find the 2017 product refresh was likely to cause consumer confusion. It affirmed the jury’s verdict and damage award. ■

Court uses “inherent power” to sanction patent litigation conduct

The U.S. Court of Appeals for the Federal Circuit recently fired a warning shot to parties tempted to file patent infringement lawsuits in bad faith. Its ruling should put them on alert that their claims could lead to costly sanctions — even if they voluntarily withdraw a lawsuit before the litigation gets rollings.

FRIVOLOUS CLAIMS FURIOUSLY CHALLENGED

PS Products Inc. (PSP) sued Panther Trading Co., alleging patent infringement. Panther responded by threatening to seek Rule 11 sanctions. Rule 11 generally requires attorneys to certify that their court filings have a valid basis in law and fact. Panther asserted that the allegations were frivolous because the patented design and accused product were clearly dissimilar, and that PSP filed its action in the wrong venue.

PSP subsequently dismissed its case voluntarily. Panther then demanded reimbursement for attorneys’ fees and expenses incurred defending the suit, warning that refusal would prompt Panther to seek sanctions to deter further frivolous filings.

The trial court deemed the case “exceptional” under Section 285 of the Patent Act, and therefore granted Panther’s motion for fees and costs against PSP and its attorney. The court also ordered them to pay \$25,000 in deterrence sanctions, based on the court’s “inherent power” to award sanctions.

SANCTIONS UPHELD

On appeal, the Federal Circuit found that, under the applicable law, a court may use its inherent power to sanction parties’ bad faith conduct during litigation. PSP contended that it was nonetheless improper for the trial court to impose deterrence sanctions under its inherent power when it already had awarded attorneys’ fees and costs under Sec. 285. The appellate

court, however, found that the provision doesn’t preclude a court from separately imposing sanctions under another authority.

The appellate court found plenty of bad faith conduct to justify the sanctions, too. It pointed, for example, to the lack of a plausible infringement claim and PSP’s citing of the wrong venue statute to file in a venue where Panther neither resides nor has a place of business. The court also emphasized PSP’s history of filing many meritless lawsuits in that venue.



DISMISSAL IS NO SHIELD FROM SANCTIONS

It’s worth noting that PSP didn’t dispute that the sanctions would have been warranted under Rule 11. Such sanctions weren’t available, though, because PSP dismissed the case before Panther could file a Rule 11 motion with the court. Without the rule to rely on, the Federal Circuit concluded, the trial court could rightfully turn to its inherent power to sanction bad faith conduct. ■

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